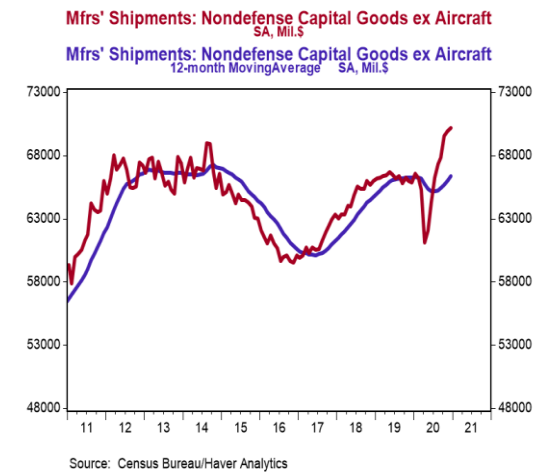
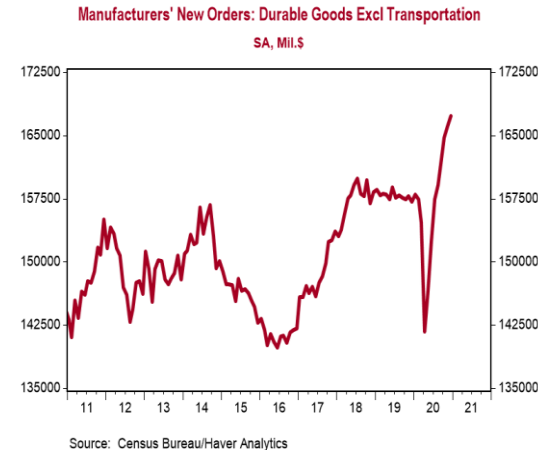


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December Durable Goods

- New orders for durable goods increased 0.2% in December (+0.4% including revisions to prior months), lagging the consensus expected gain of 1.0%. Orders excluding transportation rose 0.7% in December (+1.1% including revisions), beating the consensus expected gain of 0.5%. Orders are up 1.4% from a year ago, while orders excluding transportation are up 6.5%.
- The increase in orders in December was led by autos, machinery, and fabricated metal products.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 0.5% in December, and rose at a 17.5% annualized rate in Q4 versus the Q3 average.
- Unfilled orders declined 0.3% in December and are down 6.5% in the past year.

Implications: Durable goods orders closed out 2020 at a near full recovery from the COVID-19-related drop of more than 30% in March and April. With a combined 46.4% increase since the April bottom, new orders are now just 0.3% below the February pre-pandemic high, signaling a sharp (and very V-shaped) recovery. The volatile transportation sector once again lived up to its name, with a pullback in orders for commercial and defense aircraft partially offset by a rise in orders for motor vehicles. Excluding transportation, orders rose 0.7% in December, and are up 6.5% in the past year. Among the core non-transportation categories, orders activity was mostly higher in December, with machinery (+2.4%), fabricated metal products (+0.6%), primary metals (+0.3%), and electrical equipment (+0.1%) all rising, while orders for computers & electronic products (-0.2%) 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 0.5% in December. This measure rose at a record shattering 33.1% annualized rate in Q3 versus the Q2 average, and the fourth quarter showed an impressive 17.5% annualized pace of growth, representing the second fastest quarterly growth pace (behind last quarter) in nearly a decade. In other words, business investment, which was a major drag on real GDP in the second quarter, was a major tailwind throughout the second half of 2020. We get our first look at fourth quarter GDP data tomorrow, and we expect it to show that the U.S. economy grew at a 4.7% annualized rate despite the headwinds from rising COVID-19 cases and tighter restrictions across the county. Even with strong growth in the fourth quarter, we aren’t yet back to “normal.” It will take time to bring jobs back, and it will take time for new businesses to take the place of those that didn’t survive the pandemic. But the “V” shape recovery – paired with the ramping up of the vaccine rollout – has 2021 on a path for continued growth. In other recent news on the factory sector, the Richmond Fed index, which measures mid-Atlantic manufacturing sentiment, declined to a still robust +14 in January from +19 in December. On the housing front, the national Case-Shiller index increased 1.4% in November and is up 9.5% from a year ago, a large acceleration from the 3.4% gain in the twelve months ending in November 2019. In the past year, price gains have been led by Phoenix, Seattle, and San Diego. The slowest price growth has been in Las Vegas, which reflects the damage COVID-19 has wreaked nationwide on travel tourism, and gaming. The FHFA index, which measures prices for homes financed by conforming mortgages, increased 1.0% in November and is up 11.0% versus a year ago. The 11.0% gain in the past twelve months is the largest on record (dating back to 1991) and a large acceleration from the 5.3% gain in the twelve months ending in November 2019.



Durable Goods <i>All Data Seasonally Adjusted</i>	Dec-20	Nov-20	Oct-20	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	0.2%	1.2%	1.8%	13.3%	39.8%	1.4%
Ex Defense	0.5%	1.2%	0.8%	10.7%	41.1%	5.9%
Ex Transportation	0.7%	0.8%	2.0%	14.9%	20.5%	6.5%
Primary Metals	0.3%	1.1%	1.3%	11.4%	23.5%	2.5%
Industrial Machinery	2.4%	1.5%	0.3%	18.4%	22.8%	5.7%
Computers and Electronic Products	-0.2%	0.1%	4.3%	17.7%	20.8%	10.5%
Transportation Equipment	-1.0%	1.9%	1.5%	9.9%	100.9%	-7.9%
Capital Goods Orders	-2.5%	0.5%	3.3%	5.1%	67.1%	-0.1%
Capital Goods Shipments	2.0%	-0.8%	3.8%	21.8%	22.9%	1.4%
Defense Shipments	-5.1%	6.8%	3.5%	21.2%	9.3%	11.0%
Non-Defense, Ex Aircraft	0.5%	0.5%	2.6%	14.9%	19.0%	5.9%
Unfilled Orders for Durable Goods	-0.3%	0.0%	-0.2%	-2.0%	-4.0%	-6.5%

Source: Bureau of the Census

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.