

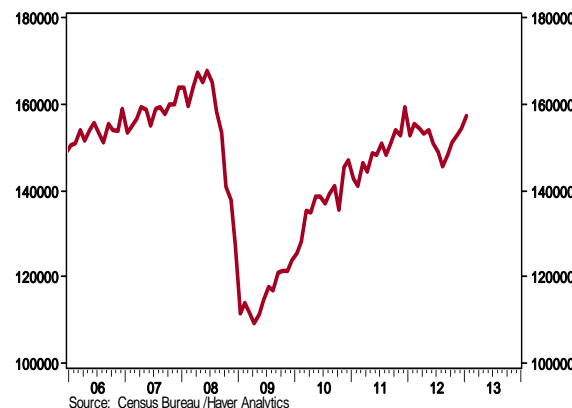
January Durable Goods

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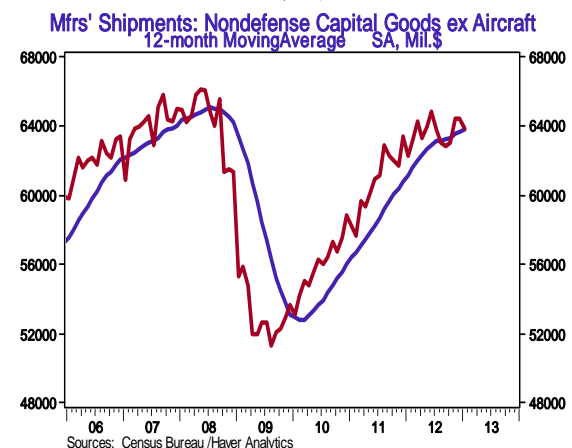
- New orders for durable goods fell 5.2% in January (-5.7% including revisions to December), coming in below the consensus expected decline of 4.8%. Orders excluding transportation increased 1.9%, easily beating the consensus expected gain of 0.2%. Overall new orders are down 1.0% from a year ago, while orders excluding transportation are up 3.0%.
- The decline in overall orders was led by a massive drop in both defense and civilian aircraft. Machinery orders increased 13.5%, leading the gain outside the transportation sector.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 1.0% in January (-1.1% including revisions to December). If unchanged in February and March, these shipments will be down at a 0.9% annual rate in Q1 versus the Q4 average.
- Unfilled orders slipped 0.2% in January but are up 1.5% from last year.

Implications: Do not be misled by the headline number of durable goods falling 5.2% in January. This decline was completely due to the very volatile transportation sector. Orders for aircraft vary greatly from month to month and in January there were big declines in orders for both defense and civilian aircraft. Taking out transportation, orders came in up 1.9%, much better than the consensus expected as companies look to be gaining more confidence. The plow horse economy continues to move forward. Machinery boomed in January with the biggest one month percent change since May 2010. Machinery orders are now up at a 69.1% annual rate in the past three months. Also, orders for nondefense capital goods excluding aircraft, a good proxy for future business investment, boomed in January rising 6.3%, the best percentage gain in over a year. Shipments of “core” capital goods, which exclude defense and aircraft, were down 1% in January, but core shipments usually fall in the first month of each quarter and then rebound in the last two months, so this decline is not abnormal. We expect a continuation of the recent upward trend in orders and shipments. Monetary policy is loose, corporate profits and balance sheet cash are at record highs (earning almost zero interest), and the recovery in home building is picking up steam. All of these indicate more business investment ahead. In other news this morning, pending home sales, which are contracts on existing homes, increased 4.5% in January and are up 10.4% from a year ago. Given this data, expect a gain in existing home sales in February.

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



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



Durable Goods <i>All Data Seasonally Adjusted</i>	Jan-13	Dec-12	Nov-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-5.2%	3.7%	0.6%	-4.0%	-9.9%	-1.0%
Ex Defense	-0.4%	0.5%	0.5%	2.5%	-6.1%	-0.1%
Ex Transportation	1.9%	1.0%	1.2%	17.6%	11.7%	3.0%
Primary Metals	-3.6%	1.5%	0.0%	-8.3%	3.3%	-0.2%
Industrial Machinery	13.5%	-1.8%	2.3%	69.1%	42.6%	11.3%
Computers and Electronic Products	-5.3%	2.4%	0.8%	-8.9%	-9.8%	-7.6%
Transportation Equipment	-19.8%	9.9%	-0.7%	-41.2%	-44.0%	-10.0%
Capital Goods Orders	-12.8%	11.9%	-1.7%	-15.5%	-19.9%	-9.6%
Capital Goods Shipments	-2.8%	1.0%	1.7%	-0.6%	-0.5%	1.6%
Defense Shipments	-11.6%	6.0%	2.3%	-15.3%	-6.0%	-5.5%
Non-Defense, Ex Aircraft	-1.0%	0.0%	2.2%	5.1%	0.2%	2.6%
Unfilled Orders for Durable Goods	-0.2%	0.8%	0.0%	2.4%	-1.3%	1.5%

Source: Bureau of the Census