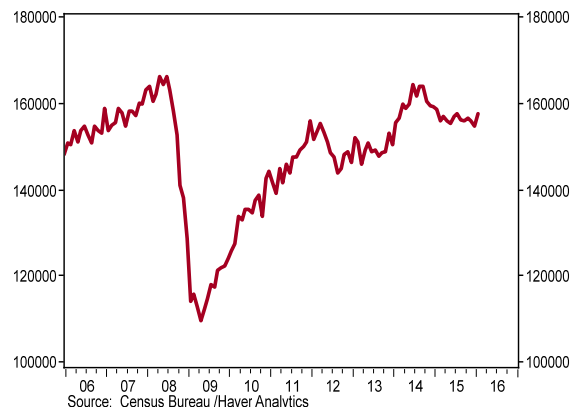


January Durable Goods

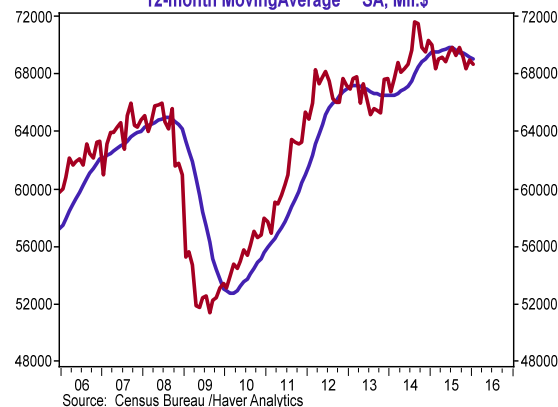
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- New orders for durable goods rose 4.9% in January (+5.3% including revisions to prior months), well above the consensus expected gain of 2.9%. Orders excluding transportation increased 1.8% in January (+2.1% including revisions to prior months), above the consensus expected gain of 0.3%. Orders are up 1.8% from a year ago while orders excluding transportation are down 0.6%.
- The rise in overall orders was led by aircraft and machinery, with no major category showing a decline.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure fell 0.4% in January (+0.4% including revisions to prior months). If unchanged in February and March, these shipments will be down at a 0.6% annualized rate in Q1 versus the Q4 average.
- Unfilled orders rose 0.1% in January but are down 1.8% from last year.

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.\$



Implications: Durable goods rebounded sharply from the December drop, easily beating consensus expectations as orders rose almost across the board. The jump in January was led by aircraft as well as machinery, which showed the largest monthly gain for any month in three years. Orders for “core” capital goods orders rose 3.9% while shipments (which the government uses to calculate business investment for GDP purposes) fell 0.4%. However, core shipments were revised up substantially for December. Including that revision, core capital goods shipments rose 0.4% in January. The only real negative in today’s report is that companies continue to pare back inventories, which fell 0.1% in January and are down in six of the last seven months, after overbuilding them in early 2015. But inventories are a volatile and temporary factor. A large rise in inventories provides a temporary boost in one quarter, but we pay it back in future quarters, exactly like we’re seeing right now. Expect further gains in the coming months as inventories stabilize and companies restock. 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 and corporate balance sheets are loaded with cash. In other news this morning, new claims for unemployment benefits increased 10,000 last week to 272,000, marking 51 consecutive weeks below 300,000. Continuing claims declined 20,000 to 2.25 million. Plugging these figures into our models suggests payrolls are up about 220,000 in February, another solid month. On the housing front, the FHFA index, which measures prices for homes financed with conforming mortgages, increased 0.4% in December and is up 5.7% from a year ago, a slight acceleration from the 5.5% gain in 2014. We’re obviously not in a recession. Most likely, it’s continued Plow Horse growth.

Durable Goods All Data Seasonally Adjusted	Jan-16	Dec-15	Nov-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	4.9%	-4.6%	-0.5%	-1.9%	-2.9%	1.8%
Ex Defense	4.5%	-2.5%	-2.0%	-0.5%	-1.9%	0.7%
Ex Transportation	1.8%	-0.7%	-0.5%	2.3%	0.2%	-0.6%
Primary Metals	0.7%	0.4%	-4.5%	-13.3%	-10.6%	-14.4%
Industrial Machinery	6.9%	-4.1%	-2.7%	-1.1%	-0.7%	0.4%
Computers and Electronic Products	0.8%	-1.9%	0.2%	-3.5%	1.7%	7.0%
Transportation Equipment	11.5%	-12.1%	-0.5%	-9.6%	-8.7%	6.7%
Capital Goods Orders	20.4%	-17.5%	-2.3%	-11.2%	-8.2%	2.5%
Capital Goods Shipments	2.9%	-4.8%	0.7%	-5.5%	-4.1%	-1.6%
Defense Shipments	-4.8%	2.4%	-7.7%	-34.5%	-16.5%	5.1%
Non-Defense, Ex Aircraft	-0.4%	0.9%	-1.2%	-2.5%	-3.2%	-1.9%
Unfilled Orders for Durable Goods	0.1%	-0.5%	0.1%	-1.4%	-1.6%	-1.8%

Source: Bureau of the Census