



## Economics Group

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## Durable Goods Orders Robust In March

**Durable goods orders jumped 2.5 percent in March, which was stronger than consensus expectations. There also was a solid upward revision in February's orders.**

### Durable Goods Orders Rally in March

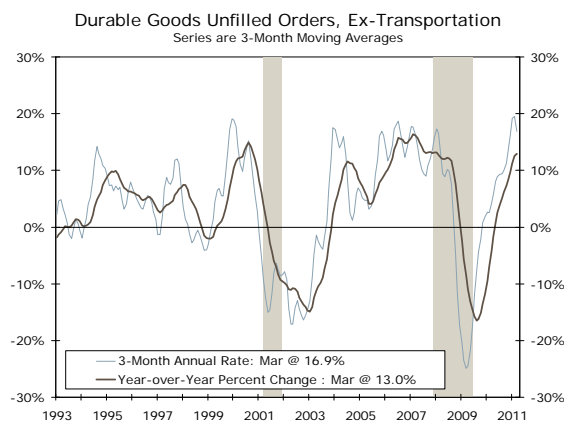
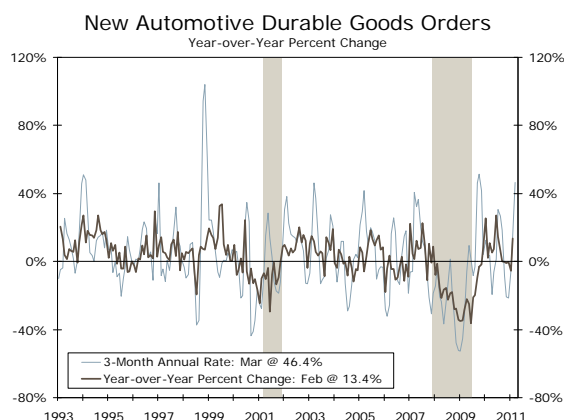
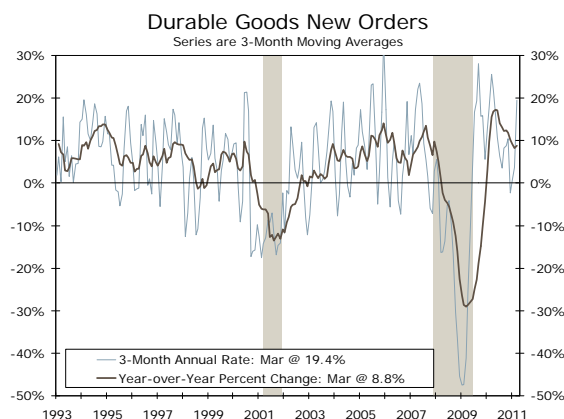
Durable goods orders revealed resilience in March, jumping 2.5 percent from February. The increase bested consensus expectations and came with a positive kicker as February orders also were revised higher due to stronger order estimates from nondefense aircraft, machinery and metals. It is clear from the data released this morning that the durable goods sector of the economy remains on a solid growth trajectory despite worries about higher gas and energy prices cutting into demand. Breaking two consecutive months of disappointing performances, nondefense capital goods orders excluding aircraft jumped 3.7 percent in March—the increase was the best monthly gain for this measure since December. This release should help reduce fears of a severe slowdown in economic activity and give the Federal Reserve more confidence in the belief that the U.S. economic expansion remains on a positive trajectory. Today's durable goods report supports our forecast for sustained economic growth through the rest of the year, with real GDP growing at around a 2.5 percent pace in 2011.

### Few Signs of Weakness in Today's Durables Report

March durable goods orders are more consistent with the solid readings we are seeing from regional and national PMI indexes. Bears will have very little evidence to hang their hats on with this report. There were declines of 2.3 percent in fabricated metals and 1.1 percent in computers and electronics orders for March, though that weakness was more than offset by solid order gains in vehicles and parts, machinery, electrical equipment and primary metals.

### Shipments and Inventories Show Modest Growth

Shipments increased at a somewhat slower, though by no means sluggish, 1.8 percent pace in March. Meanwhile, inventories increased 1.3 percent on the month. The three-month annualized increase in durable inventories is now \$45.2 billion, although a good chunk of this increase is being driven by higher prices. Inventories will be a net addition to first-quarter GDP when it is released on Thursday. Continued solid durable goods production is likely to be sustained over the next few months as unfilled orders increased another 0.8 percent in March and have risen 5.8 percent over the past year. Unfilled durable orders excluding transportation is rising at a 16.9 percent annualized pace over the past three months. Consequently, there is plenty of work to sustain durable production for the time being. The inventory-to-shipments ratio fell back to 1.61 months from 1.62 months in February, suggesting that inventory levels remain in a comfortable range and there will be no need to scale back production in the near term to keep inventory levels in check.



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