

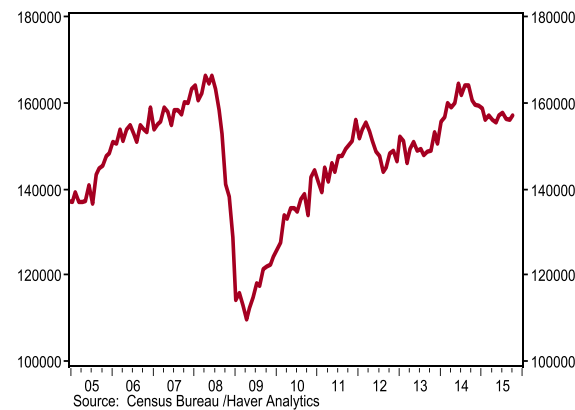
October Durable Goods

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- New orders for durable goods increased 3.0% in October (+3.4% including revisions to prior months), easily topping the consensus expected gain of 1.7%. Orders excluding transportation increased 0.5% in October (0.7% including revisions to prior months), also coming in higher than the consensus expected 0.3% gain. Orders are up 0.5% from a year ago while orders excluding transportation are down 2.4%.
- The increase in overall orders in October was led by civilian aircraft, machinery, and computers & electric products. The largest decline was for motor vehicles.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.4% in October (-0.2% including revisions to prior months). If unchanged in November and December, these shipments will be down at a 0.7% annualized rate in Q4 versus the Q3 average.
- Unfilled orders increased 0.3% in October but are down 2.0% from last year.

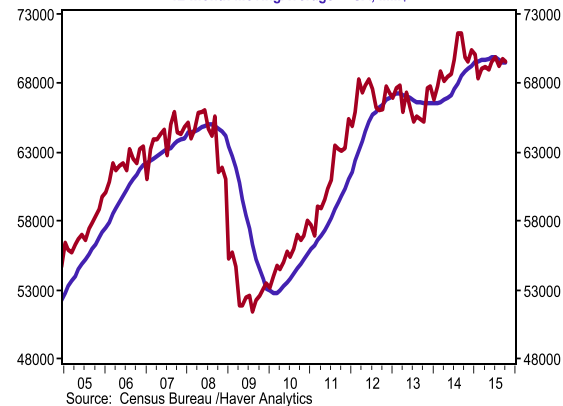
Implications: A strong headline number on orders for durable goods in October, but most of the action was in the volatile transportation sector. New orders for durable goods rose 3%, driven mainly by a sharp rebound in orders for civilian aircraft after a big drop in September. However, orders for industrial machinery increased 1.6% while orders for computers and electronics increased 1.8%, each the second largest gain for those categories in the past year. As a result, orders excluding the volatile transportation sector were up a respectable 0.5% in October. The government doesn't release specific data by sector until next week, but the gain in machinery suggests the decline in orders for drilling and mining equipment, due to lower energy prices, may be nearing an end. As of September, 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 coming to an end soon, if it hasn't already. 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. "Core" shipments, which exclude defense and aircraft, declined 0.4% in October. It's still very early but plugging these and other recent data into our models, we are forecasting real GDP grew at a 2% annual rate in Q4. 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. The Plow Horse Economy continues to move forward, just not by leaps and bounds.

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



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

Mfrs' Shipments: Nondefense Capital Goods ex Aircraft
 12-month Moving Average SA, Mil.\$



Durable Goods <i>All Data Seasonally Adjusted</i>	Oct-15	Sep-15	Aug-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	3.0%	-0.8%	-2.9%	-3.4%	5.6%	0.5%
<i>Ex Defense</i>	3.2%	-1.6%	-2.1%	-2.6%	3.6%	0.6%
<i>Ex Transportation</i>	0.5%	-0.1%	-0.9%	-1.7%	1.2%	-2.4%
<i>Primary Metals</i>	0.4%	-2.5%	-1.1%	-12.2%	-14.8%	-15.9%
<i>Industrial Machinery</i>	1.6%	-0.3%	-0.6%	3.2%	10.5%	1.2%
<i>Computers and Electronic Products</i>	1.8%	-0.3%	-0.1%	5.6%	7.8%	7.8%
<i>Transportation Equipment</i>	8.0%	-2.2%	-6.9%	-6.5%	14.8%	6.5%
Capital Goods Orders	11.8%	-4.4%	-7.0%	-2.0%	12.8%	3.2%
Capital Goods Shipments	-1.1%	0.2%	0.6%	-1.1%	0.8%	0.8%
<i>Defense Shipments</i>	1.5%	5.4%	-4.5%	8.9%	28.1%	10.9%
<i>Non-Defense, Ex Aircraft</i>	-0.4%	0.7%	-0.8%	-1.8%	1.0%	-0.5%
Unfilled Orders for Durable Goods	0.3%	-0.5%	-0.3%	-1.8%	-1.5%	-2.0%

Source: Bureau of the Census