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Durable Goods: Not Strong, But Not So Weak.

by Pierre Ellis*

December durable goods fall unexpectedly, dropping 4.3% (Consensus: +1.7%; Decision Economics: +2.0%), from a November level revised down by 0.8%. Even apart from normally volatile sectors, the tone is soft, but not disastrously so, and will not change minds at the Fed.

The big forecast miss was in commercial aircraft, where strong industry-reported orders showed up in a 53.8% unadjusted jump in the report today--but punishing year-end seasonal adjustment translated that to an 18.6% drop.

The seasonal adjustment is attempting to correct for the normal sales practice of pulling bookings forward into the closing year, in order to make targets or boost commissions.

Evidently, that practice was not as effective in December as would "normally" be the case--though with the mega-orders common in the aircraft sector, and the huge volatility they introduce, it is hard to tell what normal is.

In any case, the overall decline of 4.3% would have been 3.7% with volatile defense orders removed, and 2.4% with the commercial aircraft orders excluded too. That still-weak number incorporated a 5.8% drop in motor-vehicle-industry orders--where normal volatility was the issue, rather than seasonal adjustment.

With that stripped off too, remaining orders, still 70% of the overall total, were down 1.4%, after a 2.7% jump last month. Moving in line, non-defense capital goods orders ex aircraft fell 1.3%, after a 2.6% rise last month (revised from +4.1%)

Obviously, even those "core" results are soft, but they are not weak in a way that suggests a genuine change in direction. Fed observers will conclude that the burst of optimism seen in the data last month was an overestimate, but what was genuinely there was still not offset this time around.

Confidence continues to build only slowly, and there is no exponential takeoff in sight. Nothing new for this expansion. "Tapering" is a bigger-picture matter, and will not be disturbed by minor fluctuations in growth.

*Sr. Global Economist, New York, +1 212 884 9442, pellis@decisioneconomicsinc.com