



## DAILY ECONOMIC COMMENTARY

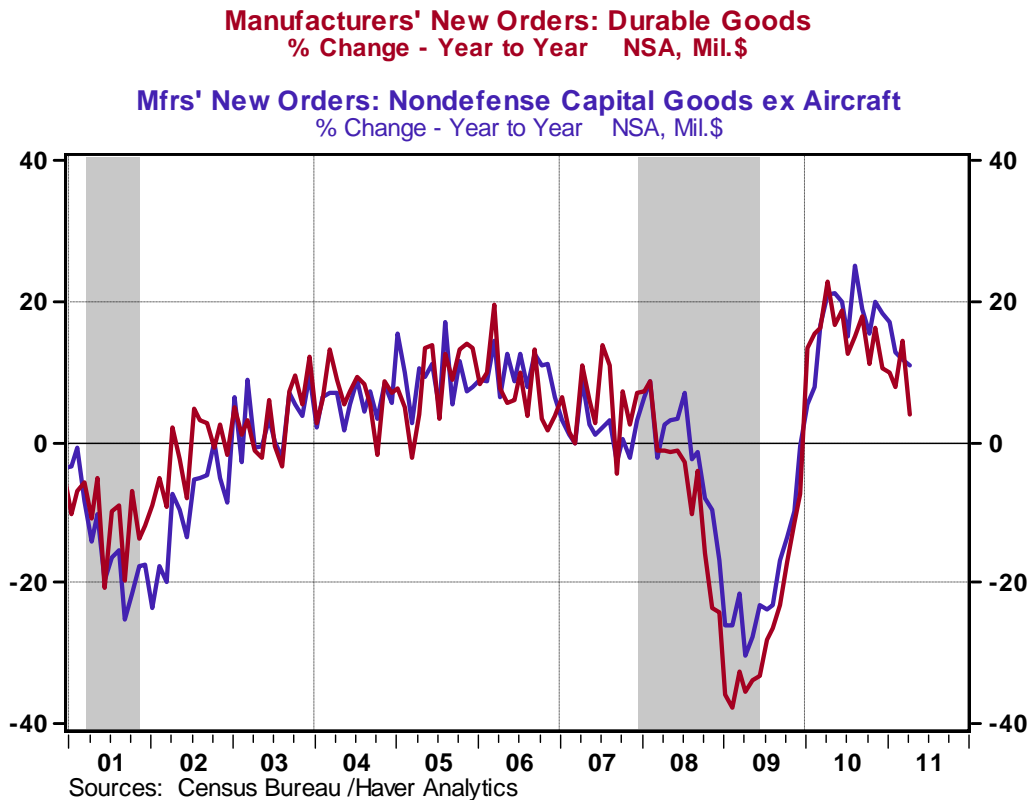
### Durable Goods Orders and Shipments Suggest Factory Sector is Shifting to a Lower Gear of Operation

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Orders of durable goods fell 3.6% in April, marking the second monthly decline in the last three months. Orders of durable goods and shipments for prior months include benchmark revisions. Orders of durable goods in March have been revised up to show a 4.4% gain vs. the earlier estimate of a 2.5% increase. Supply disruption of parts from Japan, related to the natural disaster, led to a 4.5% drop in orders of motor vehicles and parts and a 4.9% decline of the electrical equipment component. Civilian aircraft bookings, a volatile component, also fell 30% in April. Orders of non-defense capital goods excluding aircraft dropped 2.6% in April, which is the third monthly decline in the four months ended April.

