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March 23, 2018 • 630.517.7756 • www.ftportfolios.com

February Durable Goods

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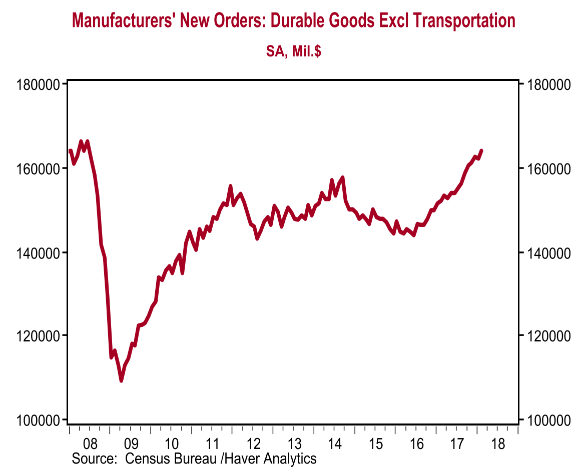
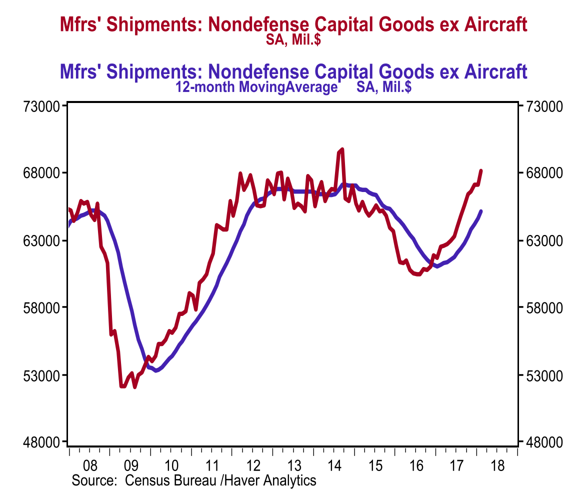
- New orders for durable goods rose 3.1% in February (+3.2% including revisions to prior months), beating the consensus expected increase of 1.6%. Orders excluding transportation increased 1.2% in February (+1.3% including revisions to prior months), easily beating the consensus expected rise of 0.5%. Orders are up 8.9% from a year ago while orders excluding transportation are up 8.1%.
- The rise in orders in February was led by aircraft and autos.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 1.4% in February. If unchanged in March, these shipments will be up at a 6.6% annualized rate in Q1 versus the Q4 average.
- Unfilled orders rose 0.2% in February, and are up 2.3% from last year.





Implications: Durable goods bounced back in a big way in February after a brief breather in January. Led by a rise in orders for commercial and defense aircraft, orders increased 3.1% in February and are up a healthy 8.9% in the past year. More importantly, orders excluding the typically volatile transportation sector rose 1.2% in February, handily beating the consensus expected rise of 0.5%. The details of non-transportation orders show most major categories rose in February, with primary metals, fabricated metal products, machinery, and electrical equipment, appliances & components all higher. 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 further in 2018 as companies increase investment. The best news in today's report was a 1.4% rise in shipments for non-defense capital goods excluding aircraft. If unchanged in March, these "core" shipments – the calculation most relevant to government calculations of business investment for GDP purposes – will be up at a 6.6% annual rate in Q1 vs the Q4 average. And "core" orders moved higher in February as well, rising 1.8% following a moderate decline in January, suggesting "core" shipments will continue to rise in the coming months. With the exception of a small decline in orders for computer and electrical products, there was little to disappoint in today's report. That said, data is volatile from month-to-month, and what is most important is that the trend continues to point to improved economic activity and healthy investment by companies. On the employment front yesterday, new claims for jobless benefits rose 3,000 last week to 229,000, while continuing claims fell 57,000 to 1.83 million. To put the health of the labor market in perspective, continuing claims are now at the lowest level going back to 1973, while initial claims are three weeks away from the longest streak ever of consecutive readings under 300,000. These figures are consistent with continued healthy job growth in March, though expect a pace that's likely to be slower than the 300,000+ jobs gain we saw in February.

Durable Goods *All Data Seasonally Adjusted*	Feb-18	Jan-18	Dec-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**3.1%**	-3.5%	2.7%	8.9%	12.3%	8.9%
Ex Defense	**2.5%**	-2.5%	2.2%	8.9%	13.1%	8.0%
Ex Transportation	**1.2%**	-0.2%	0.8%	7.3%	10.1%	8.1%
Primary Metals	**2.7%**	0.3%	1.4%	19.0%	17.2%	12.0%
Industrial Machinery	**1.6%**	0.2%	0.6%	9.8%	11.7%	9.6%
Computers and Electronic Products	**-0.2%**	-0.2%	0.2%	-0.7%	7.7%	6.5%
Transportation Equipment	**7.1%**	-9.8%	6.6%	12.2%	16.9%	10.6%
Capital Goods Orders	**5.8%**	-4.7%	1.7%	10.7%	16.4%	13.0%
Capital Goods Shipments	**0.6%**	0.4%	-0.1%	3.6%	10.1%	8.0%
Defense Shipments	**-3.6%**	3.1%	0.5%	-0.3%	13.4%	6.0%
Non-Defense, Ex Aircraft	**1.4%**	0.1%	0.7%	9.2%	10.6%	9.0%
Unfilled Orders for Durable Goods	**0.2%**	-0.3%	0.6%	2.1%	1.9%	2.3%

Source: Bureau of the Census