

October Durable Goods

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- New orders for durable goods fell 4.4% in October, below the consensus expected decline of 2.6%. Orders excluding transportation rose 0.1% in October, versus a consensus expected rise of 0.4%. Orders are up 6.7% from a year ago while orders excluding transportation are up 4.4%.
- The decline in orders in October was led by both defense and civilian aircraft
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.3% in October. If unchanged in November and December these shipments will be up at a 0.7% annualized rate in Q4 versus the Q3 average.
- Unfilled orders fell 0.2% in October but are up 4.8% in the past year.

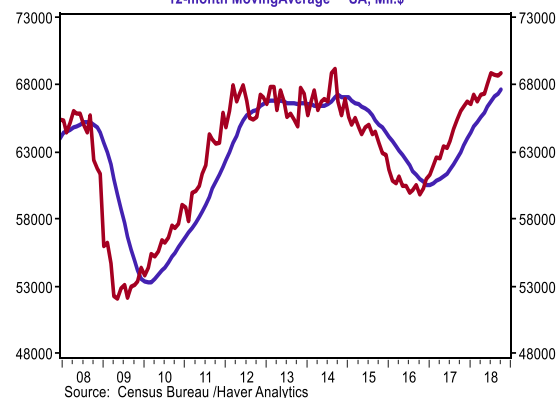
Implications: Double-digit declines in both defense and civilian aircraft orders pulled down new orders for durable goods more than expected in October. However, stripping out the typically volatile transportation sector – which fell 12.2% in October – shows core durable goods orders rose a modest 0.1%. A look at the details shows declines in primary metals and machinery orders offset by increases in computers & electronic products, electrical equipment, and motor vehicles and parts. But more important than month-to-month changes, the trend continues to show a healthy pace of activity, with total orders up 6.7% in the past year and orders excluding transportation up 4.4%. The most anticipated data point in today’s release was shipments of non-defense capital goods ex-aircraft (a key input for business investment in the calculation of GDP growth), which rose 0.3% in October after two months in a row of declines. It’s still too early to tell if this represents a genuine shift back to expansion, but a return to growth in business investment would bode well for Q4 GDP. Yes, downward revisions to August and September shipments of non-defense capital goods ex-aircraft dragged down annualized growth in Q3 versus the Q2 average from 7.7% to 7.2%. However, this still implies a much faster pace of growth in the Q3 GDP measure of business investment than the tepid 0.8% annualized we saw in the first release of Q3 GDP last month. Expect an upward revision in next week’s second GDP report. Healthy growth in durable goods orders, a strong labor market, and the economy on track for the fastest annual growth in more than a decade begs the question, why is the financial media still so focused on doom and gloom? As far as the data show, companies (and consumers) don’t seem nearly as worried as the pouting pundits, and political posturing has little chance of denting the strong growth track that entrepreneurs and innovators have set us on. In employment news this morning, initial jobless claims rose 3,000 last week to 224,000. Meanwhile, continuing claims fell 2,000 to 1.67 million. Expect further strength in payroll growth in November.

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 MovingAverage SA, Mil.\$



Durable Goods <i>All Data Seasonally Adjusted</i>	Oct-18	Sep-18	Aug-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-4.4%	-0.1%	4.7%	-0.1%	-1.3%	6.7%
Ex Defense	-1.2%	-1.4%	2.6%	-0.2%	-1.4%	5.7%
Ex Transportation	0.1%	-0.6%	0.3%	-0.9%	0.9%	4.4%
Primary Metals	-2.3%	-1.2%	1.5%	-7.9%	-4.6%	12.5%
Industrial Machinery	-0.5%	0.1%	0.2%	-0.8%	4.3%	1.1%
Computers and Electronic Products	1.6%	0.5%	-0.7%	5.7%	7.5%	5.5%
Transportation Equipment	-12.2%	0.9%	13.3%	1.4%	-5.3%	11.2%
Capital Goods Orders	-6.0%	-5.4%	12.7%	0.8%	-7.3%	5.0%
Capital Goods Shipments	-1.8%	2.3%	2.8%	14.0%	8.1%	5.9%
Defense Shipments	2.9%	1.1%	1.5%	24.1%	0.8%	11.1%
Non-Defense, Ex Aircraft	0.3%	-0.2%	-0.1%	0.2%	4.8%	4.3%
Unfilled Orders for Durable Goods	-0.2%	0.7%	0.9%	6.0%	5.0%	4.8%

Source: Bureau of the Census