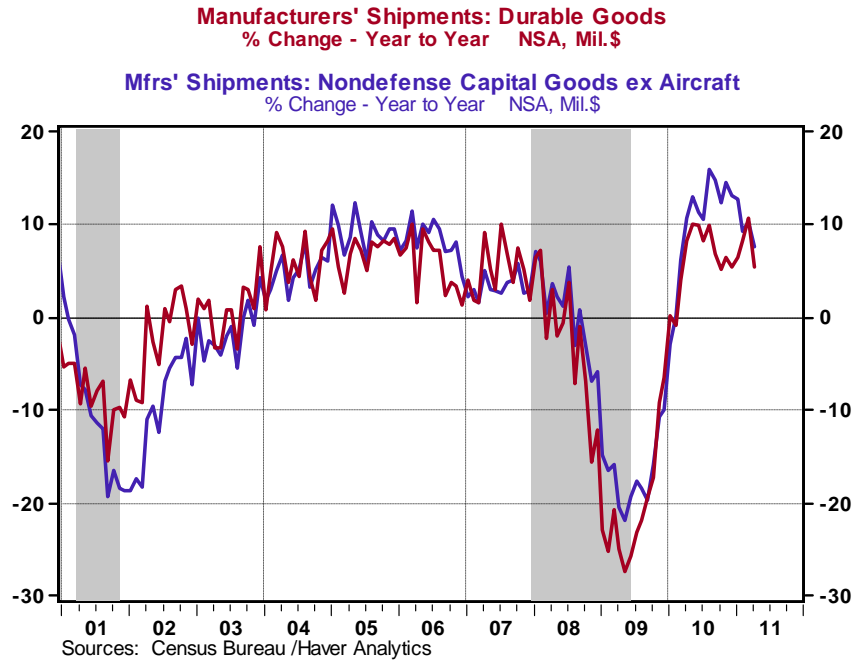
Chart 1



Shipments of durable goods fell 1.0% in April and that of non-defense capital goods 1.6%. The latter bodes poorly for second quarter equipment and software spending. The overall message from orders and shipments of durable goods (see Charts 1 and 2) is that factory activity has shifted to a lower gear of operation marked with a noticeable decelerating trend on a year-over-year basis. The details of the April report confirm the message from the factory sectors which also suggest a decelerating trend in factory activity.

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Chart 2



DATE	<b>DURABLE GOODS ORDERS - % CHANGE M-M</b>				
	TOTAL	DEFENSE	NON-DEFENSE CAPITAL GOODS	NON-DEFENSE CAPITAL GOODS EX-AIRCRAFT	COMPUTERS AND ELECTRONIC PRODUCTS
Nov-10	0.4	22.0	-8.5	2.8	5.9
Dec-10	-0.7	-6.9	-4.2	3.9	3.4
Jan-11	4.0	35.9	6.6	-4.8	-6.9
Feb-11	-1.1	-32.0	4.8	-0.1	1.3
Mar-11	4.4	14.0	5.0	5.4	-3.6
Apr-11	-3.6	-5.8	-7.3	-2.6	0.7

