

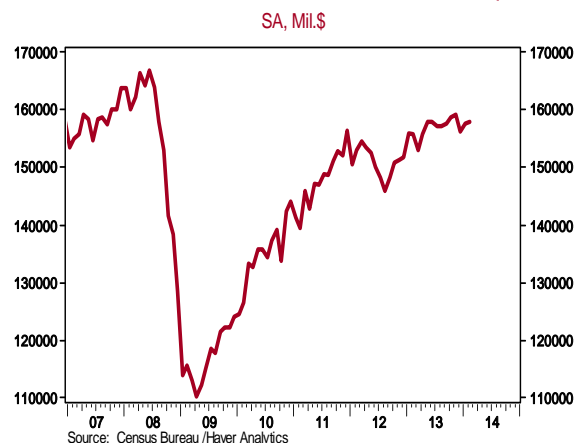
## February Durable Goods

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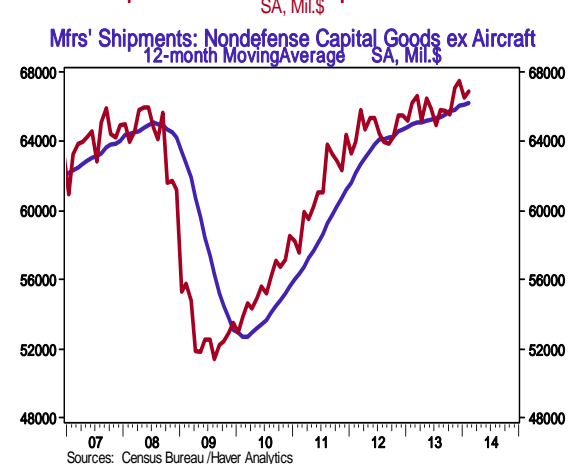
- New orders for durable goods increased 2.2% in February, beating the consensus expected gain of 0.8% (revisions subtracted 0.2% from prior months). Orders excluding transportation increased 0.2% in February, coming in very close to the consensus expected gain of 0.3%. Including revisions to prior months, orders ex-transportation were up 0.1%. Orders are up 0.2% from a year ago, while orders excluding transportation are up 1.5%
- The gain in overall orders was led by civilian aircraft, autos, and primary metals. The largest decline was for machinery.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 0.5% in February. If unchanged in March, these shipments will be up 0.2% in Q1 versus the Q4 average.
- Unfilled orders increased 0.3% in February and are up 6.4% from last year.

**Implications:** A pleasant upside surprise in the headline for new durable goods orders in February after declines in December and January. But don't get too excited that durables goods avoided a weather impact. The strength in orders was mostly due to the volatile transportation sector (aircraft and autos); orders excluding transportation increased only 0.2% in February. The best news in today's report was that shipments of "core" capital goods, which exclude defense and aircraft, increased 0.5% in February. Look for further healthy gains in the next few months as companies make up for activity lost to adverse weather in prior months. The pervasive impact of the weather is clearly shown in the table below. The column with the 3-month percentage changes for orders and shipments is mostly negative and any positives are very small. We expect that to reverse over the next three months. Cutting through the fog of the weather-related issues, we still think both orders and shipments will accelerate in 2014. Consumer purchasing power is growing and debt ratios are low, leaving room for an upswing in appliances. Meanwhile, businesses have record profits and balance sheet cash at the same time that capacity utilization is reaching long-term norms, leaving more room (and need) for business investment. Signaling future gains, unfilled orders for "core" capital goods rose 0.2% in February, hitting a new record high, and are up 9.3% from a year ago.

Manufacturers' New Orders: Durable Goods Excl Transportation



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft



Durable Goods <i>All Data Seasonally Adjusted</i>	Feb-14	Jan-14	Dec-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>2.2%</b>	-1.3%	-5.3%	-16.5%	3.3%	0.2%
Ex Defense	1.8%	-1.9%	-4.3%	-16.6%	4.2%	0.9%
Ex Transportation	0.2%	0.9%	-1.8%	-2.6%	1.2%	1.5%
Primary Metals	1.8%	-1.7%	-2.3%	-8.6%	3.9%	-0.6%
Industrial Machinery	-1.5%	-1.3%	3.0%	0.5%	5.1%	3.9%
Computers and Electronic Products	0.4%	3.2%	-8.7%	-19.7%	5.5%	1.5%
Transportation Equipment	6.9%	-6.2%	-12.1%	-39.5%	8.2%	-2.5%
<b>Capital Goods Orders</b>	<b>-1.5%</b>	-3.7%	-8.5%	-43.3%	-3.4%	-8.0%
<b>Capital Goods Shipments</b>	<b>-0.1%</b>	-1.8%	0.2%	-6.6%	0.3%	2.8%
Defense Shipments	-1.7%	-2.7%	-8.9%	-42.3%	-15.5%	-3.2%
Non-Defense, Ex Aircraft	0.5%	-1.4%	0.6%	-1.4%	3.3%	1.0%
<b>Unfilled Orders for Durable Goods</b>	<b>0.3%</b>	0.0%	0.2%	1.8%	5.8%	6.4%

Source: Bureau of the Census