



## **DURABLE GOODS ORDERS MIXED IN JANUARY**

- **Headline durable goods orders were much better than expected, rising by 3.0% M/M in January, following the upwardly revised 1.9% M/M gain in December.**
- **Excluding transportation, new orders dropped 0.6% M/M, though the estimate for the previous month was revised higher.**
- **Core capital goods orders were also quite weak on the month, falling by a massive 2.9% M/M.**

Durable goods orders rose by a whopping 3.0% M/M in January, following the upwardly revised 1.9% M/M (previously reported as +0.3% M/M) gain in December. The advance in new orders was twice the market's estimate for a more modest 1.5% M/M gain, and was the largest monthly advance in this indicator since July last years. Excluding the volatile transportation equipment orders, however, new orders declined by 0.6% M/M, coming on the heels of the 2.0% M/M gain the month before. The market expectation was for a 1.0% M/M advance. On a year ago basis, total durable goods orders are up 9.9%, while orders excluding transportation have risen 7.9% Y/Y.

Core durable goods orders were also quite weak, declining by 2.9% M/M, following the 3.3% M/M gain the month before. Despite the sharp drop, the 3-month annualised pace of core capital goods orders rose to 18.7% from 13.8%, suggesting a very favourable trend in core capital investments by U.S. firms. Core capital goods orders are 9.3% above their January 2009 level.

The details of the report were quite mixed. There were strong gains in transportation orders, which rose by 15.6% M/M on account of the staggering 126.0% M/M jump in the volatile nondefense aircraft orders, while orders for computers and electronics (up 4.6% M/M), primary metals orders (up 1.9% M/M), and electrical equipment orders (up 1.4% M/M) were also higher. New machinery orders, however, slipped 9.7% M/M, while fabricated metals orders were flat.

After declining for 12 consecutive months, durable goods inventories were unchanged on the month, suggesting the prolonged period of inventory drawdown may be coming to an end. And despite the modest 0.2% M/M drop in shipments, the inventory to shipments ratio remained unchanged at 1.67.

On balance, this was a fairly mixed report as the sharp drop in core capital goods orders will offset the favourable interpretation from the big jump in the headline number. However, the upward revisions to the prior month's figures suggest some upside risks to tomorrow's second estimate for Q4 GDP. Moreover, with the flat inventory print in January, there are some indications that the significant drawdown in inventory, which had been a key hallmark of the recession, may have come to an end.

*Millan Mulraine  
Economics Strategist  
TD Securities*

***For further information, contact Beata Caranci at 416-982-8067.***

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