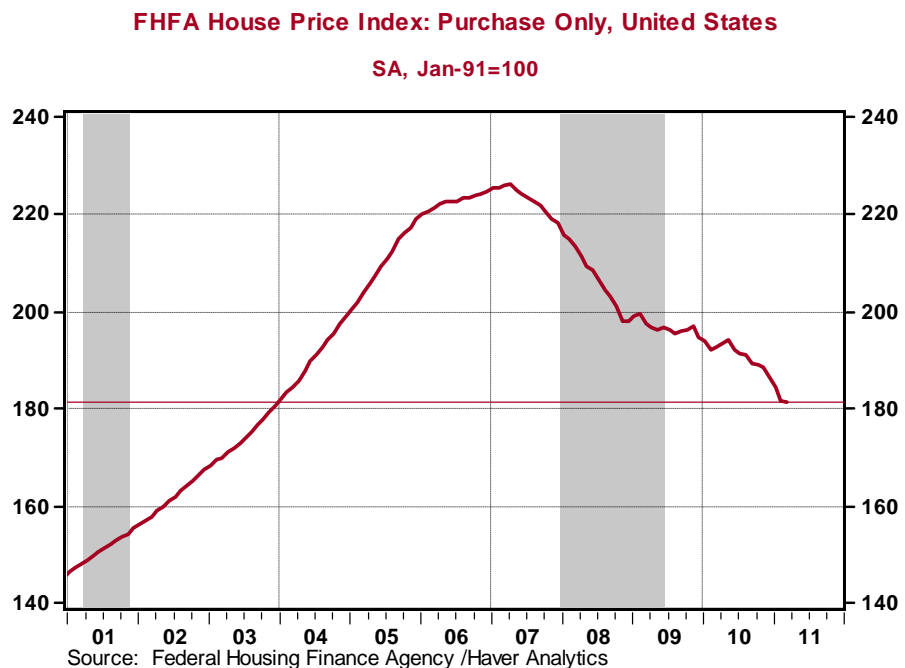
DATE	<b>DURABLE GOODS SHIPMENTS- % CHANGE M-M</b>			
	TOTAL	NON-DEFENSE CAPITAL CAPITAL GOODS	NON-DEFENSE CAPITAL GOODS EX-AIRCRAFT	COMPUTERS AND ELECTRONIC PRODUCTS
Nov-10	0.0	-0.3	0.7	0.1
Dec-10	2.3	3.8	2.7	-2.8
Jan-11	0.3	-3.1	-2.1	1.9
Feb-11	0.0	0.3	-0.2	-2.5
Mar-11	3.1	3.6	3.7	-1.7

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### FHFA House Price Index Justifies Why Housing Market Remains on Watch List

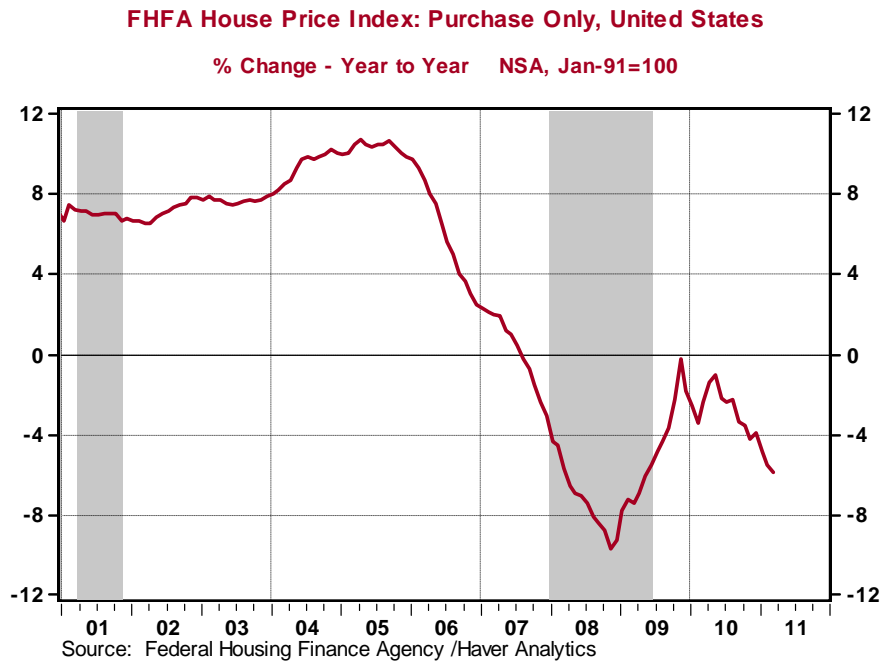
The level of the FHFA House Price Index is the lowest in nearly eight years (see Chart 3). It fell 0.3% in March, putting the year-to-year decline at 5.8% (see Chart 4). As the saying goes, a picture is worth a thousand words, Charts 3 and 4 highlight the reasons for continued concern about the housing market. A turnaround of housing market conditions is entirely tied to developments in the labor market. The noticeable increase in private sector payrolls, which averaged 233,000 in the three months ended May, raises expectations of stability in the housing market in the near term.

Chart 3



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Chart 4



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