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## ECONOMIC REPORT

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## BIG JUMP IN DURABLE GOODS ORDERS IN DECEMBER; **DETAILS GOOD BUT NOT GREAT**

## SUMMARY

- Durable goods orders increased 4.6 percent in December from November, with core capital goods orders up 0.2 percent.
- Durable goods shipments were up 1.3 percent in December, and inventories were flat.
- Business investment expanded at a moderate pace at the end of 2012. Manufacturing growth slowed over 2012, but manufacturing output will continue to expand in 2013.

New orders of durable goods were up 4.6 percent in December, after increasing 0.7 percent in November. Orders have increased for four consecutive months, and were up 4.1 percent on a year-ago basis.

New orders of transportation goods were up 11.9 percent in December, including a 23 percent jump in aircraft orders, which tend to be highly volatile. New orders of motor vehicles and parts were up 1.1 percent in December, with continued strong sales and the need to replace vehicles in the aftermath of Superstorm Sandy.

Core capital goods orders—non-defense capital goods excluding aircraft—were up a modest 0.2 percent in December, but had increased 3 percent in both October and November, and were up 21 percent in the fourth guarter at an annualized rate, after falling in the second and third quarters. Core capital goods orders were down 0.3 percent in December from one year earlier.

Shipments of durable goods increased 1.3 percent in December, with a 1.7 percent increase for transportation goods. On a year-ago basis durable goods shipments were up 7.0 percent. Core capital goods shipments were up 0.3 in December, after increasing 2.2 percent in November; they were up 4.8 percent from one year earlier. Durable goods inventories were flat in December, after modest gains in October and November. On a year-ago basis durable goods inventories were up 4.4 percent. Core capital goods inventories fell 0.4 percent in December, but were up 5.1 percent year-over-year.

After leading throughout most of the recovery, business investment growth has been slowing. New orders of core capital goods weakened throughout 2012 and were down slightly at the end of the year on a year-ago basis (see Chart). Concern over the fiscal cliff likely weighed on orders in the second half of last year, and business investment in equipment and software actually declined slightly in the third quarter; we will get data on fourth quarter investment on Wednesday in the advance GDP report and we expect a rebound in business equipment investment. With the fiscal cliff and debt ceiling limit issues partly resolved, business investment will expand at a moderate pace this year, thanks to continued stronger demand, a desire by firms to invest in productivity-enhancing equipment in an effort to hold the line on hiring, very low interest rates, and gradually easing access to credit. However, business investment growth will run at a low- to mid-single digit pace again in 2013, compared to the double-digit pace of 2010 and 2011.

Inventories will also weigh on growth in manufacturing in the near term. Inventories accounted for more than one-third of growth in the third quarter. Businesses' need to pare stocks weighed on growth at the end of 2012, and that process will continue into the beginning of this year.

Manufacturing will continue to expand in 2013, but the pace of growth will be weaker than that of the past few years. In addition to slower growth in business investment and inventory reductions, consumer spending on manufactured goods



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will grow more slowly in early 2013 as households adjust to higher payroll and personal income taxes. Recession in Europe will also weigh on manufacturing exports this year.

however. Those tied to construction, including building materials and construction equipment, will benefit from further gains in homebuilding and a developing turnaround in commercial construction.

Some manufacturing segments will do better in 2013,

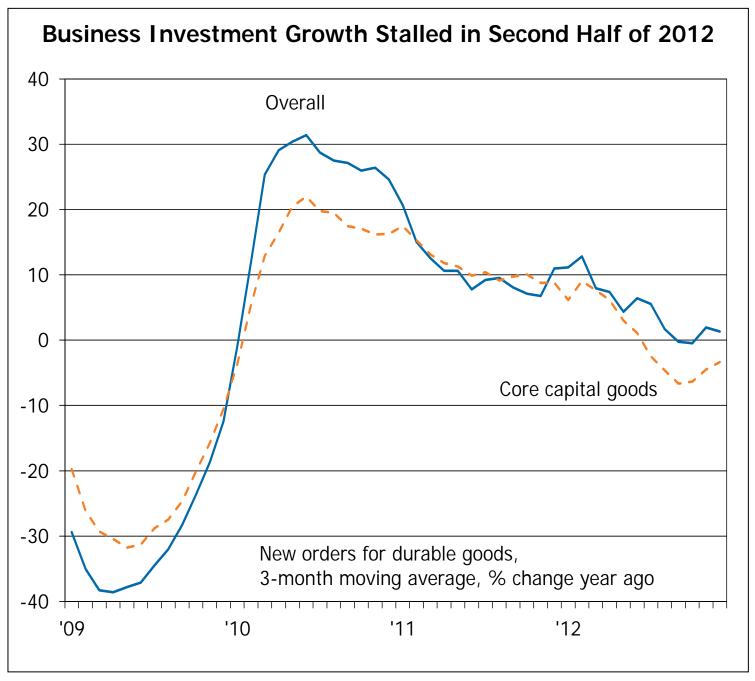


Chart source: Census

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