September Durable Goods

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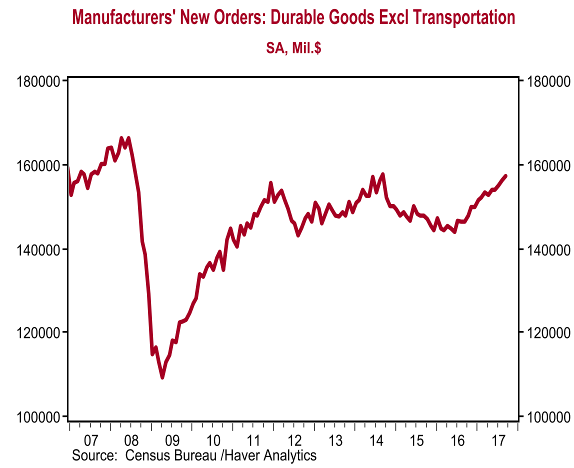
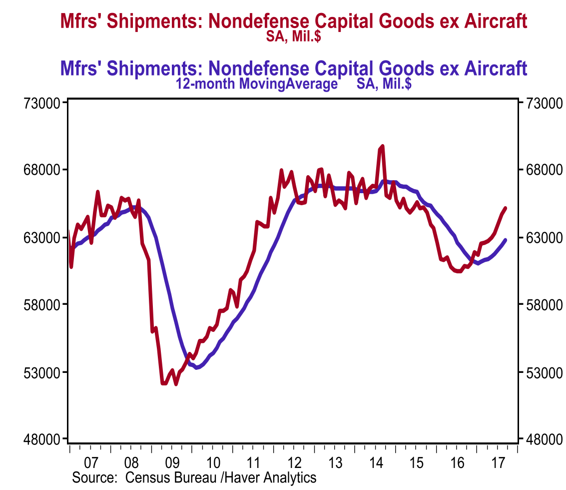
- New orders for durable goods rose 2.2% in September, handily beating the consensus expected rise of 1.0%. Orders excluding transportation rose 0.7% in September (+0.9% including revisions to prior months), also above consensus expectations. Orders are up 8.3% from a year ago while orders excluding transportation are up 7.5%.
- The rise in orders in September was led by commercial aircraft, fabricated metal products, and computers & electronic products.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 0.7% in September and grew at an 10.6% annual rate in Q3 vs the Q2 average.
- Unfilled orders rose 0.2% in September, and are up 1.4% from last year.





Implications: Orders for durable goods beat consensus expectations in September, rising 2.2% overall and growing 0.7% excluding the volatile transportation sector. As a result, overall orders are up 8.3% in the past year, while orders ex-transportation are up 7.5%. The ex-transportation figure is a more reliable measure of the health of orders and continues the steady rise higher that began in mid-2016 (see top chart to the right). Looking at the details of non-transportation orders shows gains for fabricated metal products, up 1.7% in September, while computers & electronic product orders rose 1.6%. Machinery and primary metals orders saw modest declines in September, but there is little reason for concern. Machinery orders are up 7% in the past year while primary metals orders are up 12.5%. If tax cuts come to fruition – particularly, a shift to full expensing for business investment instead of depreciation over several years – we expect machinery orders to pick up as companies increase investment. The best news in today's report was for shipments of non-defense capital goods ex-aircraft, or "core" shipments – the measure most important for calculating the business equipment portion of GDP growth. These rose 0.7% in September and were up at a 10.6% annual rate in Q3 vs the Q2 average, the fastest growth for any calendar quarter since 2014 and the fourth consecutive quarter of growing shipments (following four quarters of declines that began in late 2015). In part, this reflects the fact that energy prices have been more stable since the huge decline in late 2014. However, it also likely reflects the willingness of businesses to invest more aggressively for efficiency purposes as the labor market gets tighter. Recent regional Federal Reserve surveys of manufacturing businesses have shown healthy readings, with measures related to capital expenditures clearly showing that businesses are planning to increase purchases in the months ahead. In other recent news, the Richmond Fed Index, which measures the sentiment of Mid-Atlantic manufacturers, declined to a still healthy 12 in October from 19 in September. All measures in the index stood in positive territory in October, and the wages measure rose to the highest level since May of 2000. Combined, these data support the case for the Federal Reserve's likely rate hike in December.

Durable Goods *All Data Seasonally Adjusted*	Sep-17	Aug-17	Jul-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**2.2%**	2.0%	-6.8%	-10.9%	5.1%	8.3%
Ex Defense	**2.0%**	2.6%	-7.8%	-13.5%	4.8%	8.3%
Ex Transportation	**0.7%**	0.7%	0.8%	9.4%	5.5%	7.5%
Primary Metals	**-0.1%**	1.4%	0.8%	8.7%	5.5%	12.5%
Industrial Machinery	**-0.2%**	-0.1%	0.2%	-0.4%	5.4%	7.0%
Computers and Electronic Products	**1.6%**	1.8%	2.4%	26.0%	13.3%	6.7%
Transportation Equipment	**5.1%**	4.7%	-19.6%	-38.5%	4.4%	10.0%
Capital Goods Orders	**5.9%**	2.5%	-16.0%	-30.8%	12.2%	13.3%
Capital Goods Shipments	**2.3%**	-0.8%	2.2%	15.5%	10.4%	6.7%
Defense Shipments	**1.7%**	1.2%	3.2%	26.8%	11.0%	9.9%
Non-Defense, Ex Aircraft	**0.7%**	1.2%	1.0%	12.2%	8.2%	7.0%
Unfilled Orders for Durable Goods	**0.2%**	0.0%	-0.3%	-0.2%	2.6%	1.4%

Source: Bureau of the Census