

December Durable Goods

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- New orders for durable goods declined 0.4% in December (-0.8% including revisions to prior months), coming in below the consensus expected rise of 2.5%. Orders excluding transportation increased 0.5% in December (+0.9% including revisions to prior months), matching consensus expectations. Orders are up 1.6% from a year ago while orders excluding transportation are up 3.5%.
- The decline in December orders was almost entirely due to defense aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 1.0% in December and increased at a 3.2% annualized rate in Q4 vs the Q3 average.
- Unfilled orders declined 0.6% in December and are down 1.4% from last year.

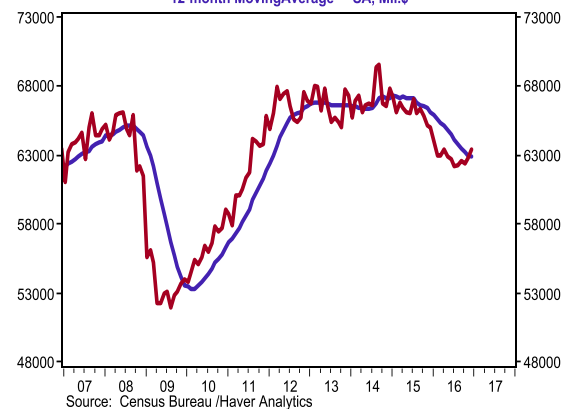
Implications: Defense aircraft orders muddled the picture on what is otherwise a largely positive report from the durable goods sector. Strip out the volatile transportation sector, and durable goods orders rose 0.5% in December, marking the fastest quarterly growth we have seen since the first quarter of 2014. And orders outside the transportation sector are accelerating, up at a 10.7% annual rate in the past three months versus a 3.5% gain in the past year. Better yet, the gains have been broad based, with nearly every major category of durable goods showing an increase in orders from the third quarter. “Core” non-transportation orders were led higher in December by computers and electronic products, while machinery also continues to move higher. This rise in machinery orders 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 1.0% in December, beating the consensus expected rise of 0.5%, and was up at a 3.2% annual rate in Q4 vs the Q3 average. This series is important for GDP and is finally showing life after four consecutive quarters of decline. Another plus in the report was a 0.8% increase in new orders for “core” capital goods, now up in six of the last seven months. As a whole, things are looking up in the durable goods sector, and higher energy prices paired with pro-growth policies out of Washington should keep orders rising in 2017.

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 MovingAverage SA, Mil.\$



Durable Goods <i>All Data Seasonally Adjusted</i>	Dec-16	Nov-16	Oct-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-0.4%	-4.8%	5.0%	-2.1%	7.4%	1.6%
<i>Ex Defense</i>	1.7%	-6.8%	5.2%	-0.9%	6.5%	1.5%
<i>Ex Transportation</i>	0.5%	1.0%	1.1%	10.7%	7.8%	3.5%
<i>Primary Metals</i>	-0.9%	2.9%	1.3%	13.6%	11.1%	4.4%
<i>Industrial Machinery</i>	0.4%	2.0%	0.3%	11.2%	9.0%	4.5%
<i>Computers and Electronic Products</i>	2.4%	0.9%	0.2%	14.5%	8.9%	4.3%
<i>Transportation Equipment</i>	-2.2%	-14.7%	12.3%	-23.2%	6.7%	-2.1%
Capital Goods Orders	-3.0%	-14.1%	12.5%	-22.6%	11.9%	6.8%
Capital Goods Shipments	1.4%	-0.4%	-0.6%	1.4%	1.7%	1.3%
<i>Defense Shipments</i>	-1.2%	3.2%	3.2%	22.3%	13.6%	5.8%
<i>Non-Defense, Ex Aircraft</i>	1.0%	0.6%	-0.3%	5.1%	2.3%	-2.5%
Unfilled Orders for Durable Goods	-0.6%	-0.3%	0.8%	-0.3%	-1.4%	-1.4%

Source: Bureau of the Census