

# October Durable Goods

**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Dep. Chief Economist  
**Strider Elass** – Economist

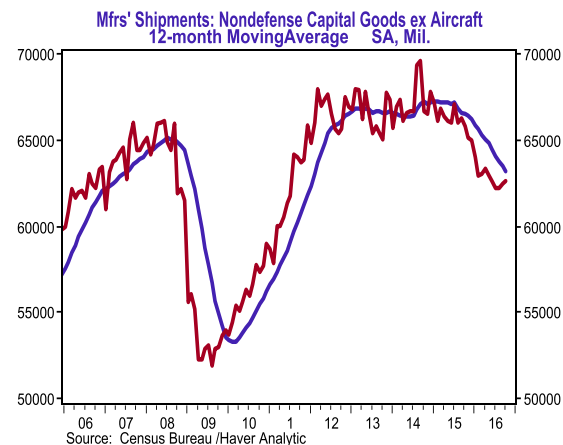
- New orders for durable goods rose 4.8% in October (+5.5% including revisions to prior months), easily beating the consensus expected 1.7%. Orders excluding transportation increased 1.0% in October (+1.1% including revisions to prior months), beating the consensus expected +0.2%. Orders are up 2.1% from a year ago while orders excluding transportation are up 0.3%.
- The rise in October orders was mostly due to aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.2% in October. If unchanged in November and December, these shipments will be up at a 1.8% annualized rate in the fourth quarter.
- Unfilled orders rose 0.7% in October but are down 1.0% from last year.

**Implications:** Durable goods producers had plenty to be thankful for in October. After a long period of weakness orders were up for the fourth month in a row, with orders showing the largest single-month rise in a year. And while gains were mostly due to aircraft, which are extremely volatile from month to month, orders excluding transportation items rose a healthy 1% in October. Orders outside the transportation industry have been on the rise, up at a 5.2% annual rate in the past three months compared to a 3% annual rate in the past six months and an increase of just 0.3% over the past year. The largest gain outside the transportation sector came from fabricated metal products, with strength seen in a vast majority of all other major categories. This may be, in part, a sign of improvement in the energy sector, which had been pulling down machinery investment since oil prices started declining in mid-2014. Shipments of “core” capital goods - non-defense, excluding aircraft – rose 0.2% in October, and if unchanged in November and December will be up at a 1.8% annual rate in the fourth quarter. This series is important for GDP and is finally showing life. Another plus in the report was a 0.4% increase in new orders for “core” capital goods, now up in four of the last five months. In employment news this morning, new claims for unemployment insurance rose 18,000 last week to 251,000, the 90th week in a row below 300,000. Continuing claims increased 60,000 to 2.043 million. Plugging these figures into our models suggests next week’s payroll report should show a gain in the 150,000 - 175,000 range for November. Keep in mind, though, that November’s initial report is often revised up substantially in later months. As a whole, today’s reports were solid and show a healthy economy heading into what appears to be a virtually guaranteed rate hike when the Fed meets in mid-December.

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



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



Durable Goods <i>All Data Seasonally Adjusted</i>	Oct-16	Sep-16	Aug-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>4.8%</b>	0.4%	0.2%	23.8%	3.1%	2.1%
<i>Ex Defense</i>	<b>5.2%</b>	1.4%	-0.8%	25.5%	5.6%	2.6%
<i>Ex Transportation</i>	<b>1.0%</b>	0.2%	0.0%	5.2%	3.0%	0.3%
<i>Primary Metals</i>	<b>-0.1%</b>	0.8%	0.1%	3.2%	-0.6%	-4.3%
<i>Industrial Machinery</i>	<b>0.2%</b>	1.1%	0.0%	5.1%	5.4%	-4.9%
<i>Computers and Electronic Products</i>	<b>0.9%</b>	-1.5%	-0.2%	-2.8%	-0.7%	1.3%
<i>Transportation Equipment</i>	<b>12.0%</b>	0.7%	0.6%	66.2%	3.3%	5.2%
<b>Capital Goods Orders</b>	<b>12.0%</b>	2.2%	-0.1%	70.4%	8.6%	3.9%
<b>Capital Goods Shipments</b>	<b>-0.2%</b>	1.9%	-1.6%	0.4%	1.4%	-4.0%
<i>Defense Shipments</i>	<b>2.9%</b>	0.0%	-2.3%	2.3%	22.7%	-1.2%
<i>Non-Defense, Ex Aircraft</i>	<b>0.2%</b>	0.4%	0.1%	2.6%	-2.4%	-4.9%
<b>Unfilled Orders for Durable Goods</b>	<b>0.7%</b>	-0.2%	-0.2%	1.4%	-1.5%	-1.0%

Source: Bureau of the Census