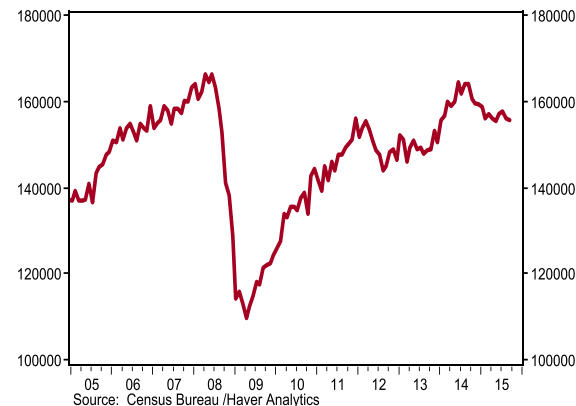


## September Durable Goods

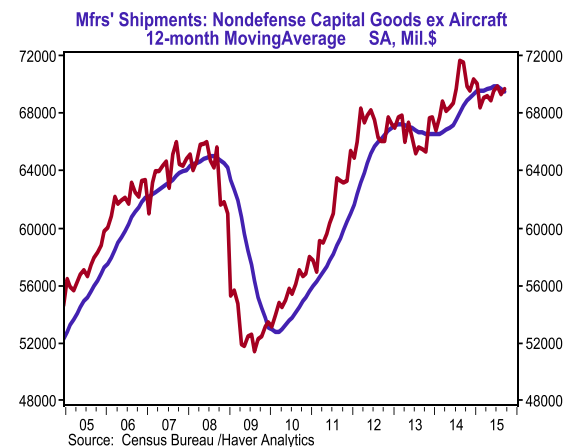
Brian S. Wesbury – Chief Economist  
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- New orders for durable goods declined 1.2% in September (-1.9% including revisions to prior months), the consensus expected a decline of 1.5%. Orders excluding transportation declined 0.4% in September (1.0% including revisions to prior months), falling short of the consensus expected no change. Orders are down 3.0% from a year ago while orders excluding transportation are down 5.3%.
- The decline in overall orders in September was led by civilian aircraft, primary metals, and machinery. The largest gains were for defense aircraft and motor vehicles.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 0.5% in September (+0.1% including revisions to prior months). These shipments increased at a 2.2% annualized rate in Q3 versus the Q2 average.
- Unfilled orders declined 0.6% in September and are down 2.2% from last year.

Manufacturers' New Orders: Durable Goods Excl Transportation  
SA, Mil.\$



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



**Implications:** A dismal headline on orders for durable goods in September, but almost all the action was in the volatile transportation sector and recent weakness in orders doesn't mean the US economy is in recession. New orders for durable goods fell 1.2% in September, on the back of a downwardly revised 3% decline in August. However, the drop in in September was mostly driven by civilian aircraft, which sets the stage for a rebound in overall orders next month. Orders excluding transportation were down 0.4% in September but we suspect that reflects another big drop in orders for drilling and mining equipment due to lower energy prices. The government will release details for that particular sector (and many other sectors) next week, but, as of August, orders for "mining, oil field, and gas field machinery" were down more than 50% from a year ago. We think oil prices will average at higher levels during the next several years, so the impact of falling energy prices should be temporary. Another issue holding back orders is that they are measured in dollar value, so if the price of investment goods is falling, the "real" (inflation-adjusted) value of orders may still be rising. In addition, although we lack hard data at this point, we wonder if more firms are using 3D printing to make their own products in-house, which would cut orders placed with other businesses. Also, not all the news in today's report was dismal. "Core" shipments, which exclude defense and aircraft, rose 0.5% in September and were up at a 2.2% annualized rate in Q3 versus the Q2 average. Plugging these and other recent data into our models, we are forecasting real GDP grew at a 1.4% annual rate in Q3. Expect stronger gains in orders for durables in the year ahead. Consumer purchasing power is growing with more jobs and higher incomes, while debt ratios remain very low. Meanwhile, profit margins are high and corporate balance sheets are loaded with cash. In other recent news on the manufacturing front, the Richmond Fed index, which measures sentiment among mid-Atlantic factories, rose to -1 in October versus -5 in September. On the housing front, the national Case-Shiller index increased 0.4% in August, the largest increase in six months. In the past year, this measure of home prices is up 4.7% compared to gains of 5.1% in the year ending August 2014 and 10.2% in the year ending August 2013. In other words, prices are still rising, but not as fast as earlier in the housing recovery. In the past year gains have been led by San Francisco, Denver, Portland, and Dallas.

Durable Goods <i>All Data Seasonally Adjusted</i>	Sep-15	Aug-15	Jul-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	-1.2%	-3.0%	1.9%	-9.0%	-4.7%	-3.0%
<i>Ex Defense</i>	-2.0%	-2.1%	0.8%	-12.6%	-5.4%	-4.5%
<i>Ex Transportation</i>	-0.4%	-0.9%	0.4%	-3.7%	-1.7%	-5.3%
<i>Primary Metals</i>	-2.9%	-0.9%	-2.2%	-21.6%	-14.7%	-18.7%
<i>Industrial Machinery</i>	-1.3%	-1.0%	1.5%	-3.4%	4.1%	-8.8%
<i>Computers and Electronic Products</i>	-0.6%	-0.1%	1.0%	1.1%	-3.3%	4.8%
<i>Transportation Equipment</i>	-2.9%	-6.9%	4.9%	-18.9%	-10.4%	2.1%
<b>Capital Goods Orders</b>	-5.6%	-7.0%	3.0%	-33.3%	-18.1%	-10.4%
<i>Capital Goods Shipments</i>	-0.2%	0.6%	0.1%	2.1%	3.5%	-0.6%
<i>Defense Shipments</i>	3.1%	-4.5%	0.7%	-3.3%	14.6%	8.3%
<i>Non-Defense, Ex Aircraft</i>	0.5%	-0.8%	0.4%	0.3%	1.7%	-2.7%
<b>Unfilled Orders for Durable Goods</b>	-0.6%	-0.3%	0.2%	-2.6%	-2.7%	-2.2%

Source: Bureau of the Census

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.