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August Durable Goods

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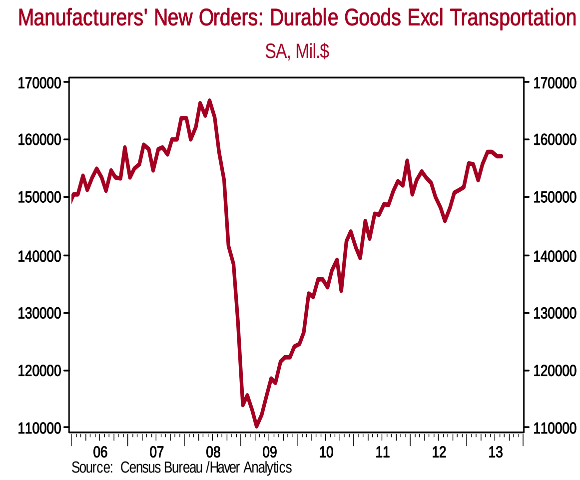
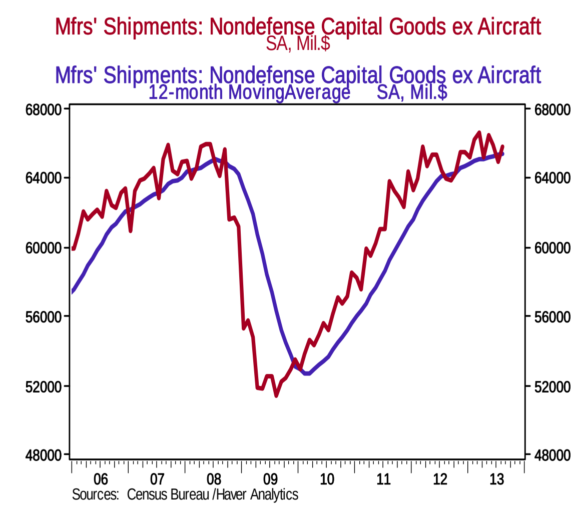
- New orders for durable goods rose 0.1% in August, coming in slightly better than the consensus expected decline of 0.2%. Orders excluding transportation declined 0.1%, falling short of the consensus expected gain of 1.0%. Including revisions to July, overall orders were down 0.6% and orders ex-transportation rose 0.2%. Orders are up 13.7% from a year ago, while orders excluding transportation are up 7.6%.
- The rise in overall orders was led by motor vehicles and parts. The largest declines were for aircraft and computers/electronics.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 1.3% in August. If these shipments are unchanged in September they will be down at a 2.0% annual rate in Q3 versus the Q2 average.
- Unfilled orders were unchanged in August but are up 5.8% from last year.

Implications: A Plow Horse report on orders for durable goods. After plummeting 8.1% in July, durable goods rose 0.1% in August. This is not much of a rebound but is the fourth increase in the past five months and orders are up a healthy 13.7% from a year ago. Much of the gain in the past year comes from the volatile transportation sector, but not all of it; orders ex-transportation are up 7.6% from a year ago. Shipments of "core" capital goods, which exclude defense and aircraft, rose 1.3% in August. Plugging this into our real GDP model suggests growth at a 1% - 1.5% annual rate in Q3. There is a still a risk of a negative number for Q3 growth, but it's a low risk. The best news in today's report was that unfilled orders for core capital goods rose 1.1% in August, hitting a new record high. The news on unfilled orders supports our optimism about an eventual acceleration in business investment. 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 should goad more firms into updating their capital stock. In addition, the recovery in home building should generate more demand for big-ticket consumer items, such as appliances. That's why Home Depot is doing so well. Expect more plow horse growth in the months ahead. In other recent news, the Richmond Fed index, which measures manufacturing sentiment in the mid-Atlantic, declined to zero in September after spiking to +14 in August. The Richmond index has been unusually volatile lately, bouncing between positive and the zero to negative range every month for the past four months.





Durable Goods *All Data Seasonally Adjusted*	Aug-13	Jul-13	Jun-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**0.1%**	-8.1%	3.9%	-16.3%	-3.4%	13.7%
Ex Defense	**0.5%**	-7.5%	2.9%	-16.3%	-3.0%	13.8%
Ex Transportation	**-0.1%**	-0.5%	0.1%	-2.0%	1.8%	7.6%
Primary Metals	**-0.5%**	-0.2%	-1.4%	-7.9%	-6.1%	8.8%
Industrial Machinery	**0.9%**	-0.5%	0.9%	5.0%	3.0%	18.1%
Computers and Electronic Products	**-3.4%**	-2.6%	-0.8%	-23.8%	0.6%	-0.6%
Transportation Equipment	**0.7%**	-21.9%	11.7%	-40.6%	-14.1%	30.7%
Capital Goods Orders	**-0.8%**	-18.1%	9.0%	-38.7%	-13.0%	25.4%
Capital Goods Shipments	**1.3%**	-1.9%	-1.4%	-7.7%	4.9%	4.5%
Defense Shipments	**8.3%**	-5.8%	1.7%	15.8%	7.7%	6.4%
Non-Defense, Ex Aircraft	**1.3%**	-1.4%	-1.0%	-4.1%	-1.2%	2.8%
Unfilled Orders for Durable Goods	**0.0%**	0.2%	2.1%	9.9%	6.8%	5.8%

Source: Bureau of the Census