

January Durable Goods

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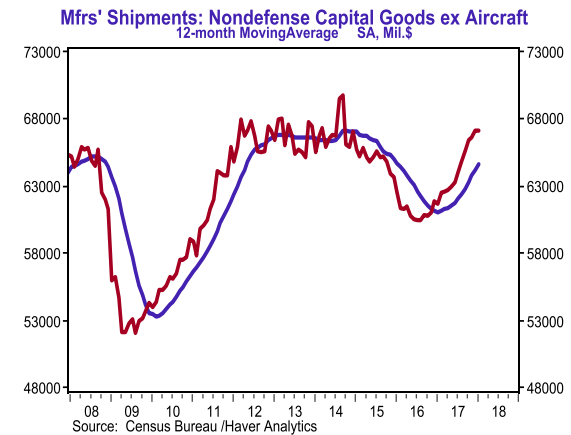
- New orders for durable goods declined 3.7% in January (-3.8% including revisions to prior months), coming in below the consensus expected decline of 2.0%. Orders excluding transportation declined 0.3% in January, coming in below the consensus expected rise of 0.4%. Orders are up 6.8% from a year ago while orders excluding transportation are up 6.9%.
- The decline in orders in January was led by aircraft and primary metals.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 0.1% in January. If unchanged in February and March, these shipments will be up at a 2.4% annualized rate in Q1 versus the Q4 average.
- Unfilled orders declined 0.3% in January, but are up 2.0% from last year.

Implications: Orders for durable goods started 2018 with a whimper, not a bang, declining 3.7% in January. But durable goods orders are still up a healthy 6.8% in the past year, and airplane orders surged in December, so a pullback in total orders was expected. That said, even excluding the expected drop in aircraft, durable goods orders excluding transportation fell 0.3% in January. The details of non-transportation orders in January show mixed results, as modest increases in orders for fabricated metal products and computers & electronic products were more than offset by declining orders for primary metals and machinery. With tax reform signed into law in late December – including a shift to full expensing for business investment instead of depreciation over several years – we expect orders (particularly machinery orders) to pick up in 2018 as companies increase investment, and we wouldn't put too much stock in a single month's data. The worst news in today's report was a 0.2% decline in orders for non-defense capital goods excluding aircraft, following a 0.6% drop in December. Despite the slowdown in orders, "core" shipments – the calculation most relevant to government calculations of business investment for GDP purposes – rose 0.1% in January and, if unchanged in February and March, will be up at a 2.4% annual rate in Q1 vs the Q4 average. As a whole, January's durable goods orders were disappointing, but not overly worrisome, and we expect the trend higher to return in the months ahead. In manufacturing news this morning, the Richmond Fed index, a measure of mid-Atlantic factory sentiment, surged to a very healthy 28 in February from 14 in January. On the housing front, the national Case-Shiller index says home prices rose 0.7% in December and were up 6.3% for the twelve months ending December 2017, an acceleration from the 5.4% gain in the twelve months ending December 2016. In 2017, price gains were led by Seattle and Las Vegas. Meanwhile the FHFA index, which measures prices for homes financed by conforming mortgages, increased 0.3% in December and rose 6.5% in the twelve months ending December 2017, exactly the same increase as the twelve months ending December 2016. Look for further price gains in the year ahead, although at a slightly slower rate and, given recent tax changes, with growth tilted more toward lower tax states.

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>	Jan-18	Dec-17	Nov-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-3.7%	2.6%	1.7%	2.4%	9.6%	6.8%
Ex Defense	-2.7%	2.2%	1.5%	3.9%	12.9%	7.1%
Ex Transportation	-0.3%	0.7%	0.4%	3.3%	9.0%	6.9%
Primary Metals	-0.9%	1.7%	1.9%	11.0%	11.8%	11.1%
Industrial Machinery	-0.4%	0.5%	-0.3%	-0.8%	6.8%	7.3%
Computers and Electronic Products	0.6%	0.3%	-0.8%	0.3%	14.6%	6.9%
Transportation Equipment	-10.0%	6.4%	4.5%	0.5%	10.9%	6.7%
Capital Goods Orders	-5.1%	1.6%	2.7%	-3.7%	8.2%	8.7%
Capital Goods Shipments	0.4%	-0.1%	1.9%	9.1%	7.3%	8.5%
Defense Shipments	3.2%	0.5%	1.4%	22.5%	25.0%	16.7%
Non-Defense, Ex Aircraft	0.1%	0.7%	0.3%	4.0%	10.2%	8.8%
Unfilled Orders for Durable Goods	-0.3%	0.6%	0.1%	1.8%	1.5%	2.0%

Source: Bureau of the Census