



Economics Group

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Durable Goods Orders—A Strong Finish in December

Durable goods orders blew away already aggressive expectations for a solid number in December, rising 3.0 percent. November orders were also revised significantly higher to a 4.3 percent monthly gain.

Durable Good Orders Accelerate in Q4

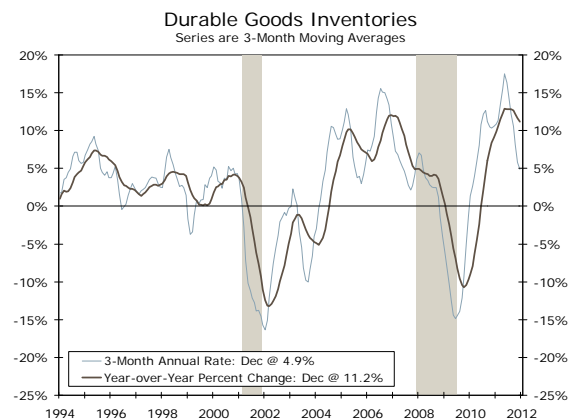
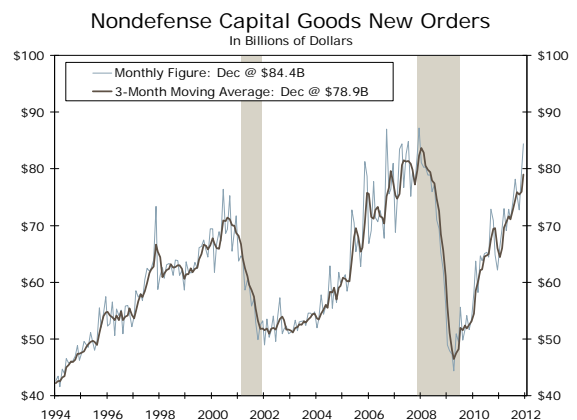
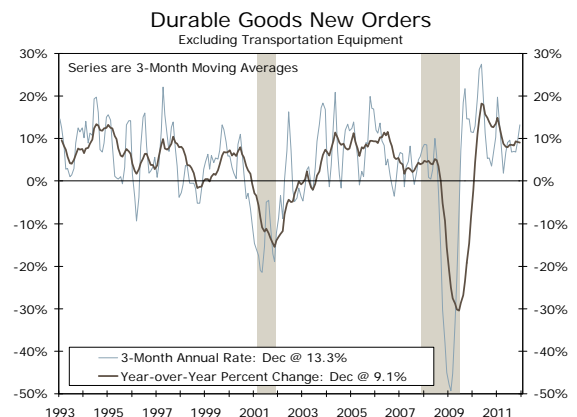
The good economic news coming from the December durable orders figures will bolster expectations for a solid economic start to 2012. The headline gains from durable goods in November and December are eye-catching, with back-to-back monthly gains of 4.3 percent and 3.0 percent, respectively. This helped push the year-over-year increase in durable goods orders to a sizzling 14.4 percent in December. A big driver of the gains in durable orders over the past few months has been civilian aircraft orders, which increased 88.1 percent in November and gained another 18.9 percent in December. Boeing has been posting record aircraft orders. Nondefense aircraft orders are running 202 percent above year-ago levels. But the rebound in U.S. durable orders is even more broad-based than that. Durable orders excluding transportation jumped 2.1 percent in December, while nondefense capital goods orders excluding aircraft jumped 2.9 percent in December, breaking two-consecutive months of declines in this category. These data suggest somewhat better business fixed investment spending and manufacturing activity.

Machinery and Primary Metals Orders Make a Strong Return

Machinery orders have been fairly weak since the summer, but saw a marked increase of 6.0 percent in December. Primary metals orders also ramped up, increasing 5.1 percent in the final month of the year. Even computer and electronics orders increased 1.2 percent, though they remained about 8.0 percent lower than this time last year. Vehicle and parts orders managed a modest 0.6 percent increase in December after holding steady in November. Even so, vehicle orders remained 6.6 percent above year-ago levels. Areas of weakness were also evident in some sectors. Electrical equipment orders dropped 1.1 percent and fabricated metals orders slipped 1.4 percent. Defense orders plunged another 12.4 percent in December, capping three-consecutive months of decline. Durable defense orders are now running nearly 28 percent below year-ago levels.

Shipments Gain While Inventory Increases Slow

Durable shipments increased a solid 2.1 percent in December. Nondefense capital goods shipments excluding aircraft increased 2.9 percent on the month, while defense shipments jumped 8.9 percent. Durable inventories gained 0.3 percent in December and are 10.5 percent above year-ago levels. The three-month-annualized change in inventories has slowed down to a 4.9 percent pace in December. There is no sign in this report that durable inventories are getting too high to stop the recent run of better orders. The inventory-to-shipments ratio actually fell back to 1.79 in December from 1.82 in November. Manufacturing production will need to advance in the months ahead to fill these new orders.



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