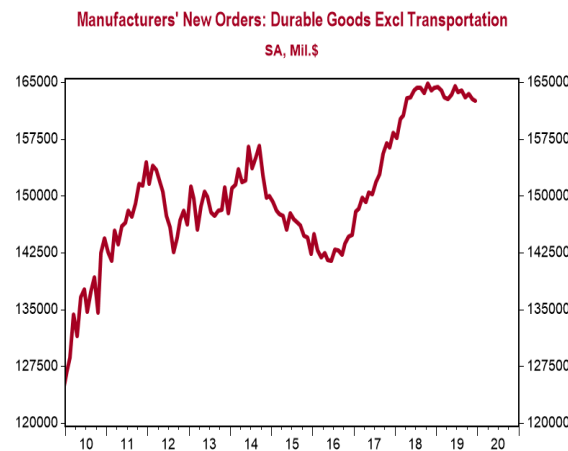


December Durable Goods

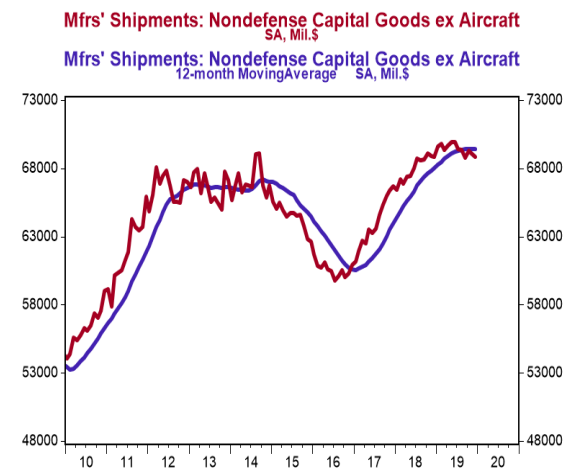
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- New orders for durable goods rose 2.4% in December (+1.3% including revisions to prior months), well above the consensus expected gain of 0.3%. Orders excluding transportation declined 0.1% in December (-0.4% including revisions), versus the consensus expected rise of 0.3%. Orders are down 3.7% from a year ago, while orders excluding transportation are down 1.0%.
- The rise in orders in December was led by defense aircraft and computers and electronic products.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.4% in December and was down at a 0.7% annualized rate in Q4 versus the Q3 average.
- Unfilled orders declined 0.1% in December and are down 2.2% in the past year.

Implications: New orders for durable goods easily exceeded expectations in December, but the underlying details weren't quite as impressive. At 2.4%, the pickup in orders in December was the largest one-month jump in more than a year and made up most of the pullback seen in November. That said, the rise in December was due to the typically volatile defense aircraft sector; excluding transportation, new orders declined 0.1% in December. Outside of transportation, a drop in orders for machinery and primary metals were partially offset by a rise in orders for computers and electronic products. One of the most important pieces of data from today's report, shipments of "core" non-defense capital goods ex-aircraft (a key input for business investment in the calculation of GDP growth), declined 0.4% in December and is down in five of the last six months. These shipments were down at a 0.7% annualized rate in Q4 versus the Q3 average, detracting from GDP growth. As a whole, 2019 was a relatively weak year for durable goods orders, down 3.7% over the past twelve months, while orders excluding transportation declined 1.0% from a year ago (the Boeing 737 Max fiasco certainly not helping things). Is the slowdown last year reason for concern? We don't think so. We are still waiting on data related to inventories and trade - both due out tomorrow - before we finalize our forecast for Thursday's first look at fourth quarter GDP growth, but it currently looks like the economy expanded at a respectable 2.5% annualized rate in Q4. The Phase 1 trade deal with China agreed in early December should help reduce some of the uncertainty surrounding investment decisions moving forward, although that will temporarily be offset by fears regarding the Coronavirus. The economy remains on solid footing and looks set to grow at a moderate rate in 2020. In housing news this morning, the Case-Shiller national home price index rose 0.5% in November and is up 3.5% from a year ago versus a 5.0% gain in the year ending November 2018. In the past year, home prices are up the most in Phoenix, Charlotte, and Tampa, while up the least in Chicago, San Francisco, and New York. On the manufacturing front, the Richmond Fed index, a measure of mid-Atlantic manufacturing sentiment, surged to +20 in January – the highest reading for the index since September of 2018 - from -5 in December. Recent surveys from Philadelphia, Dallas, and Kansas City echo the improved manufacturing outlook and suggest the national ISM Manufacturing index should rise in January.



Source: Census Bureau/Haver Analytics



Source: Census Bureau/Haver Analytics

Durable Goods <i>All Data Seasonally Adjusted</i>	Dec-19	Nov-19	Oct-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	2.4%	-3.1%	0.2%	-2.5%	0.2%	-3.7%
<i>Ex Defense</i>	-2.5%	-0.5%	0.0%	-11.8%	-8.9%	-6.8%
<i>Ex Transportation</i>	-0.1%	-0.4%	0.2%	-1.2%	-2.4%	-1.0%
<i>Primary Metals</i>	-0.6%	-1.7%	-1.7%	-14.8%	-7.1%	-9.9%
<i>Industrial Machinery</i>	-1.1%	-1.0%	0.8%	-5.2%	-5.2%	-0.8%
<i>Computers and Electronic Products</i>	0.8%	0.0%	0.4%	4.8%	0.8%	-0.9%
<i>Transportation Equipment</i>	7.6%	-8.3%	0.0%	-5.1%	5.7%	-8.4%
Capital Goods Orders	5.9%	-10.2%	3.6%	-5.9%	2.8%	-8.4%
Capital Goods Shipments	0.1%	-0.8%	1.1%	1.3%	-5.3%	-4.9%
<i>Defense Shipments</i>	-2.5%	-0.7%	0.0%	-12.3%	-7.1%	5.2%
<i>Non-Defense, Ex Aircraft</i>	-0.4%	-0.3%	0.7%	0.2%	-3.1%	0.3%
Unfilled Orders for Durable Goods	-0.1%	-0.6%	0.0%	-2.5%	-0.9%	-2.2%

Source: Bureau of the Census