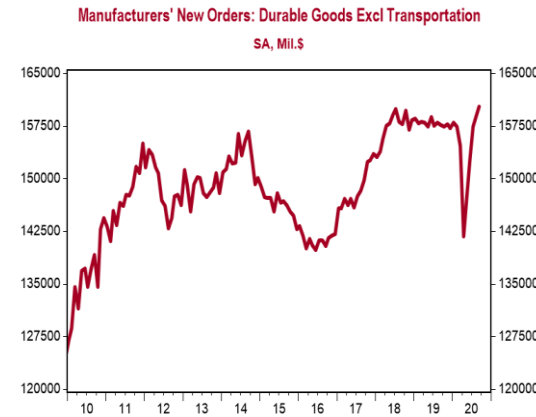


September Durable Goods

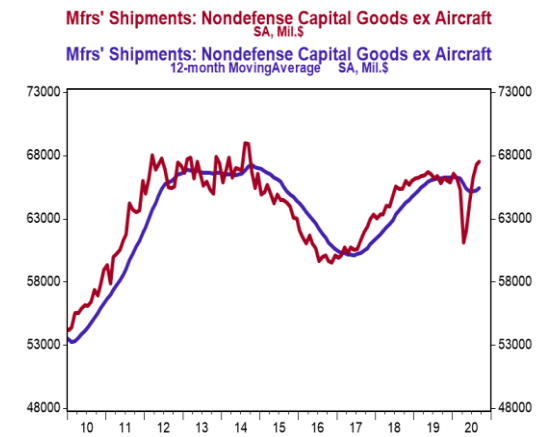
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Ellass – Senior Economist

- New orders for durable goods increased 1.9% in September (+1.7% including revisions to prior months), easily beating the consensus expected gain of 0.5%. Orders excluding transportation rose 0.8% in September (+1.2% including revisions), versus a consensus expected gain of 0.4%. Orders are down 1.9% from a year ago, while orders excluding transportation are up 1.7%.
- The increase in orders in September was led by commercial aircraft, motor vehicles, and primary metals.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 0.3% in September, and was up at a 32.1% annualized rate in Q3 versus the Q2 average.
- Unfilled orders declined 0.2% in September and are down 6.3% in the past year.

Implications: New orders for durable goods easily beat expectations in September, and closed out a third quarter that goes into the history books as the fastest quarter (by far) for new orders growth. With a combined 41.5% increase since the April bottom, new orders now sit just 3.7% below the February pre-pandemic high, signaling a sharp (and very V-shaped) recovery in the manufacturing sector. The volatile transportation sector once again lived up to its name, with a sizeable rise in orders for commercial aircraft and motor vehicles partially offset by a drop in orders for defense aircraft. Excluding transportation, orders rose 0.8% in September and now stand 1.5% above levels seen at the start the year. Among the core non-transportation categories, orders activity was mixed in September, with primary metals (+4.0%), fabricated metal products (+1.2%), and computers & electronic products (+0.6%) rising while electrical equipment (-2.0%) and machinery (-0.3%) declined. One of the most important pieces of data from today's report, shipments of "core" non-defense capital goods ex-aircraft (a key input for business investment in the calculation of GDP growth), rose 0.3% in September. In the third quarter, this measure rose at a record shattering 32.1% annualized rate versus the Q2 average. In other words, business investment, which was a major drag on real GDP in the second quarter, was a major tailwind in Q3. While this represents growth from a very low base, third quarter GDP – due out this Thursday – looks to have grown at a 33.4% annualized rate. From historically bad, to historically good, this year has been a wild ride for economic growth. And while we are still in the early stages of the fourth quarter, it looks [poised for continued growth](#). In other economic news this morning, the FHFA index, which measures prices for homes financed by conforming mortgages, rose 1.5% in August and is up 8.0% from a year ago, a major acceleration from the gain of 4.8% in the twelve months ending in August 2019. On the manufacturing front, the Richmond Fed Index surged to +29 in October from +21 in September. This is the highest reading for the index since the series began back in late 1993 and continues to show a healthy rebound in manufacturing activity versus the deeply negative readings early on in the pandemic.



Source: Census Bureau/Haver Analytics



Source: Census Bureau/Haver Analytics

Durable Goods <i>All Data Seasonally Adjusted</i>	Sep-20	Aug-20	Jul-20	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	1.9%	0.4%	11.8%	70.4%	33.7%	-1.9%
<i>Ex Defense</i>	3.4%	0.9%	10.5%	76.6%	44.6%	0.1%
<i>Ex Transportation</i>	0.8%	1.0%	3.3%	22.2%	7.5%	1.7%
<i>Primary Metals</i>	4.0%	1.8%	1.6%	34.1%	9.0%	-1.6%
<i>Industrial Machinery</i>	-0.3%	1.9%	2.8%	19.0%	1.6%	-2.5%
<i>Computers and Electronic Products</i>	0.6%	1.2%	2.9%	20.5%	10.6%	5.7%
<i>Transportation Equipment</i>	4.1%	-0.9%	35.3%	278.5%	132.0%	-8.7%
Capital Goods Orders	4.7%	5.3%	14.4%	153.2%	66.6%	-2.1%
<i>Capital Goods Shipments</i>	-0.1%	2.7%	2.2%	21.0%	-6.2%	-2.4%
<i>Defense Shipments</i>	-0.7%	-0.6%	0.6%	-3.0%	1.5%	-0.9%
<i>Non-Defense, Ex Aircraft</i>	0.3%	1.5%	3.0%	21.0%	6.8%	1.3%
Unfilled Orders for Durable Goods	-0.2%	-0.6%	-0.7%	-6.0%	-8.6%	-6.3%

Source: Bureau of the Census