



Economics Group

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Durable Goods Orders Surge but Core Spending Slows

Orders for durable goods increased 4.6 percent in December, more than double the consensus estimate. The level of durable goods orders is now at a new post-recession high, but core spending slowed.

Core Business Spending is Slowing

The surge in durable goods orders for December was significantly stronger than the modest increase that was expected. While orders have not yet returned to pre-recession levels, today's report shows orders cresting above the previous post-recession high reached in December of 2011. To a large extent, the jump in December was attributable to gains in the volatile aircraft orders and defense spending components. Defense orders increased more than 100 percent in December and defense aircraft orders, specifically, were up more than 50 percent.

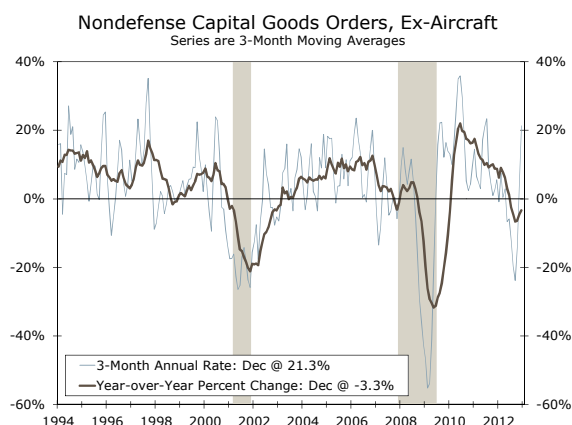
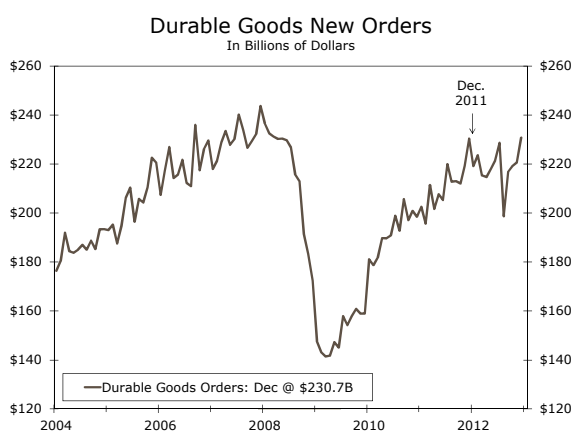
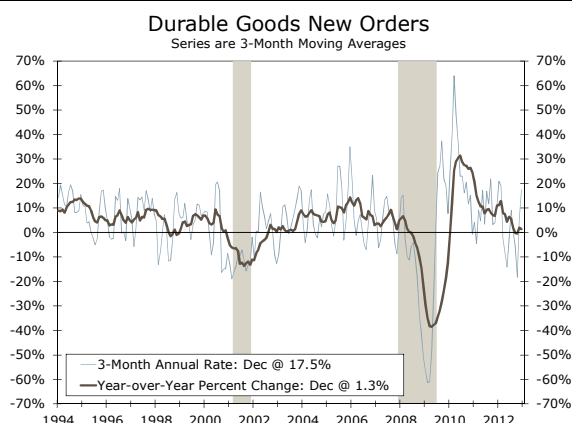
Outside of these volatile components, the pace of business spending slowed. Orders for nondefense capital goods, ex-aircraft increased just 0.2 percent. After increasing 3.0 percent in each of the preceding two months, this line of the report seems to better reflect the apprehension of businesses as the fiscal cliff approached at the end of last year. A number of regional purchasing manager's surveys were in negative territory at the end of last year, and the ISM manufacturing index was barely in expansion territory at just 50.7 in December.

We have made the case previously that the surge in December 2011 was attributable to the fact that the bonus depreciation dropped to 50 percent from 100 percent in January of 2012. It is possible that the bonus depreciation may be providing a modest push in December 2012 as well, at least at the margin. Orders for big ticket items that would benefit most from the tax break, such as commercial aircraft, surged 10.1 percent. A last minute deal to extend the bonus depreciation at 50 percent for another year was not known to businesses until New Year's Eve. The understanding at the time was that new capital investments needed to have been put into place by the end of 2012 in order to qualify for the bonus depreciation.

Tax incentives notwithstanding, the increases in the rest of today's report were fairly broadly based and seem to suggest that business spending held up better than might have otherwise been expected given all the weakness in business confidence in recent months. While many components showed a slower pace of growth, some areas posted outright declines, such as electrical equipment orders, which fell 2.4 percent in December.

Still Expecting a Weak Start to 2013 for Business Spending

Shipments of nondefense capital goods orders ex-aircraft increased just 0.3 percent in the month, but the 2.2 percent increase in November should help the quarterly figures. On a three-month annualized basis, both shipments and orders of core capital goods jumped, but this is largely a function of the fact that the declines for both of these series in September has now rolled out of the calculation. We look for a weak start for business spending in 2013.



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