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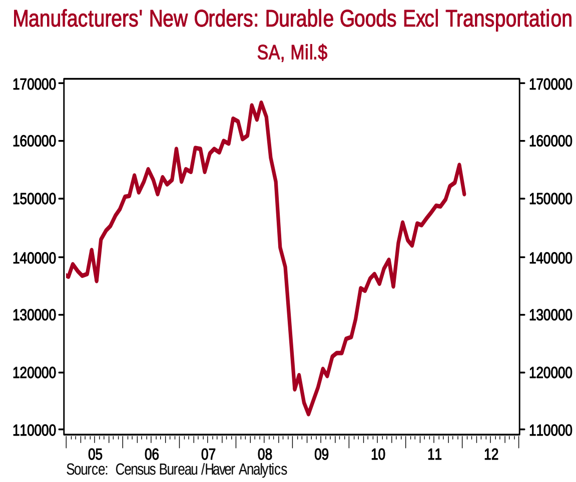
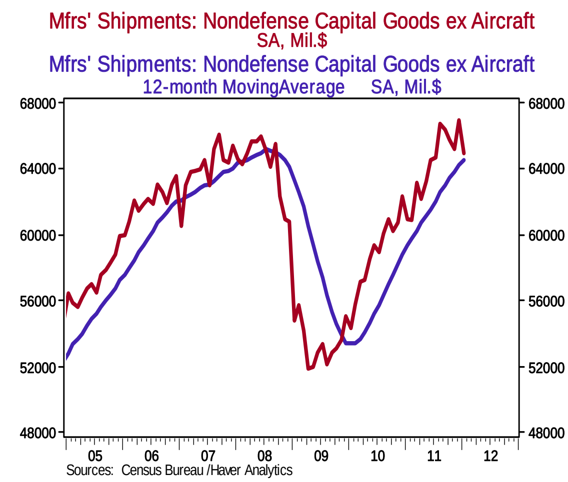
January Durable Goods

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- New orders for durable goods dropped 4.0% in January, coming in way below the consensus expected loss of 1.0%. Orders excluding transportation fell 3.2%, also well below consensus expectations of no change. Overall new orders are up 8.1% from a year ago, while orders excluding transportation are up 5.7%.
- The fall in overall orders was led by civilian aircraft, machinery and primary metals. Other categories of orders showed little change.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 3.1% in January (-3.3% including a slight downward revision in December).
- Unfilled orders increased 0.5% in January and are up 9.4% from last year.





Implications: New orders for durable goods slumped 4% in January, coming in well below consensus expectations. However, the drop follows two steep gains in November and December. Even with the drop in January, orders are up at a robust 13.6% annual rate in the past three months. Two major factors were behind the drop in January. First, orders for civilian aircraft fell 19% after a gain of 21% in December. It is not unusual for these orders to be extremely volatile from month to month. The second reason for the drop is that they are often the weakest in the first month of every quarter and this is particularly true in January. Then, orders tend to rebound in the second and third months of each quarter. Given this pattern, we think the underlying trend in business investment is still upward. It is unlikely that the drop in January is due to the end of full expensing for tax purposes. To get full expensing, equipment had to already be in place by last year, so the order had to be placed at least a few months ago. Monetary policy is loose, interest rates are extremely low, and businesses are reaping record profits while they already have record amounts of cash on their balance sheets. Moreover, capacity utilization at US factories is approaching its long-term norm, meaning companies have an increasing incentive to update their equipment. Supporting this trend, unfilled orders for durable goods hit another all-time record high in January and are up 9.4% versus a year ago. In other news today on the factory sector, the Richmond Fed index, which measures manufacturing activity in mid-Atlantic states, increased to +20 in February from +12 in January. The gain easily beat consensus expectations of +14 and was the highest since Feb 2011. On the housing front, pending home sales, which are contracts on existing homes, were up 2% in January and up 10% from a year ago, suggesting future gains in existing home sales. The Case-Shiller index, a measure of home prices in the 20 largest metro areas around the country, declined 0.5% in December (seasonally-adjusted) and is down 4% versus a year ago. The index is now the lowest in almost 10 years, but we anticipate a modest gain in 2012.

Durable Goods *All Data Seasonally Adjusted*	Jan-12	Dec-11	Nov-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**-4.0%**	3.2%	4.2%	13.6%	4.0%	8.1%
Ex Defense	**-4.5%**	3.8%	4.5%	15.0%	6.2%	11.1%
Ex Transportation	**-3.2%**	2.1%	0.3%	-3.4%	2.7%	5.7%
Primary Metals	**-6.7%**	3.8%	5.8%	10.5%	22.2%	19.1%
Industrial Machinery	**-10.4%**	6.5%	1.2%	-13.1%	-12.3%	4.4%
Computers and Electronic Products	**0.8%**	-0.7%	-6.4%	-22.8%	-3.3%	-4.0%
Transportation Equipment	**-6.1%**	6.4%	16.6%	83.6%	7.6%	15.2%
Capital Goods Orders	**-5.0%**	5.1%	8.0%	35.3%	7.8%	10.6%
Capital Goods Shipments	**-1.1%**	3.3%	-2.0%	0.3%	4.3%	7.9%
Defense Shipments	**-3.5%**	9.6%	0.0%	24.8%	1.2%	-8.0%
Non-Defense, Ex Aircraft	**-3.1%**	2.8%	-0.9%	-4.8%	0.8%	6.5%
Unfilled Orders for Durable Goods	**0.5%**	1.5%	1.3%	14.2%	10.8%	9.4%

Source: Bureau of the Census