

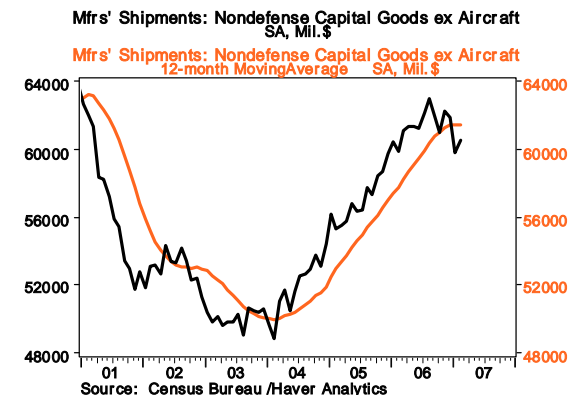
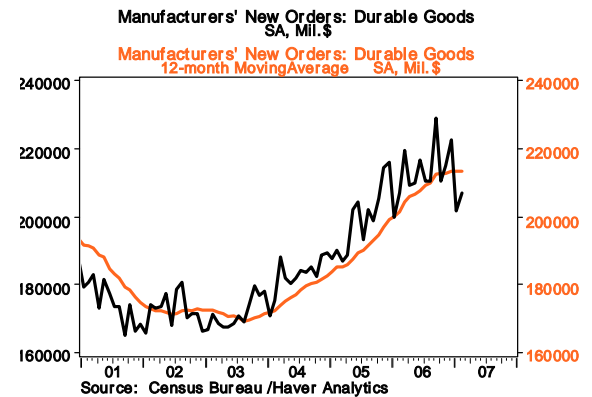
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FEBRUARY DURABLE GOODS

- New orders for durable goods increased 2.5% in February, less than the consensus expected rise of 3.4%. New orders excluding transportation lost 0.1% versus a consensus expected gain of 1.8%. New orders are flat versus a year ago, up 0.8% excluding transportation.
- The strength in transportation equipment was due to both aircraft and motor vehicles, as well as parts for each. Orders for computers and electronic equipment also increased.
- When calculating business investment for the GDP accounts, the Commerce Department uses non-defense capital goods shipments excluding aircraft. That indicator increased 1.2% in February, rebounding from the unusually large 3.3% drop in January.
- Unfilled orders increased 0.9% in February and are up 20.7% versus a year ago, larger than any year-to-year increase from 1980 to 2005. Unfilled orders for non-defense capital goods excluding aircraft declined 0.2% in February, the first drop in 28 months.

Implications: Today's report on durable goods suggests that business equipment spending will be a drag on first quarter real GDP growth, although a smaller drag than in the fourth quarter.

However, we are confident that business spending will accelerate and add to economic growth for the rest of 2007. Unfilled orders are way up versus last year, corporate balance sheets are loaded with cash, and US labor is relatively cheap (given high productivity). In this environment, either existing companies will expand or new entrants will emerge to seize market share.



Durable Goods <i>All Data Seasonally Adjusted</i>	Feb-07	Jan-07	Dec-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	2.5%	-9.3%	3.5%	-14.3%	-3.5%	0.0%
<i>Ex Defense</i>	2.5%	-9.1%	4.7%	-9.1%	-2.2%	0.3%
<i>Ex Transportation</i>	-0.1%	-4.0%	3.2%	-4.3%	-6.5%	0.8%
<i>Primary Metals</i>	-1.0%	-0.7%	1.7%	-0.2%	-10.7%	8.3%
<i>Industrial Machinery</i>	-0.4%	-10.9%	7.8%	-15.9%	-11.7%	3.2%
<i>Computers and Electronic Products</i>	6.4%	-10.0%	2.4%	-7.5%	-4.5%	2.7%
<i>Transportation Equipment</i>	9.6%	-20.8%	4.0%	-33.7%	4.6%	-2.1%
Capital Goods Orders	8.8%	-19.1%	5.6%	-25.4%	-0.2%	1.9%
Capital Goods Shipments	0.5%	-2.2%	-0.6%	-9.1%	-6.3%	1.8%
<i>Defense Shipments</i>	2.0%	0.3%	0.4%	11.3%	4.9%	12.2%
<i>Non-Defense, Ex Aircraft</i>	1.2%	-3.3%	-0.6%	-11.0%	-7.7%	1.0%
Unfilled Orders for Durable Goods	0.9%	0.2%	2.3%	14.1%	23.3%	20.7%

Source: Bureau of the Census