

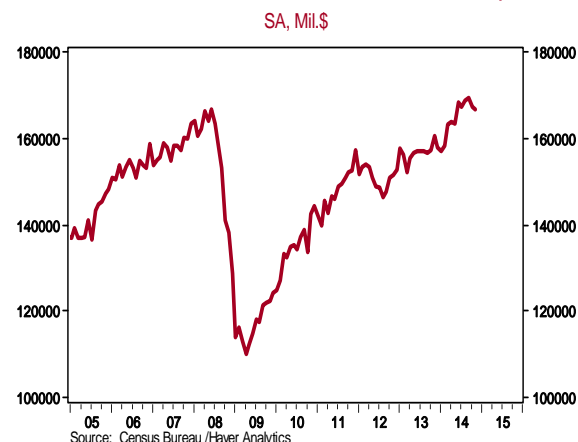
November Durable Goods

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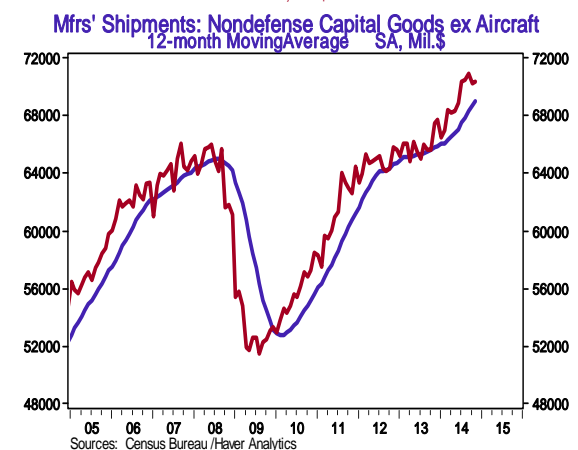
- New orders for durable goods declined 0.7% in November (-0.6% including revisions to prior months), well below the consensus expected gain of 3.0%. Orders excluding transportation declined 0.4% in November, below the consensus expected gain of 1.0%. Orders are up 0.3% from a year ago while orders excluding transportation are up 3.9%.
- The decline in overall orders was led by defense-related aircraft, computers/electronics, and primary metals. The largest gain was for machinery.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.2% in November (-0.1% including revisions to prior months). If unchanged in December these shipments will be down 1.2% in Q4 versus the Q3 average.
- Unfilled orders increased 0.4% in November and are up 11.6% from last year.

Implications: Today's report on durable goods helps show that despite 5% real GDP growth in Q3 the economy remains a Plow Horse, not a Race Horse. However, don't fret too much about the soft headline on orders for durable goods in November. Although orders came in lower than anyone expected, this is a very volatile series and it's not unusual for it to decline about five months a year even when the trend is upward, like in the middle of the 2000s or in the late 1990s. New orders for durable goods dropped 0.7% in November, falling for the third time in four months. But a pullback in orders for defense aircraft led the decline in November, which suggests a rebound next month. Orders were still down outside the transportation sector but only 0.4%, and these orders are still up 3.9% from a year ago. Meanwhile, "core" shipments," which exclude defense and aircraft, increased after a poor showing in October and are up 4.3% versus a year ago. Expect further gains in the coming months. Signaling future gains, unfilled orders for "core" capital goods rose 0.2% in November, hitting a new record high, and are up 9% from a year ago. Orders and shipments for durables should accelerate in the year ahead. Consumer purchasing power is growing with more jobs and higher incomes, while debt ratios remain very low, leaving room for an upswing in big-ticket spending. Meanwhile, profit margins are high, corporate balance sheets are loaded with cash, and capacity utilization is breaching long-term norms, leaving more room (and need) for business investment.

Manufacturers' New Orders: Durable Goods Excl Transportation



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft (SA, Mil.\$)



Durable Goods <i>All Data Seasonally Adjusted</i>	Nov-14	Oct-14	Sep-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-0.7%	0.3%	-0.7%	-4.4%	3.3%	0.3%
<i>Ex Defense</i>	-0.1%	-0.6%	-1.0%	-6.8%	4.3%	-0.2%
<i>Ex Transportation</i>	-0.4%	-1.0%	0.3%	-4.5%	3.9%	3.9%
<i>Primary Metals</i>	-1.4%	-1.8%	2.5%	-3.2%	2.1%	3.2%
<i>Industrial Machinery</i>	0.9%	-2.0%	-3.0%	-15.3%	0.9%	0.8%
<i>Computers and Electronic Products</i>	-1.8%	0.1%	-2.0%	-14.1%	1.8%	-1.7%
<i>Transportation Equipment</i>	-1.2%	3.3%	-3.1%	-4.1%	2.0%	-6.7%
Capital Goods Orders	-0.4%	1.0%	-3.7%	-12.1%	4.4%	-4.5%
Capital Goods Shipments	-0.4%	-1.0%	1.0%	-1.8%	9.5%	3.8%
<i>Defense Shipments</i>	1.1%	1.5%	-1.5%	4.3%	8.9%	-7.7%
<i>Non-Defense, Ex Aircraft</i>	0.2%	-0.9%	0.7%	-0.4%	6.2%	4.3%
Unfilled Orders for Durable Goods	0.4%	0.5%	0.4%	4.9%	17.4%	11.6%

Source: Bureau of the Census