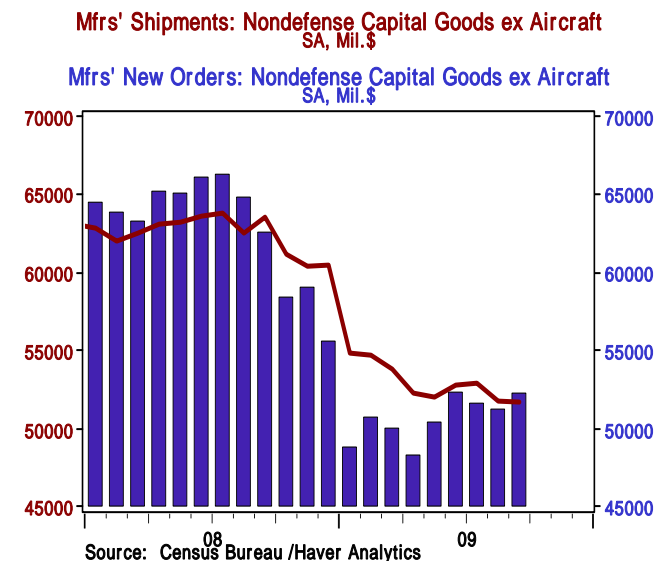
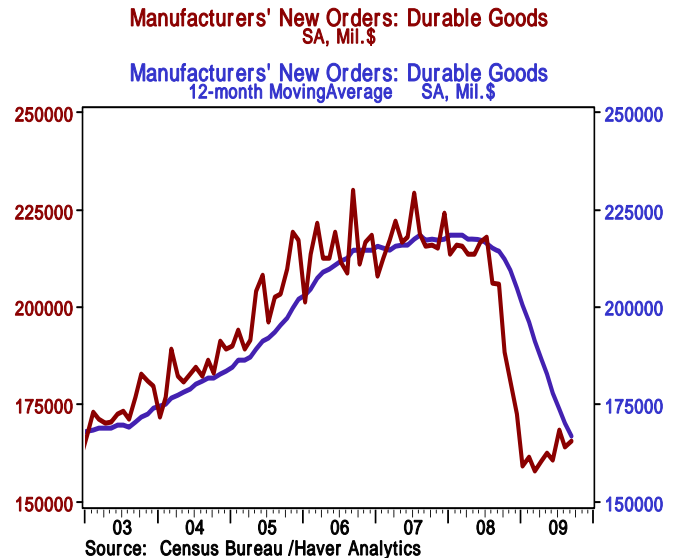


SEPTEMBER DURABLE GOODS

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- New orders for durable goods increased 1.0% in September, exactly as the consensus expected. Excluding transportation, orders were up 0.9% versus a consensus expected gain of 0.7%.
- The largest increases in orders were for industrial machinery and defense aircraft/parts. Other categories of orders were mixed, with no significant movement one way or the other.
- When calculating business investment for GDP purposes, the government uses shipments of non-defense capital goods excluding aircraft. That measure fell 0.2% in September and was revised down slightly for August. Overall, these shipments were down at a 1.9% annual rate in Q3 versus the Q2 average.

Implications: Orders for durable goods came in right in-line with consensus expectations in September and orders excluding the volatile transportation sector were up for the fourth time in five months. More importantly, for the first time since the collapse of Lehman Brothers last year, *new orders* for “core” capital goods (which exclude defense and aircraft) came in above *shipments* (see second chart). That means unfilled orders for this key measure of capital spending are moving up, signaling higher shipments in the months ahead. Although shipments of core capital goods were down slightly for Q3, other data on autos and international trade suggest capital investment increased for the quarter (actual data arrives tomorrow morning with the GDP report). In other recent news on the factory sector, the Richmond Fed index, a measure of manufacturing in the mid-Atlantic region, came in at +7 in October. This was lower than the +14 readings in July, August, and September but it was the sixth straight month in positive territory, showing continued expansion. Meanwhile, the Conference Board’s measure of consumer confidence fell to 47.7 in October from 53.4 in September, as consumers’ assessment of the present situation dropped to the lowest level since 1983. It is not unusual for this measure to bottom after a recession is over and we are more pleased by evidence of actual spending increases than we are dismayed by consumers claiming discontent.



Durable Goods <i>All Data Seasonally Adjusted</i>	Sep-09	Aug-09	Jul-09	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	1.0%	-2.6%	4.8%	12.6%	9.6%	-19.6%
<i>Ex Defense</i>	0.5%	-2.6%	4.3%	8.4%	8.1%	-20.2%
<i>Ex Transportation</i>	0.9%	-0.4%	0.9%	5.9%	9.8%	-16.9%
<i>Primary Metals</i>	0.3%	1.9%	3.3%	24.5%	40.7%	-31.3%
<i>Industrial Machinery</i>	7.9%	0.8%	-7.7%	1.6%	27.4%	-23.6%
<i>Computers and Electronic Products</i>	-0.2%	-1.3%	1.6%	0.7%	1.0%	-6.6%
<i>Transportation Equipment</i>	1.1%	-9.1%	17.8%	37.6%	8.9%	-27.0%
Capital Goods Orders	3.7%	-6.5%	8.2%	21.2%	19.0%	-19.4%
Capital Goods Shipments	2.7%	-1.8%	-0.2%	2.8%	-0.6%	-11.6%
<i>Defense Shipments</i>	5.1%	2.8%	-4.0%	15.8%	27.0%	22.6%
<i>Non-Defense, Ex Aircraft</i>	-0.2%	-2.2%	0.3%	-8.4%	-7.8%	-18.8%
Unfilled Orders for Durable Goods	-0.4%	-0.4%	-0.1%	-3.8%	-6.3%	-11.4%

Source: Bureau of the Census