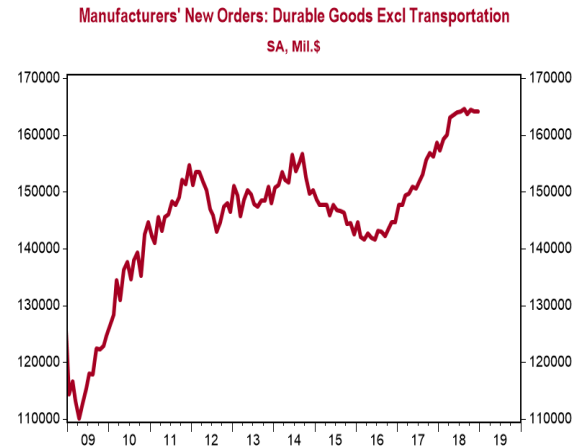


December Durable Goods

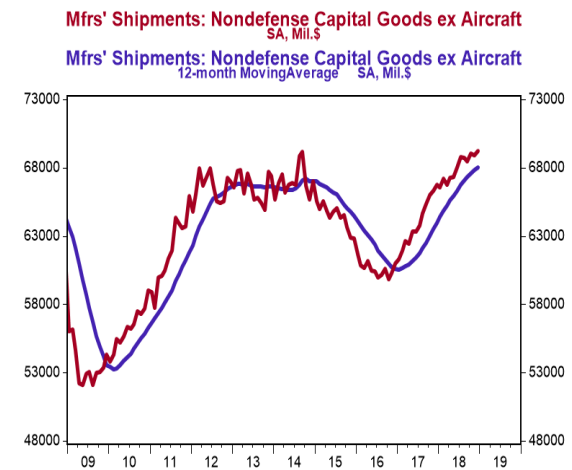
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- New orders for durable goods rose 1.2% in December (+1.4% including revisions to prior months), narrowly lagging the consensus expected increase of 1.7%. Orders excluding transportation rose 0.1% in December (+0.2% including revisions to prior months), versus a consensus expected gain of 0.3%. Orders, both including and excluding transportation, are up 3.5% from a year ago.
- The increase in orders in December was led by civilian aircraft and automobiles.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.5% in December and was up at a 2.3% annualized rate in Q4 versus the Q3 average.
- Unfilled orders fell 0.1% in December but are up 3.8% in the past year.

Implications: Durable goods rose for 1.2% in December, on the back of a 1.0% increase in November, as commercial aircraft orders continue to rise. Truth be told, outside of orders for aircraft and automobiles, durable goods orders in December left something to be desired. Stripping out the typically volatile transportation sector – which rose 3.3% in December – shows durable goods orders rose a modest 0.1%. And a closer look at the details shows a pickup in orders for fabricated metal products and a modest increase in orders for computer and electronics were more than offset by a slowdown in orders for machinery and primary metals. It was actually the catch-all “all other durable goods” category that kept orders ex-transportation in positive territory, rising 0.9% in December. But more important than month-to-month changes, the trend continues to show a healthy pace of activity, with total orders up 3.5% in the past year, both including and excluding transportation. The most anticipated data point in today’s release was shipments of non-defense capital goods ex-aircraft (a key input for business investment in the calculation of GDP growth), which rose 0.5% in December and were up at a 2.3% annualized rate in the fourth quarter versus the third quarter average. Further, 2018 posted the fastest full-year growth rate in “core” shipments in six years, demonstrating that the promised benefits to business investment from the Tax Cuts and Jobs Act have in fact materialized. Plugging these figures into our GDP models suggests real GDP will be up at around a 2.1% annual rate in the fourth quarter, although figures out next Wednesday on international trade and inventories may alter that estimate. Growth at a 2.1% pace in Q4 would mean real GDP grew 3.0% in 2018 (Q4/Q4), the fastest pace since 2005. Healthy growth in durable goods orders, a strong labor market, and the economy on track for the fastest annual growth in more than a decade, and yet the media still rings the alarm bells of recession. As far as the data show, companies (and consumers) don’t seem nearly as worried as the pouting pundits, and political posturing has little chance of denting the strong growth track that entrepreneurs and innovators have set us on. In employment news this morning, initial jobless claims fell 23,000 last week to 216,000. Meanwhile, continuing claims declined 55,000 to 1.73 million. Both measures reflect a very healthy jobs market, and suggest another month of solid payroll gains in February. On the manufacturing front, the Philly Fed Index, a measure of East Coast factory sentiment, fell to -4.1 in February from +17.0 in January, the first time the index has touched negative territory in nearly three years. The drop was led by declines in both new orders and shipments. On a more positive note, the forward expectations index was virtually unchanged at a healthy 31.3, suggesting respondents see the current weakness as temporary.



Source: Census Bureau/Haver Analytics



Source: Census Bureau/Haver Analytics

Durable Goods <i>All Data Seasonally Adjusted</i>	Dec-18	Nov-18	Oct-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	1.2%	1.0%	-4.3%	-8.5%	2.4%	3.5%
<i>Ex Defense</i>	1.8%	0.0%	-1.4%	1.9%	2.2%	2.5%
<i>Ex Transportation</i>	0.1%	-0.2%	0.4%	1.1%	0.3%	3.5%
<i>Primary Metals</i>	-0.9%	1.5%	-2.3%	-6.4%	-3.1%	8.2%
<i>Industrial Machinery</i>	-0.4%	-1.9%	0.2%	-8.0%	-2.6%	0.2%
<i>Computers and Electronic Products</i>	0.0%	0.2%	2.9%	12.7%	7.8%	7.8%
<i>Transportation Equipment</i>	3.3%	3.4%	-12.4%	-23.3%	6.2%	3.5%
Capital Goods Orders	2.0%	2.9%	-5.9%	-5.1%	1.9%	2.9%
Capital Goods Shipments	0.9%	2.0%	-1.3%	6.7%	6.2%	7.4%
<i>Defense Shipments</i>	4.1%	-0.7%	2.5%	25.7%	18.5%	13.5%
<i>Non-Defense, Ex Aircraft</i>	0.5%	-0.2%	0.8%	4.4%	3.7%	3.7%
Unfilled Orders for Durable Goods	-0.1%	-0.2%	-0.2%	-1.7%	2.6%	3.8%

Source: Bureau of the Census