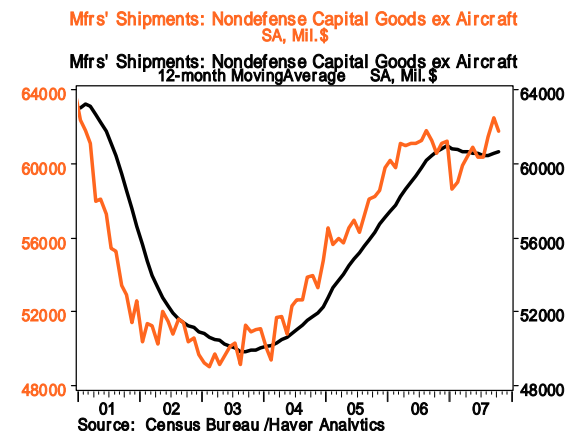
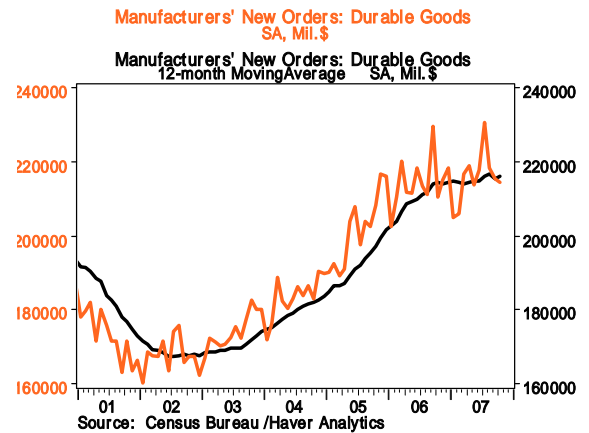


OCTOBER DURABLE GOODS

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- New orders for durable goods declined 0.4% in October versus a consensus expected decline of 0.2%. Excluding transportation, orders fell 0.7% versus a consensus expected increase of 0.3%.
- The overall decline in orders in October (-\$0.9 billion) was mostly due to computers and electronics (-\$2.5 billion) and aircraft and parts (-\$1.2 billion). Other weak sectors included machinery (-\$0.5 billion) and motor vehicles/parts (-\$0.5 billion). Strong sectors included primary metals (+0.6 billion), fabricated metals (+0.6 billion), and electrical equipment/appliances (+\$0.4 billion).
- When calculating business investment for the GDP accounts, the government uses non-defense capital goods shipments excluding aircraft. That measure declined 1.2% in October but was revised up to show a 1.7% gain in September versus a previously estimated 1.1% increase.
- Unfilled orders rose 1.0% in October and are up 17.9% versus a year ago.

Implications: Today's report on durable goods was weaker than expected but revisions to last month's data were positive. The level of "core" capital shipments (capital goods shipments excluding defense and aircraft) in October was 0.5% above the third quarter level. This means even if shipments remain unchanged in November/December that "core" shipments will be up at a 2% annual rate in Q4. Although orders for durable goods excluding transportation are down at a 5.4% annual rate in the past three months the decline is due to a huge surge in orders in July that makes October's figure (three months later) look artificially small. Excluding July, non-transportation orders in October were the highest in the past 15 months. Business spending is on a slower pace of growth than in the past two quarters. But none of the data is consistent with the extreme fears of recession that have circulated in recent days. Today's report does not change our forecast of roughly 2.5% real GDP growth in Q4.



Durable Goods <i>All Data Seasonally Adjusted</i>	Oct-07	Sep-07	Aug-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-0.4%	-1.4%	-5.3%	-25.1%	-4.1%	1.9%
Ex Defense	-0.9%	0.3%	-6.3%	-24.7%	-6.2%	1.1%
Ex Transportation	-0.7%	1.1%	-1.8%	-5.4%	0.6%	2.0%
Transportation Equipment	0.2%	-7.0%	-12.4%	-55.5%	-14.3%	1.8%
Capital Goods Orders	-1.3%	0.6%	-9.9%	-35.8%	-9.1%	1.7%
Capital Goods Shipments	-0.5%	0.3%	1.1%	3.5%	5.5%	2.8%
Defense Shipments	0.5%	-4.3%	-2.8%	-23.6%	0.4%	0.2%
Non-Defense, Ex Aircraft	-1.2%	1.7%	1.9%	9.8%	4.5%	2.0%
Unfilled Orders for Durable Goods	1.0%	1.1%	1.2%	13.9%	17.4%	17.9%

Source: Bureau of the Census