JULY DURABLE GOODS

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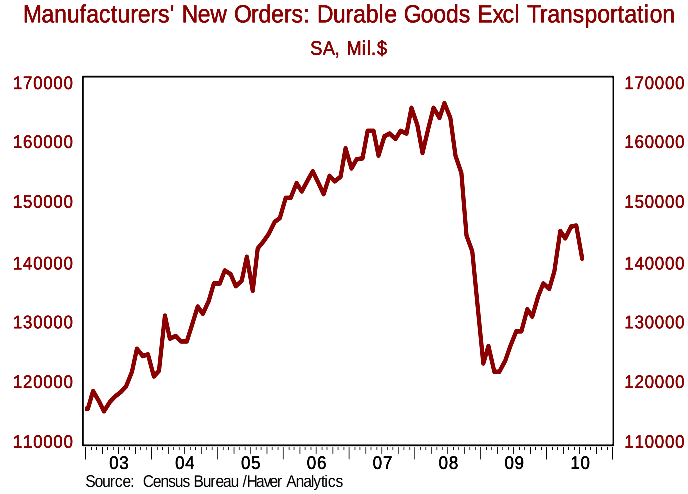
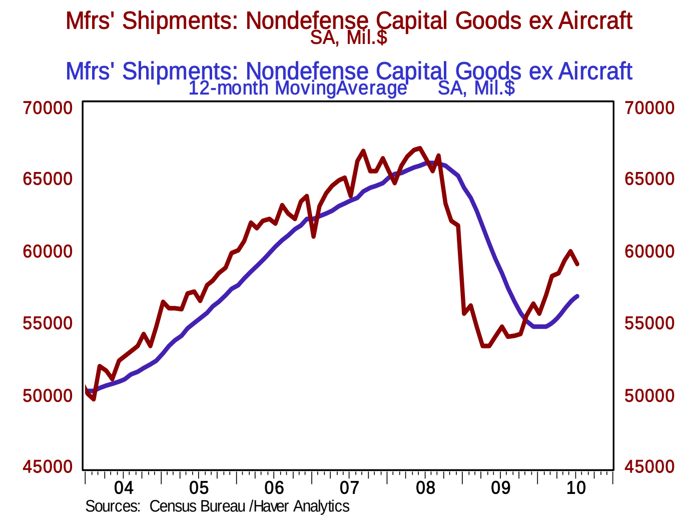
- New orders for durable goods increased 0.3% in July versus a consensus expected gain of 3.0%. Excluding transportation, orders declined 3.8%, also short of the consensus expected increase of 0.5%. Orders are up 9.3% versus a year ago, 9.5% excluding transportation.

- The rise in orders in June was mostly due to civilian aircraft, which are extremely volatile. Motor vehicles/parts orders were also strong. These gains were roughly offset by a large drop in machinery orders as well as declines for computers/electronics and electrical equipment/appliances.

- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 1.5% in July (-1.0% including upward revisions to June) but is still up at a 4.5% annual rate in the past three months. The decline in July was the first in six months.

- Unfilled orders slipped 0.1% in July, with a 0.3% decline excluding the transportation sector.





Implications: Transportation orders – aircraft and autos – were very strong in July. But transportation is the most volatile sector and outside that sector orders were weak, declining the most since the worst of the recession in late 2008 and early 2009. The primary reason for the decline was a 15% drop in machinery, the largest monthly fall since 1980. These products include turbines, generators, equipment for ventilation, heating, and A/C, as well as machinery for construction and industrial use. Looking back, this is the eighth consecutive first month of the quarter (January/April/July/October) where machinery orders have dropped, with the typical decline being around 9%. Almost all these were followed by increases, so we expect a rebound next month. In addition, we notice that recent weak data – including the Philly Fed index on manufacturing, higher initial claims for jobless benefits, and today's report – seem to coincide with the end of the homebuyer credit. If this is the cause, we are seeing a natural lull just like after cash for clunkers lapsed last August, likely followed by a return to better growth. The Federal Reserve is not tight and trend productivity growth remains strong, suggesting healthy economic growth. However, recent weaker data suggest concerns about the direction of public policy that will suppress economic growth.

Durable Goods *All Data Seasonally Adjusted*	Jul-10	Jun-10	May-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**0.3%**	-0.1%	-0.7%	-2.1%	6.0%	9.3%
Ex Defense	**0.3%**	0.2%	-0.6%	-0.4%	9.9%	10.5%
Ex Transportation	**-3.8%**	0.2%	1.4%	-8.7%	7.7%	9.5%
Primary Metals	**0.7%**	-3.4%	-0.4%	-12.1%	5.6%	29.3%
Industrial Machinery	**-15.0%**	4.3%	11.1%	-5.6%	19.0%	14.1%
Computers and Electronic Products	**-2.4%**	-1.2%	0.3%	-12.6%	5.6%	7.4%
Transportation Equipment	**13.1%**	-1.0%	-6.6%	19.0%	1.7%	8.9%
Capital Goods Orders	**-2.7%**	0.2%	-0.8%	-12.5%	7.4%	6.6%
Capital Goods Shipments	**0.9%**	1.4%	-0.6%	6.9%	7.8%	5.7%
Defense Shipments	**-2.4%**	-1.9%	-6.2%	-35.3%	-34.9%	-11.1%
Non-Defense, Ex Aircraft	**-1.5%**	1.0%	1.6%	4.5%	12.7%	8.0%
Unfilled Orders for Durable Goods	**-0.1%**	0.1%	0.3%	0.9%	2.1%	-2.0%

Source: Bureau of the Census