

February Durable Goods

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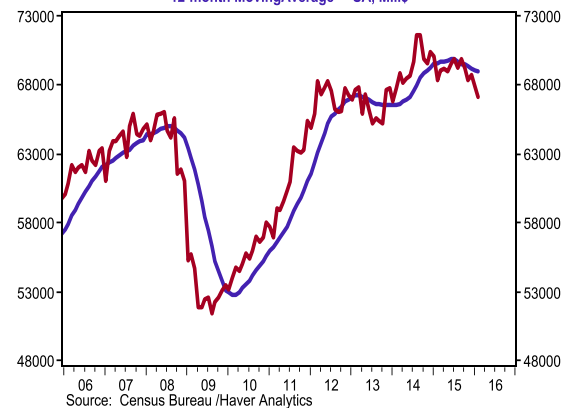
- New orders for durable goods declined 2.8% in February (-3.3% including revisions to prior months). The consensus expected a decline of 3.0%. Orders excluding transportation fell 1.0% in February (-1.5% including revisions to prior months), below the consensus expected decline of 0.3%. Orders are up 1.8% from a year ago while orders excluding transportation are down 0.5%.
- The decline in overall orders was led by aircraft and machinery. The largest gains were for motor vehicles and computers.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure fell 1.1% in February (-2.0% including revisions to prior months). If unchanged in March, these shipments will be down at a 7.9% annualized rate in Q1 versus the Q4 average.
- Unfilled orders declined 0.4% in February and are down 1.6% 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: After January’s jump, durable goods showed broad-based declines in February, led by falling orders for aircraft and machinery. Orders for “core” capital goods - non-defense excluding aircraft - fell 1.8% while shipments (which the government uses to calculate business investment for GDP purposes) fell 1.1%. This comes in contrast to the regional manufacturing reports that have shown activity in the manufacturing sector stabilizing and starting to turn higher. Aircraft orders, which are very volatile from month to month, fell 27.7% as Boeing reported just 2 aircraft orders in February down from 68 in January. But while aircraft pulled down orders from the transportation sector, orders for motor vehicles rose for a fourth consecutive month. As a whole, today’s report suggests that companies continue to pare back inventories, which fell 0.3% in February and are down in seven of the last eight months, after overbuilding them in early 2015. But inventories are a 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 6,000 last week to 265,000, marking 55 consecutive weeks below 300,000, the longest stretch in more than forty years. Continuing claims declined 39,000 to 2.18 million. Plugging these numbers into our model suggests payrolls are up about 241,000 in March, another solid month. The four-week moving average of initial claims, 260,000, is the lowest since 1973. In other words, very few layoffs are occurring in spite of what looks like a 1.5% real GDP growth rate in the first quarter. The Plow Horse economy just keeps plowing along.

Durable Goods <i>All Data Seasonally Adjusted</i>	Feb-16	Jan-16	Dec-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-2.8%	4.2%	-4.6%	-12.8%	-3.9%	1.8%
Ex Defense	-1.9%	3.7%	-2.5%	-2.9%	-2.8%	1.2%
Ex Transportation	-1.0%	1.2%	-0.7%	-2.1%	-1.4%	-0.5%
Primary Metals	-0.1%	0.5%	0.2%	2.8%	-9.3%	-11.9%
Industrial Machinery	-2.6%	4.6%	-3.8%	-7.7%	-8.1%	-0.9%
Computers and Electronic Products	-0.9%	0.9%	-1.6%	-6.5%	0.8%	6.9%
Transportation Equipment	-6.2%	10.7%	-12.2%	-31.0%	-8.9%	7.1%
Capital Goods Orders	-9.5%	19.2%	-17.4%	-36.9%	-14.6%	-3.9%
Capital Goods Shipments	-2.2%	2.1%	-5.0%	-19.1%	-11.2%	-2.6%
Defense Shipments	-0.2%	-3.5%	2.5%	-4.9%	-6.1%	7.4%
Non-Defense, Ex Aircraft	-1.1%	-1.3%	0.6%	-7.0%	-6.2%	-1.8%
Unfilled Orders for Durable Goods	-0.4%	0.0%	-0.5%	-3.1%	-1.8%	-1.6%

Source: Bureau of the Census

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