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February Durable Goods

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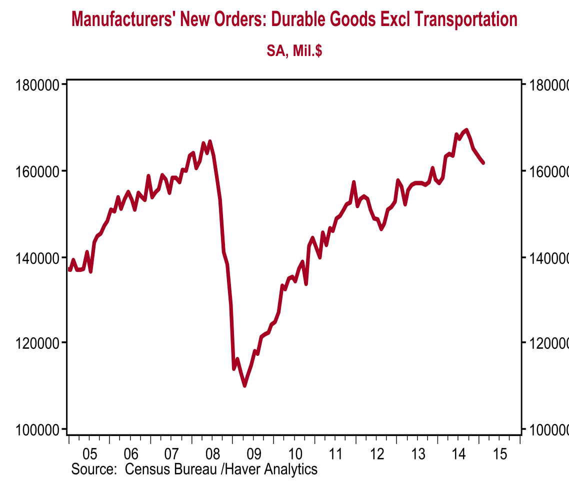
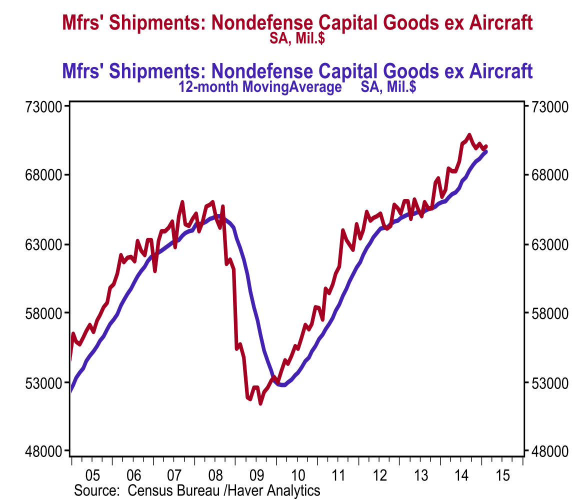
- New orders for durable goods declined 1.4% in February (-2.1% including revisions to prior months), below the consensus expected gain of 0.2%. Orders excluding transportation slipped 0.4% in February (-1.2% including revisions to prior months), below the consensus expected gain of 0.2%. Orders are up 0.6% from a year ago while orders excluding transportation are up 2.3%.
- The decline in overall orders was led by aircraft, with machinery and fabricated metal products declining as well. The largest gain was for electrical equipment, appliances & components.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 0.2% in February (-0.3% including revisions to prior months). If unchanged in March these shipments will be down at a 0.9% annualized rate in Q1 versus the Q4 average.
- Unfilled orders slipped 0.5% in February but are up 8.9% from last year.





Implications: An ugly report on durable goods from February. Orders fell 1.4%, much weaker than the expected 0.2% increase. However, this is not the end of the economic expansion. Three special factors have held orders back – less drilling activity, West Coast port strikes, and abnormally cold winter weather. Most of the decline was in the transportation sector – particularly aircraft – which is extremely volatile month to month. Still, orders excluding transportation declined 0.4% and have now dropped for five consecutive months. This is no different than what happened in 2012, when orders also fell for five consecutive months, yet real GDP accelerated in 2012 from 2011. Despite recent declines, orders ex-transportation still remain up a Plow Horse 2.3% from a year ago. "Core" shipments, which exclude defense and aircraft, rose 0.2% in February and are up 4.6% from a year ago. Still, if unchanged in March, "core" shipments will be down at a 0.9% annual rate. Plugging these data into our models for overall real GDP puts our forecast for Q1 at a 1.0% annual rate. Moving forward, we expect to see a rebound in orders and shipments as temporary headwinds recede. Consumer purchasing power is growing with more jobs and higher incomes, while debt ratios remain very low, leaving room for an upswing in big-ticket spending. Meanwhile, profit margins are high, corporate balance sheets are loaded with cash, and capacity utilization is breaching long-term norms, leaving more room (and need) for business investment.

Durable Goods *All Data Seasonally Adjusted*	Feb-15	Jan-15	Dec-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**-1.4%**	2.0%	-3.7%	-11.7%	-10.9%	0.6%
Ex Defense	**-1.0%**	2.3%	-3.2%	-7.7%	-9.8%	1.1%
Ex Transportation	**-0.4%**	-0.7%	-0.8%	-7.6%	-8.0%	2.3%
Primary Metals	**1.0%**	-1.8%	-3.0%	-14.3%	-13.1%	0.8%
Industrial Machinery	**-1.8%**	0.3%	-3.3%	-17.6%	-19.4%	-5.2%
Computers and Electronic Products	**-0.1%**	1.3%	-1.5%	-1.3%	-5.7%	5.8%
Transportation Equipment	**-3.5%**	8.8%	-10.0%	-20.3%	-17.0%	-3.0%
Capital Goods Orders	**-1.5%**	7.3%	-10.3%	-18.9%	-19.4%	2.6%
Capital Goods Shipments	**-0.1%**	-0.7%	1.2%	1.6%	-1.0%	5.4%
Defense Shipments	**-0.8%**	-13.5%	5.0%	-34.1%	-16.1%	-5.3%
Non-Defense, Ex Aircraft	**0.2%**	-0.4%	0.4%	0.6%	-1.1%	4.6%
Unfilled Orders for Durable Goods	**-0.5%**	-0.3%	-0.9%	-6.5%	-1.4%	8.9%

Source: Bureau of the Census