

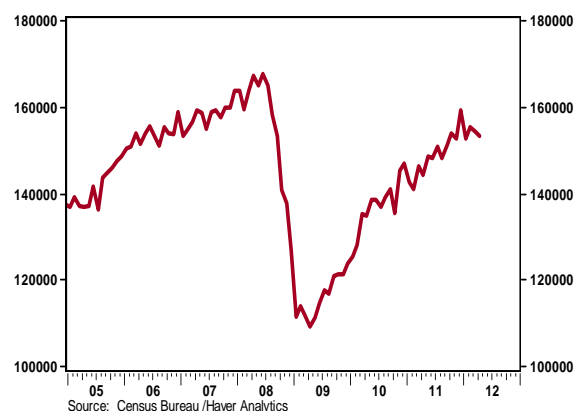
April Durable Goods

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- New orders for durable goods increased 0.2% in April, matching consensus expectations. Orders excluding transportation fell 0.6%, coming in below the consensus expected gain of 0.8%. Overall new orders are up 6.9% from a year ago, while orders excluding transportation are up 6.3%.
- The gain in overall orders was due to motor vehicles/parts and primary metals, most other categories of orders declined, particularly aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure fell 1.4% in April.
- Unfilled orders were down 0.1% in April but are up 9.3% from last year.

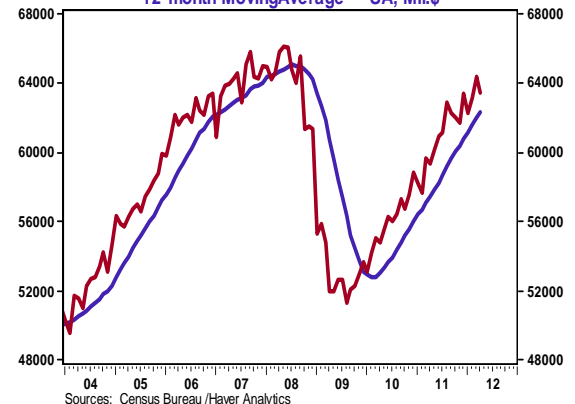
Implications: New orders for durable goods rose modestly in April, up 0.2%, and the underlying trend remains favorable, up a healthy 6.9% in the past year. However, the gain in April was due to the transportation sector, which is very volatile from month to month. Excluding transportation, orders were down 0.6%. We don't think this decline will persist. Unfilled orders (ex-transportation) are up 10% in the past year and nearing a record high. Also, we are in the early stages of a home building recovery. As housing continues to pick up steam, orders for durables should pick up as well. Some analysts might dwell on a 1.4% drop in shipments of "core" capital goods (which excludes defense and aircraft). That is a big drop. But these shipments have fallen in the first month in nine of the past ten quarters, only to rebound in the following two months. Monetary policy is loose, interest rates are extremely low, and businesses are reaping record profits while they already have record amounts of cash on their balance sheets. Moreover, capacity utilization at US factories is reaching its long-term norm, meaning companies have an increasing incentive to update their equipment. We anticipate better numbers on durables next month. In other news today, new claims for unemployment insurance dipped 2,000 last week to 370,000, matching consensus expectations. Continuing claims for regular state benefits fell 29,000 to 3.26 million. The four-week average for continuing claims is now 3.27 million, the lowest since 2008. Moreover, these claims data are consistent with a private sector payroll gain of 145,000 for May, and that's before upward revisions in later months.

Manufacturers' New Orders: Durable Goods Excl Transportation
 SA, Mil.\$



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft
 SA, Mil.\$

Mfrs' Shipments: Nondefense Capital Goods ex Aircraft
 12-month Moving Average SA, Mil.\$



Durable Goods <i>All Data Seasonally Adjusted</i>	Apr-12	Mar-12	Feb-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	0.2%	-3.7%	2.0%	-6.4%	3.3%	6.9%
<i>Ex Defense</i>	1.2%	-3.9%	1.4%	-5.7%	4.2%	9.3%
<i>Ex Transportation</i>	-0.6%	-0.8%	1.8%	1.6%	-0.8%	6.3%
<i>Primary Metals</i>	1.7%	0.3%	0.3%	10.0%	9.3%	26.6%
<i>Industrial Machinery</i>	-2.8%	-4.9%	5.8%	-8.8%	-17.4%	-3.5%
<i>Computers and Electronic Products</i>	-0.6%	-0.8%	4.2%	11.5%	0.8%	4.0%
<i>Transportation Equipment</i>	2.1%	-10.5%	2.6%	-22.9%	14.7%	8.4%
Capital Goods Orders	-2.5%	-10.6%	3.1%	-35.0%	-4.9%	-0.2%
Capital Goods Shipments	-1.4%	2.1%	-0.5%	0.3%	3.3%	6.1%
<i>Defense Shipments</i>	-9.0%	8.8%	-7.6%	-30.0%	-5.3%	-16.3%
<i>Non-Defense, Ex Aircraft</i>	-1.4%	1.9%	1.4%	7.7%	4.6%	6.9%
Unfilled Orders for Durable Goods	-0.1%	0.0%	1.1%	4.4%	9.7%	9.3%

Source: Bureau of the Census