

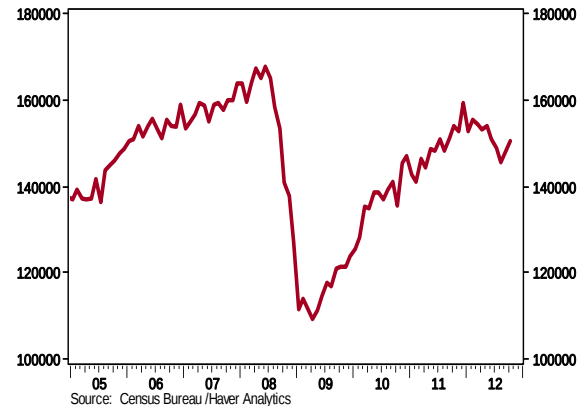
October Durable Goods

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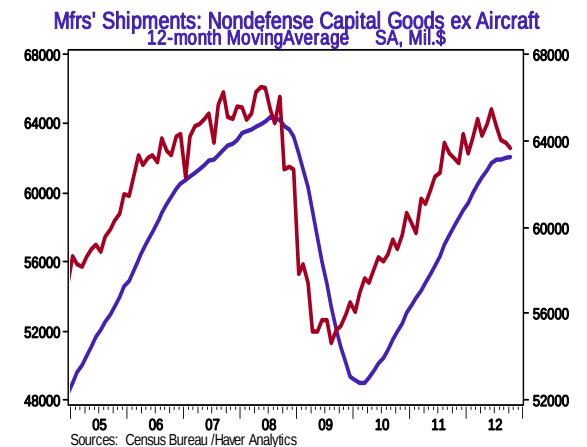
- New orders for durable goods were unchanged in October (-0.6% including revisions to September), coming in better than the consensus expected decline of -0.7%. Orders excluding transportation increased 1.5% (1.2% including revisions to September), easily beating the consensus expected decline of 0.5%. Overall new orders are up 2.3% from a year ago, while orders excluding transportation are down 2.3%.
- New orders for durable goods were up in almost every major category in October, led by industrial machinery. The lone exception was transportation, with declines in both aircraft and autos.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure was down 0.4% in October (-0.6% including revisions to September). If these shipments are unchanged in November/December, they will be down at a 4.0% annual rate in Q4 versus the Q3 average.
- Unfilled orders were up 0.2% in October and are up 4.4% from last year.

Implications: The plow horse economy continues to push forward. Orders for durable goods came in much better than expected in October as companies seem to be gaining more confidence. Although on the surface new orders for durable goods were flat in October, this was completely due to the always volatile transportation sector. Taking out transportation, orders were up 1.5% in October, led by a 2.9% gain in machinery. That's the good news. The bad news is that machinery orders are still down 9.6% from a year ago. Meanwhile, shipments of "core" capital goods, which exclude defense and aircraft, were down 0.4% in October, the fourth straight monthly decline. Core shipments usually fall in the first month of each quarter and then rebound in the last two months. That did not happen in the third quarter as companies held back due to economic uncertainty surrounding public policy. That uncertainty will continue in the near term as lawmakers try to hash out an agreement to avoid the "fiscal cliff." Eventually, though, we think a stronger trend emerges. Monetary policy is loose, corporate profits are close to record highs, balance sheet cash is at a record high (earning almost zero interest), and the recovery in home building is picking up steam. All of these indicate more business investment ahead. In other news this morning, the Case-Shiller index, which measures home prices in the 20 largest metro areas, increased 0.4% in September (seasonally-adjusted) and is up 3% from a year ago. Nineteen of 20 metro areas saw higher prices in September as well as in the past three months, led by San Diego, Atlanta, and Phoenix. The one exception is Chicago. In other housing news, the FHFA index, which measures prices for homes financed by conforming mortgages, increased 0.2% in September (seasonally-adjusted) and is up 4.4% from a year ago. On the factory front, the Richmond Fed index, a survey of mid-Atlantic manufacturers, rose to +9 in November from -7 in October, much better than the consensus expected -9.

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>	Oct-12	Sep-12	Aug-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	0.0%	9.2%	-13.1%	-18.9%	2.1%	2.3%
Ex Defense	0.1%	8.5%	-12.3%	-17.9%	-0.2%	1.7%
Ex Transportation	1.5%	1.7%	-2.0%	4.7%	-3.5%	-2.3%
Primary Metals	1.7%	3.9%	-2.5%	12.9%	0.3%	3.4%
Industrial Machinery	2.9%	8.0%	-6.1%	18.3%	0.5%	-9.6%
Computers and Electronic Products	0.9%	-0.5%	-4.0%	-13.7%	-20.2%	-8.4%
Transportation Equipment	-3.1%	29.7%	-33.7%	-51.9%	17.0%	14.4%
Capital Goods Orders	-0.1%	24.4%	-25.8%	-27.9%	9.5%	1.0%
Capital Goods Shipments	-0.7%	1.9%	-1.8%	-2.5%	2.5%	2.8%
Defense Shipments	-2.4%	5.4%	-1.5%	5.2%	16.3%	5.0%
Non-Defense, Ex Aircraft	-0.4%	-0.3%	-1.1%	-7.2%	-2.2%	0.9%
Unfilled Orders for Durable Goods	0.2%	0.1%	-1.7%	-5.3%	-0.5%	4.4%

Source: Bureau of the Census