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November Durable Goods

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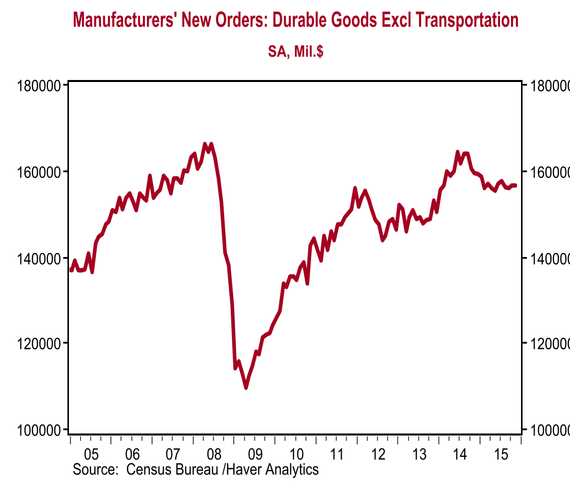
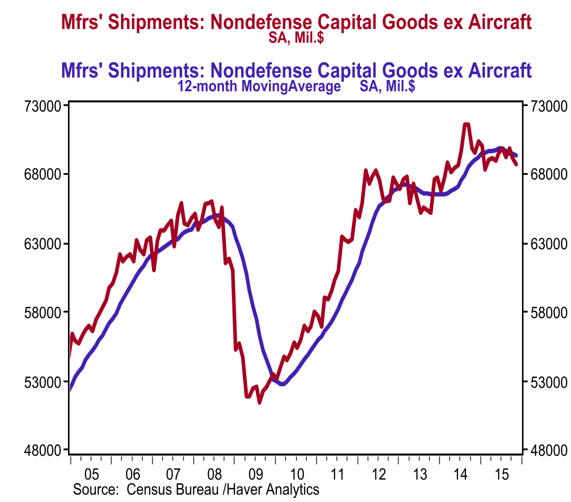
- New orders for durable goods were unchanged in November, coming in better than the consensus expected decline of 0.6%. Orders excluding transportation declined 0.1% in November, coming in almost exactly at the consensus expected no change. Orders are up 1.2% from a year ago while orders excluding transportation are down 1.9%.
- The largest gains in overall orders in November were from defense aircraft and autos. The largest declines were for civilian aircraft, primary metals, and machinery.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.5% in November (-1.0% including revisions to prior months). If unchanged in December, these shipments will be down at a 4.4% annualized rate in Q4 versus the Q3 average.
- Unfilled orders increased 0.2% in November but are down 2.2% from last year.





Implications: New orders for durable goods took a breather in November after a strong gain in October. New orders for durable goods were unchanged, as large gains in some categories offset large losses in others. Civilian aircraft orders, which are part of the very volatile transportation sector, dropped 22.2% in November but were more than offset by gains in autos and defense aircraft. Orders excluding the volatile transportation sector were down 0.1% in November. The government doesn't release specific data by sector until next week, but the decline in machinery suggests continued declines in orders for drilling and mining equipment, due to lower energy prices. As of October, orders for "mining, oil field, and gas field machinery" were down more than 18% from a year ago. We think oil prices will average at higher levels during the next several years, so the impact of falling energy prices should be coming to an end soon. Another issue holding back orders is that they are measured in dollar value, so if the price of investment goods is falling, the "real" (inflation-adjusted) value of orders may still be rising. In addition, although we lack hard data at this point, we wonder if more firms are using 3D printing to make their own products in-house, which would cut orders placed with other businesses, but still lead to gains in productivity. The worst news was that "core" shipments, which exclude defense and aircraft, declined 0.5% in November and were revised lower for previous months. It's still early but plugging these and other recent data into our models, we are forecasting real GDP grew at a 1.5% annual rate in Q4. Expect stronger gains in orders for durables in the year ahead and better real GDP growth as well, although still in the Plow Horse range near 2.5%. Consumer purchasing power is growing with more jobs and higher incomes, while debt ratios remain very low. Meanwhile, profit margins are high and corporate balance sheets are loaded with cash. In addition, the extension of bonus depreciation and related reduction in policy uncertainty should encourage companies to invest more in 2016. The Plow Horse Economy continues to move forward, but, by definition that means it's slow.

Durable Goods *All Data Seasonally Adjusted*	Nov-15	Oct-15	Sep-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**0.0%**	2.9%	-0.8%	8.5%	10.4%	1.2%
Ex Defense	**-1.5%**	3.0%	-1.6%	-0.6%	5.5%	-1.0%
Ex Transportation	**-0.1%**	0.5%	-0.1%	0.9%	1.4%	-1.9%
Primary Metals	**-2.7%**	2.2%	-2.8%	-12.9%	-17.3%	-15.7%
Industrial Machinery	**-1.5%**	0.7%	-0.2%	-4.2%	4.5%	-2.1%
Computers and Electronic Products	**0.4%**	2.1%	-0.3%	8.8%	8.0%	8.8%
Transportation Equipment	**0.4%**	7.8%	-2.2%	25.0%	31.0%	7.8%
Capital Goods Orders	**-1.0%**	11.0%	-4.3%	22.2%	22.5%	0.7%
Capital Goods Shipments	**1.1%**	-1.6%	0.3%	-0.8%	4.6%	2.4%
Defense Shipments	**-7.5%**	0.9%	5.4%	-6.3%	9.8%	1.4%
Non-Defense, Ex Aircraft	**-0.5%**	-1.0%	0.8%	-3.0%	-0.4%	-1.2%
Unfilled Orders for Durable Goods	**0.2%**	0.3%	-0.5%	0.0%	-0.1%	-2.2%

Source: Bureau of the Census