

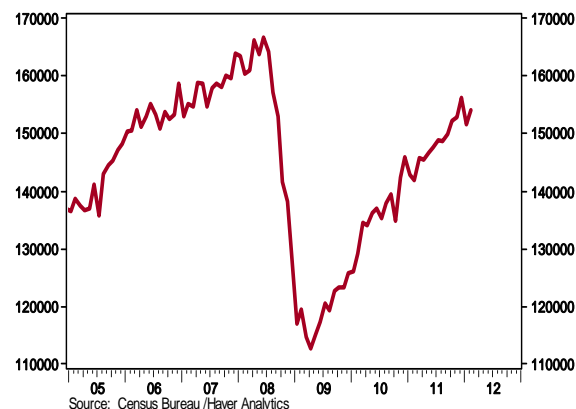
## February Durable Goods

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

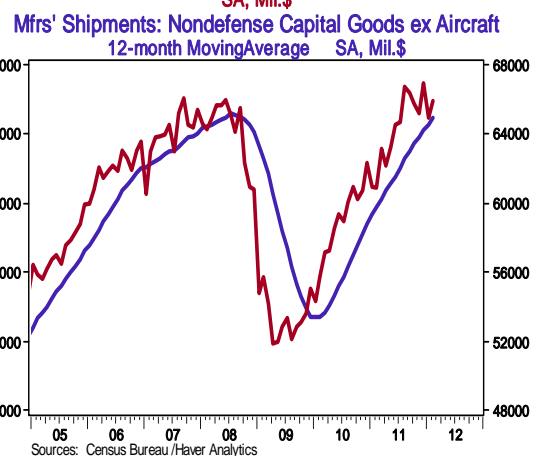
- New orders for durable goods increased 2.2% in February, coming in below the consensus expected gain of 3.0%. Orders excluding transportation rose 1.6%, almost exactly matching the consensus expected gain of 1.7%. Overall new orders are up 12.2% from a year ago, while orders excluding transportation are up 8.5%.
- The gain in overall orders was led by machinery, civilian aircraft and motor vehicles. Most categories of orders showed gains in February.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 1.4% in February.
- Unfilled orders increased 1.3% in February and are up 10.5% from last year.

**Implications:** New orders for durable goods were up a solid 2.2% in February, showing broad gains across many categories. Orders are up 12.2% in the past year, 8.5% excluding transportation. And remember, this is all in the very early stages of a home building recovery. As housing picks up steam, orders for durables should pick up as well. As a result, we expect more gains in the year ahead. Orders for “core” capital goods, which exclude aircraft and defense, have been running consistently above shipments for the past two years. Unfilled orders for core capital goods are at a new all-time record high and up 9.5% from a year ago. Meanwhile, 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. In other recent news on the factory sector, the Richmond Fed index, which measures manufacturing activity in the mid-Atlantic states, declined to +7 in March from +20 in February. The index has been in positive territory, signaling growth, for the past four months. On the housing front, pending home sales, which are contracts on existing homes, slipped 0.5% in February but are up 13.9% versus a year ago. The Case-Shiller index, which measures home prices in the 20 largest metro areas, was unchanged in January (seasonally-adjusted). Nine of the twenty metro areas had price increases. Home prices in Phoenix, which led the pack in January with a 2% increase, are up at a 17.6% annual rate in the past three months. Nationwide, home prices are down 3.8% from a year ago, but we expect a slight increase over the full course of 2012.

**Manufacturers' New Orders: Durable Goods Excl Transportation**  
 SA, Mil.\$



**Mfrs' Shipments: Nondefense Capital Goods ex Aircraft**  
 SA, Mil.\$



<b>Durable Goods</b> <i>All Data Seasonally Adjusted</i>	<b>Feb-12</b>	<b>Jan-12</b>	<b>Dec-11</b>	<b>3-mo % ch.</b> <b>annualized</b>	<b>6-mo % ch.</b> <b>annualized</b>	<b>Yr to Yr</b> <b>% Change</b>
<b>New Orders for Durable Goods</b>	<b>2.2%</b>	-3.6%	3.3%	7.4%	9.7%	12.2%
<b>Ex Defense</b>	<b>1.7%</b>	-4.1%	3.9%	5.4%	11.2%	12.9%
<b>Ex Transportation</b>	<b>1.6%</b>	-3.0%	2.3%	3.3%	7.4%	8.5%
<b>Primary Metals</b>	<b>1.3%</b>	-8.2%	3.9%	-12.9%	21.7%	29.5%
<b>Industrial Machinery</b>	<b>5.7%</b>	-9.1%	6.5%	10.0%	5.0%	13.3%
<b>Computers and Electronic Products</b>	<b>2.7%</b>	2.1%	-0.2%	20.0%	2.9%	-0.9%
<b>Transportation Equipment</b>	<b>3.9%</b>	-5.3%	6.3%	19.4%	16.1%	23.7%
<b>Capital Goods Orders</b>	<b>2.3%</b>	-3.6%	5.2%	16.0%	6.2%	15.4%
<b>Capital Goods Shipments</b>	<b>-0.3%</b>	-1.1%	3.2%	7.5%	-2.3%	7.1%
<b>Defense Shipments</b>	<b>-7.8%</b>	-2.2%	9.6%	-4.5%	-17.0%	-15.8%
<b>Non-Defense, Ex Aircraft</b>	<b>1.4%</b>	-3.0%	2.8%	4.4%	-2.5%	8.2%
<b>Unfilled Orders for Durable Goods</b>	<b>1.3%</b>	0.7%	1.5%	14.8%	12.1%	10.5%

Source: Bureau of the Census