

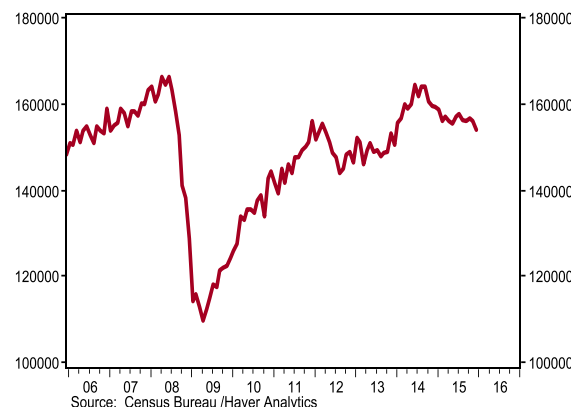
## December Durable Goods

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- New orders for durable goods declined 5.1% in December (-5.5% including revisions to prior months), well below the consensus expected decline of 0.7%. Orders excluding transportation fell 1.2% in December (-1.7% including revisions to prior months), below the consensus expected decline of 0.1%. Orders are down 0.6% from a year ago while orders excluding transportation are down 3.2%.
- The decline in overall orders was led by aircraft and machinery. The largest gains were for electrical appliances and primary metals.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure fell 0.2% in December (-0.6% including revisions to prior months). These shipments were down at a 5.8% annual rate in Q4 versus the Q3 average.
- Unfilled orders declined 0.5% in December and are down 1.9% from last year.

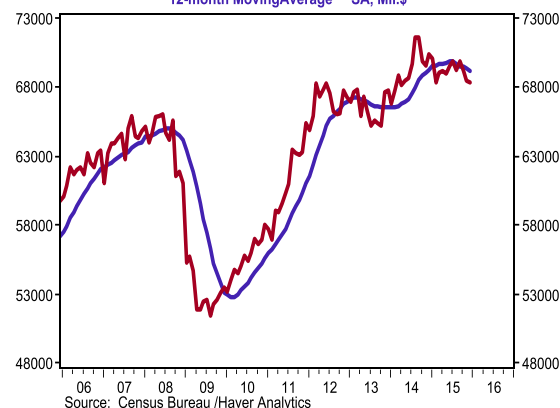
**Implications:** Durable goods ended the year on a sour note, with the largest monthly decline for 2015. However, the decline was led by aircraft orders, which are extremely volatile from month to month, as well as machinery orders, which next week's factory orders report is very likely to show was once again held down by the energy sector. In addition, companies continue to pare back inventories after overbuilding them earlier in 2015. But inventories are a volatile and temporary factor. A large rise in inventories provides a temporary boost in one quarter, but we pay it back in future quarters. Exactly like what we are seeing now. Don't fret too much about the soft headline on orders for durable goods in December. Although orders came in lower than almost anyone expected, this is a very volatile series and it's not unusual for it to decline five to six months a year. Expect further gains in the coming months as inventories stabilize and companies restock. 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. In other news this morning, new claims for jobless benefits fell 16,000 last week to 278,000. Continuing claims rose 49,000 to 2.27 million. Plugging these figures into our models suggests nonfarm payrolls were up about 190,000 in January.

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>	Dec-15	Nov-15	Oct-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>-5.1%</b>	-0.5%	2.8%	-10.9%	-9.2%	-0.6%
<b>Ex Defense</b>	<b>-2.9%</b>	-2.0%	3.0%	-7.8%	-9.6%	-1.0%
<b>Ex Transportation</b>	<b>-1.2%</b>	-0.5%	0.5%	-4.8%	-3.7%	-3.2%
<b>Primary Metals</b>	<b>0.3%</b>	-4.4%	2.0%	-8.7%	-15.7%	-15.7%
<b>Industrial Machinery</b>	<b>-5.6%</b>	-2.6%	0.8%	-26.5%	-13.1%	-6.2%
<b>Computers and Electronic Products</b>	<b>-2.0%</b>	-0.1%	2.2%	0.0%	1.2%	7.5%
<b>Transportation Equipment</b>	<b>-12.4%</b>	-0.5%	7.6%	-22.5%	-19.7%	5.5%
<b>Capital Goods Orders</b>	<b>-18.0%</b>	-2.4%	10.9%	-38.0%	-33.8%	-9.2%
<b>Capital Goods Shipments</b>	<b>-5.5%</b>	0.7%	-1.5%	-22.8%	-10.4%	-5.4%
<b>Defense Shipments</b>	<b>3.6%</b>	-7.6%	0.9%	-12.9%	-4.2%	-2.4%
<b>Non-Defense, Ex Aircraft</b>	<b>-0.2%</b>	-1.1%	-1.0%	-8.6%	-3.7%	-3.0%
<b>Unfilled Orders for Durable Goods</b>	<b>-0.5%</b>	0.1%	0.3%	-0.3%	-1.3%	-1.9%

Source: Bureau of the Census