

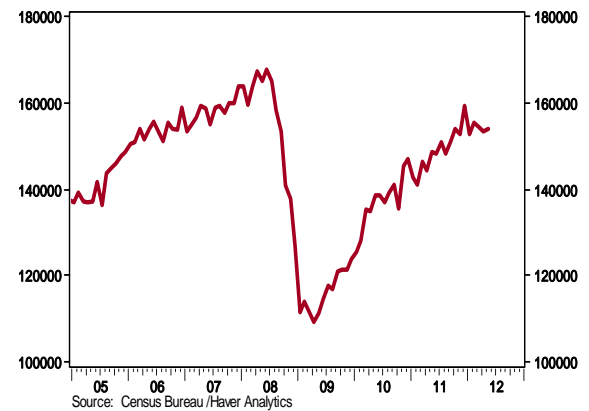
May Durable Goods

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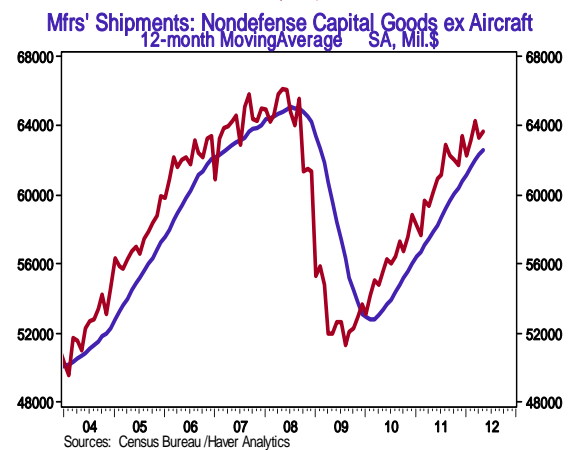
- New orders for durable goods increased 1.1% in May, beating the consensus expected gain of 0.5%. Orders excluding transportation rose 0.4%, coming in slightly below the consensus expected gain of 0.7%. Overall new orders are up 4.6% from a year ago, while orders excluding transportation are up 3.8%.
- The gain in overall orders was led by machinery and aircraft, while other categories of orders were mixed.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.4% in May. If these shipments are unchanged in June, they would still be up at a 1.7% annual rate in Q2 versus the Q1 average.
- Unfilled orders were flat in May but are up 8.3% from last year.

Implications: New orders for durable goods rose more than the consensus expected in May, up 1.1%, and the underlying trend remains favorable, up a healthy 4.6% in the past year. The gain in May was mostly due to the transportation sector, which is very volatile from month to month, but orders were still up 0.4% even excluding transportation. We expect this number to pick up steam over the rest of the year. Unfilled orders (ex-transportation) are up 9.1% in the past year and are now at record highs. Also, we are in the early stages of a home building recovery. As housing continues to improve, orders for durables should pick up as well. Shipments of “core” capital goods (which exclude defense and aircraft) rebounded in May after dropping steeply in April. These shipments have dropped in the first month in nine of the past ten quarters, with a rebound in the following two months. So if the trend continues we should see this number higher in June. Business investment should continue to grow. Monetary policy is loose, interest rates are extremely low, and profits are at record highs while companies have record amounts of cash on their balance sheets. Moreover, capacity utilization at US factories is approaching its long-term norm, meaning companies have a growing incentive to update their equipment. In other recent manufacturing news, the Richmond Fed index, a measure of factory activity in the mid-Atlantic, declined to -3 in June from +4 in May. A negative reading, suggesting some contraction, is not good, but the index was -10 in August last year while the US economy was still growing. In other words, the decline does not signal a recession. Meanwhile, the housing market shows marked improvement. The Case-Shiller index, which measures home prices in the 20 largest metro areas, increased 0.7% in April (seasonally-adjusted), with 17 of the 20 metro areas showing price increases. Although prices are still down 1.9% from a year ago, they are up at a 6.2% annual rate in the past three months.

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



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



Durable Goods All Data Seasonally Adjusted	May-12	Apr-12	Mar-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	1.1%	-0.2%	-3.7%	-11.0%	-1.9%	4.6%
Ex Defense	0.7%	0.9%	-3.9%	-8.9%	-1.5%	6.5%
Ex Transportation	0.4%	-0.6%	-0.8%	-3.7%	1.5%	3.8%
Primary Metals	-1.5%	0.9%	0.6%	-0.3%	-9.2%	12.9%
Industrial Machinery	4.1%	-3.3%	-5.1%	-16.5%	2.9%	-3.6%
Computers and Electronic Products	-0.9%	1.6%	-0.8%	-0.7%	16.1%	4.5%
Transportation Equipment	2.7%	0.8%	-10.5%	-26.1%	-9.5%	6.5%
Capital Goods Orders	1.9%	-3.4%	-10.7%	-40.3%	-13.7%	-3.6%
Capital Goods Shipments	1.3%	-1.5%	2.0%	7.5%	9.6%	6.6%
Defense Shipments	8.9%	-9.0%	8.8%	35.2%	13.6%	-7.5%
Non-Defense, Ex Aircraft	0.4%	-1.5%	1.8%	2.9%	6.2%	5.7%
Unfilled Orders for Durable Goods	0.0%	-0.1%	0.0%	-0.6%	6.8%	8.3%

Source: Bureau of the Census

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