

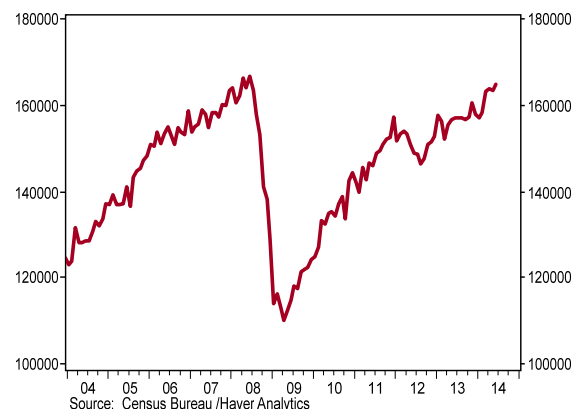
June Durable Goods

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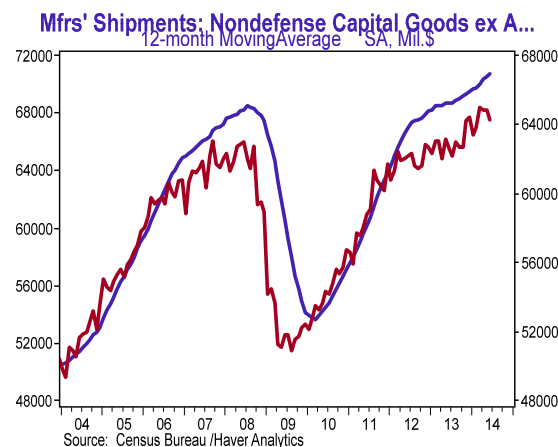
- New orders for durable goods increased 0.7% in June, narrowly beating the consensus expected gain of 0.5%. Orders excluding transportation increased 0.8% in June (+0.6% including revisions to prior months), also narrowly beating a consensus expected gain 0.5%. Orders are down 1.6% from a year ago while orders excluding transportation are up 4.9%.
- The gain in overall orders was led by aircraft and machinery. The largest decline was for autos.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 1.0% in June (-1.6% including revisions to prior months), but was up at a 4.1% annual rate in Q2 versus the Q1 average.
- Unfilled orders increased 0.8% in June and are up 6.6% from last year.

Implications: A Plow Horse report for durables goods orders in June. The good news was that new orders for durable goods increased 0.7% in June and 0.8% excluding transportation, both narrowly beating consensus expectations. The bad news: orders for most major categories of durable goods have been growing more slowly in the past few months. So, despite strong profits and cash on the balance sheet, many companies are still waiting to ramp up business investment. In addition, shipments of “core” capital goods, which exclude defense and aircraft – a good proxy for business equipment investment – declined 1% in June. However, core shipments were still up at a 4.1% annual rate in the second quarter and our models suggest that businesses increased “real” (inflation-adjusted) equipment investment at about a 9% annual rate in Q2. As the broader economy continues to grow, look for orders to pick up some steam. Signaling future gains, unfilled orders for “core” capital goods rose 1.2% in June, hitting a new record high, and are up 8.9% from a year ago. We believe we are nearing a large increase in business investment over the next couple of years. Consumer purchasing power is growing and debt ratios are low, leaving room for an upswing in bigger ticket items. Meanwhile, profit margins are still high, corporate balance sheets are loaded with cash, and capacity utilization is near long-term norms, leaving more room (and need) for business investment. Plugging all of this week’s data into our models suggests real GDP grew at a 2.7% annual rate in Q2. That’s slightly lower than we were estimating a week ago (2.9%) but well within the normal range for a Plow Horse economy.

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



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



Durable Goods <i>All Data Seasonally Adjusted</i>	Jun-14	May-14	Apr-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	0.7%	-1.0%	0.9%	2.5%	9.0%	-1.6%
Ex Defense	0.7%	0.2%	-0.8%	0.6%	5.5%	-1.4%
Ex Transportation	0.8%	-0.1%	0.4%	4.5%	9.1%	4.9%
Primary Metals	0.9%	2.6%	0.6%	17.5%	13.0%	8.6%
Industrial Machinery	2.4%	-1.2%	-2.4%	-4.6%	2.1%	7.9%
Computers and Electronic Products	0.8%	-1.9%	-1.8%	-10.8%	12.7%	0.1%
Transportation Equipment	0.6%	-2.8%	1.8%	-1.6%	8.8%	-13.4%
Capital Goods Orders	1.9%	-5.3%	3.3%	-1.4%	4.1%	-10.8%
Capital Goods Shipments	1.0%	-1.1%	-0.4%	-2.1%	0.2%	2.4%
Defense Shipments	-0.6%	-1.7%	1.4%	-3.4%	-8.9%	-5.3%
Non-Defense, Ex Aircraft	-1.0%	-0.1%	-0.3%	-5.4%	-0.6%	3.1%
Unfilled Orders for Durable Goods	0.8%	0.7%	0.9%	10.1%	7.0%	6.6%

Source: Bureau of the Census