



Economics Group

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Firming in Durable Orders Outside of Aircraft

An expected giveback in aircraft orders weighed down the headline, but outside the volatile transportation sector, the 0.5 percent bump-up in durable goods orders was better than expected.

Gradual Firming as Headwinds Begin to Fade

Durable goods orders posted the largest monthly decline since 2014 in November as a 73.5 percent drop in civilian aircraft orders weighed on the headline. However, when you exclude aircraft and other transportation orders, a solid 0.5 percent increase in November is more-or-less in line with the broad firming observed in factory data in recent months.

It would be an overstatement to say that the manufacturing sector is taking off, but after a couple of difficult years for the sector, there are early signs of improvement. Manufacturing production has increased in two out of the past three months. The ISM index has remained in expansion territory for three straight months, climbing higher each time.

The firming in oil prices and a brightening outlook for the global economy has injected some of the newfound confidence into the sector. The strong U.S. dollar, however, remains a headwind for domestic manufacturing companies by hurting the price-competitiveness of U.S. goods for foreign buyers. Compared to a basket of the currencies of our major trading partners, the greenback has appreciated more than six percent since October.

Core capital goods shipments remain essentially flat. Any excitement about a slightly better-than-expected 0.2 percent gain in November needs to be tempered by a downward revision to October's decline and the fact that the 0.1 percent increase in November, which had been expected by the consensus, was hardly an impressive gain.

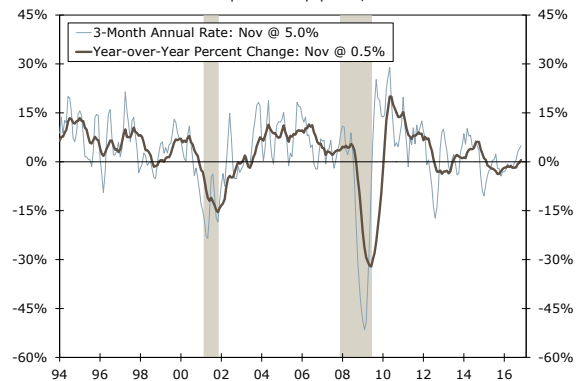
More encouraging was the significantly better-than-expected pickup in orders for core capital goods. This leading indicator of future cap-ex spending increased 0.9 percent in November. The back-to-back monthly gain follows a decline in September, which is holding the three-month annualized growth rate in negative territory. The theme right now in the manufacturing space is gradual firming rather than a roaring surge.

Airplane II: The Sequel (Not as Good as the Original)

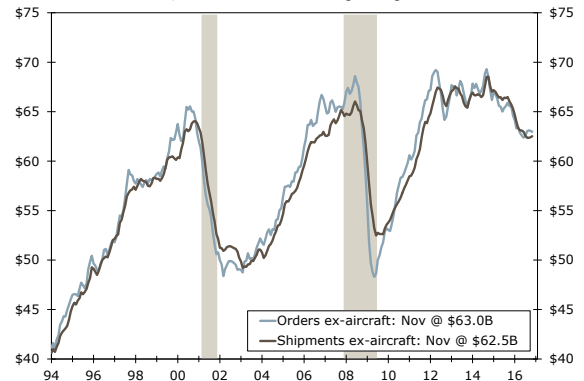
It has been a few years, but we have seen something like this before. More than three years ago, in July of 2014, Boeing reported a surge in orders, which was mostly attributable to a huge purchase of 777X jets from Dubai-based Emirates Airline in what was then billed as the largest aircraft order on record. The surge and subsequent decline rocked the headline number for overall durable goods orders, resulting in the largest monthly increase on record in July followed by the biggest monthly decline on record in August of that year.

After a near doubling (+94.1 percent) in aircraft orders for October, the November giveback was largely expected. It was the biggest monthly decline since that surge and plunge in the summer of 2014.

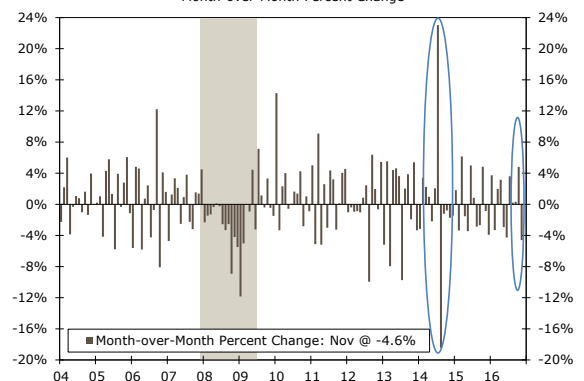
Durable Goods New Orders
 Ex. Transportation Equipment, 3-MMA



Nondefense Capital Goods Orders vs. Shipments
 Ex-Aircraft, Series are 3-Month Moving Averages in Billions



Durable Goods New Orders
 Month-over-Month Percent Change



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