

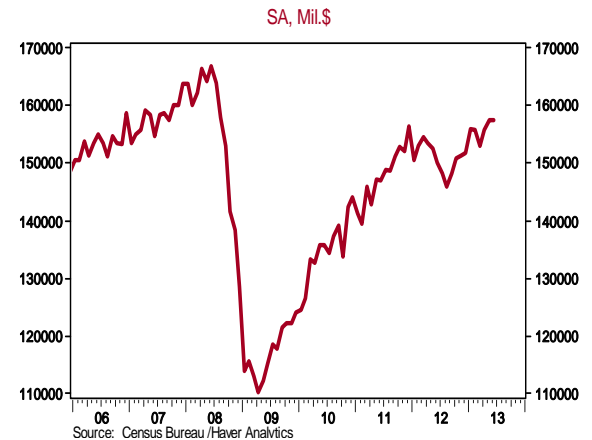
## June Durable Goods

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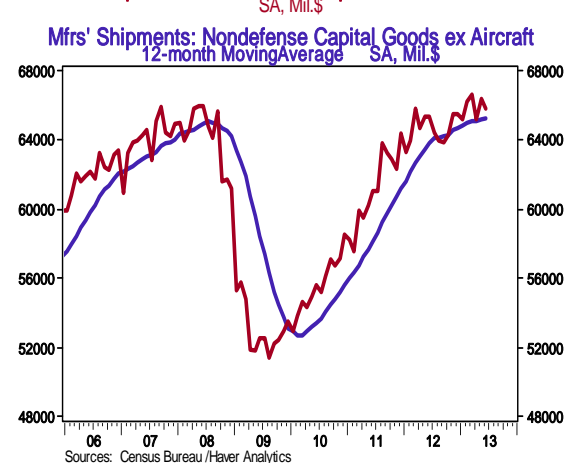
- New orders for durable goods increased 4.2% in June (5.8% including revisions to prior months), coming in well above the consensus expected gain of 1.4%. Orders excluding transportation were unchanged (up 0.5% including revisions to prior months). The consensus expected a gain of 0.5%. Overall new orders are up 10.9% from a year ago, while orders excluding transportation are up 4.9%.
- The rise in overall orders was led by a massive gain in civilian aircraft, along with gains in machinery and defense aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.9%. These shipments were down at a 1.2% annual rate in Q2 versus the Q1 average.
- Unfilled orders rose 2.1% in June and are up 5.1% from last year.

**Implications:** A very solid headline number for durables, but the underlying details of the report show more mixed Plow Horse growth. New orders for durables rose 4.2% in June, reaching a new all-time record high. However, almost all the gains were in the transportation sector – particularly civilian aircraft – which is extremely volatile month to month. Orders were unchanged excluding transportation in June, but were up 0.5% including upward revisions for May, matching consensus expectations. Shipments of “core” capital goods, which exclude defense and aircraft, fell 0.9% in June and were down at a 1.2% annual rate in Q2 versus the Q1 average. As a result, we now expect that overall business investment in equipment & software rose only slightly in Q2. In addition, today’s report suggests less inventory accumulation than we previously assumed. These two revisions to our forecast push down our estimate for real GDP growth in Q2 to a 1.2% annual rate (previously 1.5%). However, the lack of inventory accumulation also gets us to raise our forecast for Q3 growth to 2% (previously 1.5%). The long-term outlook looks good for business investment. New orders for core capital goods increased 0.7% in June and unfilled orders were up 2.1%. Monetary policy is loose and, for Corporate America, borrowing costs are low and balance sheet cash and profits are at or near record highs. Meanwhile, the obsolescence cycle and higher capacity use should goad more firms to replace and build-out their capital stock. In addition, the recovery in home building should generate more demand for big-ticket consumer items, such as appliances. The bottom line is that today’s report shows the Plow Horse economy is moving along just fine. In other news this morning, initial claims for unemployment insurance rose 7,000 last week to 343,000. Continuing claims for regular state benefits fell 119,000 to 2.997 million. Plugging these figures into our payroll models suggest a July gain of 159,000 nonfarm and 163,000 in the private sector.

Manufacturers' New Orders: Durable Goods Excl Transportation



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft



Durable Goods <i>All Data Seasonally Adjusted</i>	Jun-13	May-13	Apr-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>4.2%</b>	5.2%	3.6%	66.4%	13.9%	10.9%
<i>Ex Defense</i>	<b>3.0%</b>	4.9%	2.6%	50.9%	23.1%	13.6%
<i>Ex Transportation</i>	<b>0.0%</b>	1.0%	1.8%	12.0%	7.5%	4.9%
<i>Primary Metals</i>	<b>-0.2%</b>	0.6%	2.3%	11.4%	0.8%	5.4%
<i>Industrial Machinery</i>	<b>2.4%</b>	0.5%	1.2%	17.7%	27.2%	8.0%
<i>Computers and Electronic Products</i>	<b>-2.6%</b>	3.2%	4.6%	22.4%	4.2%	1.4%
<i>Transportation Equipment</i>	<b>12.8%</b>	14.8%	8.0%	283.2%	26.9%	23.8%
<b>Capital Goods Orders</b>	<b>9.0%</b>	13.4%	5.4%	188.1%	21.9%	17.5%
<b>Capital Goods Shipments</b>	<b>-1.5%</b>	5.6%	-3.8%	0.2%	1.6%	2.6%
<i>Defense Shipments</i>	<b>2.0%</b>	1.9%	-5.7%	-7.8%	-9.3%	-1.9%
<i>Non-Defense, Ex Aircraft</i>	<b>-0.9%</b>	1.9%	-2.1%	-4.5%	1.1%	0.8%
<b>Unfilled Orders for Durable Goods</b>	<b>2.1%</b>	1.1%	0.3%	15.3%	7.7%	5.1%

Source: Bureau of the Census