

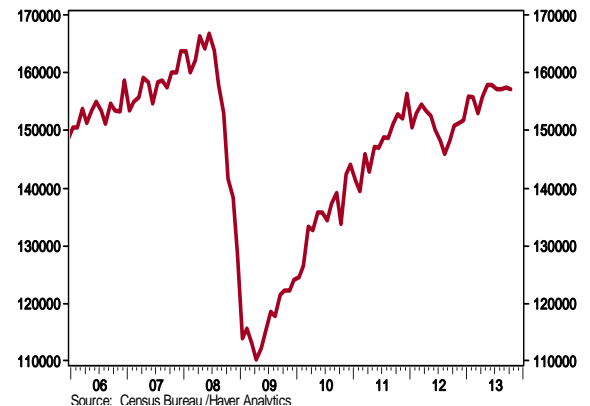
October Durable Goods

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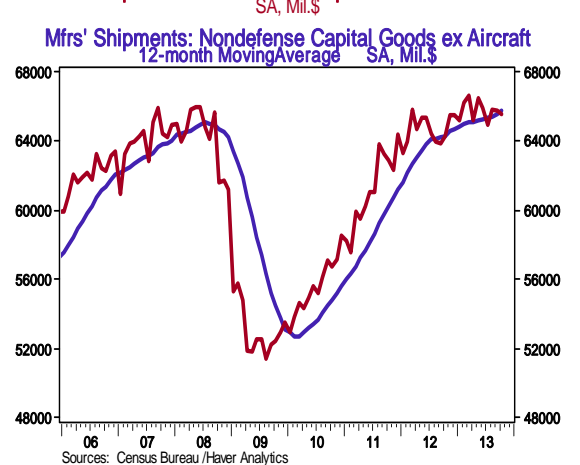
- New orders for durable goods declined 2.0% in October, matching consensus expectations. Orders excluding transportation declined 0.1%, falling short of the consensus expected gain of 0.5%. Including revisions to September, overall orders declined 1.7% and orders ex-transportation rose 0.3%. Orders are up 5.3% from a year ago, while orders excluding transportation are up 4.3%.
- The decline in overall orders was led by civilian and defense aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.2% in October. If unchanged in November and December, these shipments will be up at a 0.7% annual rate in Q4 versus the Q3 average.
- Unfilled orders were up 0.3% in October and are up 6.4% from last year.

Implications: New orders for durables declined 2.0% in October. However, almost all the decline was in the transportation sector – particularly civilian aircraft – which is extremely volatile month to month. Orders were down 0.1% excluding transportation. The best news in today’s report was that unfilled orders for core capital goods rose 0.3% in October, hitting a new record high. The news on unfilled orders supports our optimism about business investment. In addition, the recovery in home building should generate more demand for big-ticket consumer items, such as appliances. Expect more plow horse growth in the months ahead. In other manufacturing news, the Richmond Fed index, which measures mid-Atlantic factory sentiment, increased to +13 in November from +1 in October. The Chicago PMI, which measures factory sentiment in that region, declined to 63.0 in November from 65.9 in October. As a result, our forecast for the national ISM manufacturing report is 56.1 for November, versus a consensus forecast of 55.0. In broader economic news, initial claims for unemployment insurance declined 10,000 last week to 316,000. Continuing claims fell 91,000 to a new recovery low of 2.78 million. Plugging these figures into our payroll models suggests November gains of 174,000 nonfarm, 169,000 private. On the housing front, mostly good news this week. The Case-Shiller home price index rose 1% in September and is up 13.3% in the past year. Prices in all 20 major metro areas increased in September, with recent price gains led by Las Vegas, Atlanta, Los Angeles, and San Diego. The FHFA index which covers homes financed by conforming mortgages, increased 0.3% in September and is up 8.5% versus last year. Permits to build new homes increased 5.2% in September, 6.2% in October, and are up 13% in the past twelve months. However, the volatile multi-family sector accounted for all of the gains in the past two months and 60% of the gains in the past year. Pending home sales, which are contracts on existing homes, slipped 0.6% in October. As a result, we expect another (temporary) decline in existing home sales in November. Sales should start recovering again in December.

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



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft



Durable Goods <i>All Data Seasonally Adjusted</i>	Oct-13	Sep-13	Aug-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-2.0%	4.1%	0.5%	10.4%	6.6%	5.3%
<i>Ex Defense</i>	-1.3%	3.4%	0.9%	12.6%	6.0%	6.1%
<i>Ex Transportation</i>	-0.1%	0.2%	-0.1%	0.2%	1.9%	4.3%
<i>Primary Metals</i>	0.5%	2.9%	0.1%	14.6%	8.7%	5.1%
<i>Industrial Machinery</i>	-0.3%	-2.0%	0.7%	-6.3%	-1.6%	6.0%
<i>Computers and Electronic Products</i>	0.3%	4.9%	-4.6%	1.8%	0.1%	2.1%
<i>Transportation Equipment</i>	-5.9%	13.0%	1.8%	37.4%	18.0%	7.4%
Capital Goods Orders	-5.3%	8.2%	-0.4%	8.2%	6.8%	1.6%
Capital Goods Shipments	-0.2%	0.0%	1.5%	5.4%	7.5%	2.1%
<i>Defense Shipments</i>	-2.4%	-2.7%	9.9%	18.3%	4.2%	-0.9%
<i>Non-Defense, Ex Aircraft</i>	-0.2%	-0.2%	1.4%	4.2%	1.4%	2.1%
Unfilled Orders for Durable Goods	0.3%	0.9%	0.1%	5.3%	10.0%	6.4%

Source: Bureau of the Census