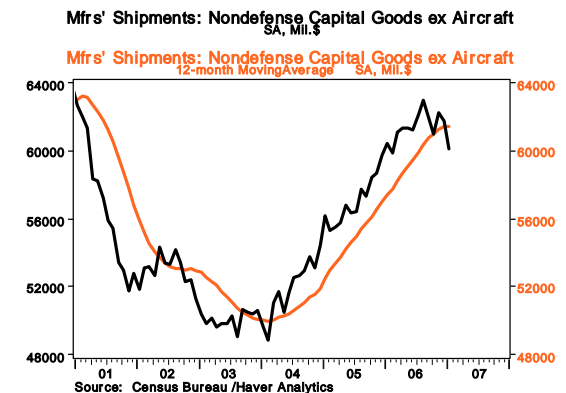
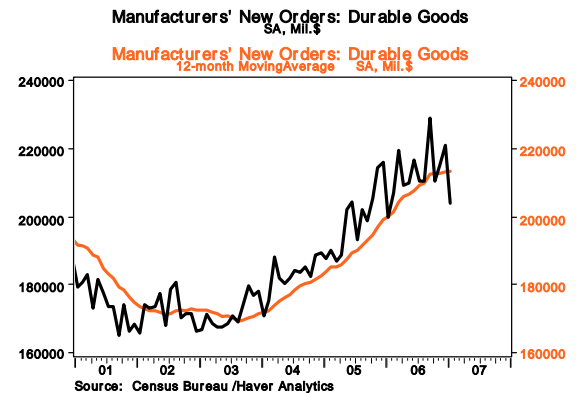


JANUARY DURABLE GOODS

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- New orders for durable goods declined 7.8% in January, a much larger drop than the consensus expected. New orders excluding transportation lost 3.1%, also a larger drop than the consensus forecast. New orders are up 2.1% versus a year ago, 0.2% excluding transportation.
- The weakness in orders was mostly in transportation equipment, particularly aircraft but also autos. Machinery and communications equipment accounted for most of the rest of the decline.
- When calculating business investment for the GDP accounts, the Commerce Department uses non-defense capital goods shipments excluding aircraft. That indicator dropped 2.7% in January, the biggest one-month decline since September 2001.
- Unfilled orders increased 0.1% in January and are up 21% versus a year ago. Unfilled orders for non-defense capital goods excluding aircraft increased 0.9%, the 27th consecutive increase, and are up 18.3% versus a year ago, a larger year-to-year increase than at any time in the 1990s.

Implications: Going into today's report on durables goods we were optimistic on real GDP growth in 2007 but pessimistic on January durable goods orders. The First Trust forecast was for an 8.3% drop, the weakest estimate in the Bloomberg survey and the most accurate. However, unlike those who were caught off guard by today's report, we do not think the decline in orders is a reason to become pessimistic about the overall economy in 2007. There is nothing unusual about a large single-month drop in orders in the midst of a re-acceleration of economic growth. Just take the last business cycle. After a slowdown in economic growth in 1995, in January 2006 – at the very beginning of the surge in real GDP growth in the late 1990s – new orders for durable goods dropped 5.5% and shipments of non-defense capital goods ex-air dropped 4.4%. And yet real GDP increased 4.4% in 1996. We get a hint of that in the most recent data on unfilled orders, which remain high and growing rapidly, suggesting more business spending ahead.



Durable Goods <i>All Data Seasonally Adjusted</i>	Jan-07	Dec-06	Nov-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-7.8%	2.8%	2.2%	-11.9%	-6.2%	2.1%
<i>Ex Defense</i>	-7.8%	4.0%	0.8%	-12.9%	-6.4%	-0.3%
<i>Ex Transportation</i>	-3.1%	2.6%	-0.9%	-6.0%	-8.0%	0.2%
<i>Primary Metals</i>	-1.5%	1.5%	-1.8%	-7.2%	-15.5%	4.4%
<i>Industrial Machinery</i>	-9.3%	7.8%	-8.6%	-36.1%	-9.7%	-2.4%
<i>Computers and Electronic Products</i>	-7.8%	1.6%	8.0%	5.1%	-16.4%	4.4%
<i>Transportation Equipment</i>	-18.0%	3.1%	9.9%	-25.4%	-1.4%	7.3%
Capital Goods Orders	-17.2%	5.3%	3.3%	-34.2%	-13.5%	6.7%
Capital Goods Shipments	-1.1%	-0.7%	1.6%	-0.9%	-0.7%	2.6%
<i>Defense Shipments</i>	1.4%	0.4%	0.2%	8.4%	15.7%	4.6%
<i>Non-Defense, Ex Aircraft</i>	-2.7%	-0.8%	2.1%	-5.5%	-6.4%	-0.5%
Unfilled Orders for Durable Goods	0.1%	2.2%	1.8%	18.0%	22.1%	21.0%

Source: Bureau of the Census