

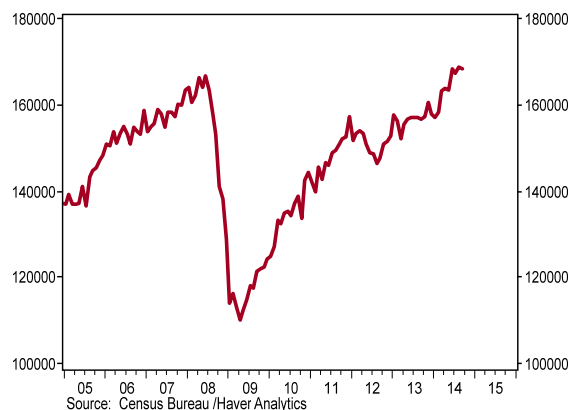
September Durable Goods

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- New orders for durable goods declined 1.3% in September, below the consensus expected gain of 0.5%. Orders excluding transportation declined 0.2% in September, but were unchanged including revisions to prior month versus the consensus expected 0.7% gain. Orders are up 3.3% from a year ago while orders excluding transportation are up 7.3%.
- The decline in overall orders was led by civilian aircraft, machinery and communications equipment. The largest gain was for primary metals.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.2% in September, but was up at an 11.1% annual rate in Q3 versus the Q2 average.
- Unfilled orders increased 0.3% in September and are up 12.2% from last year.

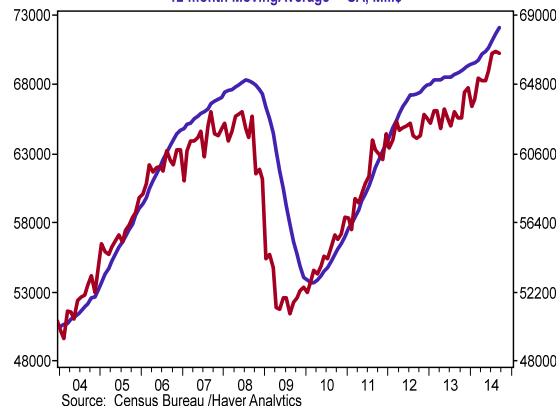
Implications: Don't fret much about the soft headlines on orders for durable goods in September. An upward trend is still intact. New orders for durable goods dropped 1.3% in September, falling for the second consecutive month. But once again the drop was led by the very volatile transportation sector which fell 3.7%, mainly due to a large decline in civilian aircraft orders. This kind of monthly volatility is why it's important to look at the trend, which remains upward. Orders for durables are still up a Plow Horse-like 3.3% from a year ago and up 7.3% excluding the transportation sector. Meanwhile, shipments of "core" capital goods, which exclude defense and aircraft – a good proxy for business equipment investment – declined 0.2% in September. Still, these "core" shipments are up 7.1% versus a year ago, and were up 11.1% at an annualized rate in Q3 versus the Q2 average. As a result, it still looks like business investment in equipment grew at about a 14% annual rate in Q3 and real GDP (for which we will get the first reading on Thursday) grew at close to a 3% rate. In other manufacturing news this morning, the Richmond Fed index, a measure of factory sentiment in the mid-Atlantic region, boomed to +20 in October from +14 in September, the best reading since December 2010. This signals continued gains in industrial production in October. On the housing front, pending home sales, which are contracts on existing homes, increased 0.3% in September, and are up 3% from a year ago. Meanwhile, the national Case-Shiller home price index increased 0.4% in August and is up 5.1% from a year ago. Price gains in the past year have been led by Miami, Las Vegas, and San Francisco. The three cities with the slowest gains in the past year have been Cleveland, Charlotte, and Chicago. We expect home prices to continue to rise in the year ahead but at a slower pace than the past couple of years.

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



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

Mfrs' Shipments: Nondefense Capital Goods ex Aircraft
 12-month Moving Average SA, Mil.\$



Durable Goods <i>All Data Seasonally Adjusted</i>	Sep-14	Aug-14	Jul-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-1.3%	-18.3%	22.5%	-5.1%	2.7%	3.3%
Ex Defense	-1.5%	-19.1%	24.9%	-1.9%	3.4%	4.1%
Ex Transportation	-0.2%	0.7%	-0.6%	-0.6%	6.4%	7.3%
Primary Metals	2.2%	0.1%	-0.4%	8.2%	15.3%	8.9%
Industrial Machinery	-2.8%	1.1%	-1.4%	-11.9%	-3.4%	8.2%
Computers and Electronic Products	-2.5%	1.7%	-0.8%	-6.4%	-1.9%	5.3%
Transportation Equipment	-3.7%	-42.4%	73.3%	-14.6%	-5.0%	-4.9%
Capital Goods Orders	-4.2%	-34.1%	52.5%	-14.0%	-2.0%	0.3%
Capital Goods Shipments	0.3%	0.4%	1.9%	11.1%	7.9%	7.2%
Defense Shipments	-1.3%	2.2%	1.9%	11.7%	3.6%	-2.7%
Non-Defense, Ex Aircraft	-0.2%	0.1%	2.0%	7.8%	5.3%	7.1%
Unfilled Orders for Durable Goods	0.3%	0.6%	5.3%	27.8%	19.1%	12.2%

Source: Bureau of the Census