

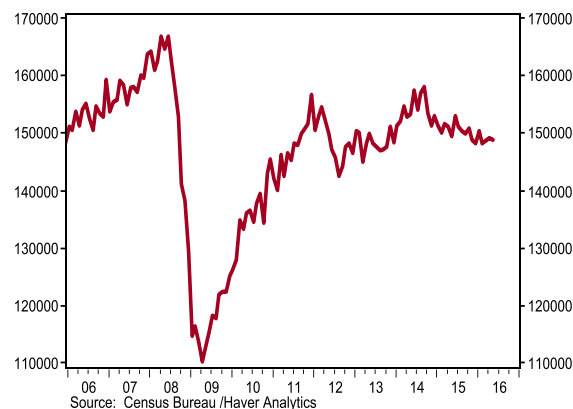
May Durable Goods

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- New orders for durable goods declined 2.2% in May (-2.3% including revisions to prior months). The consensus expected a decline of 0.5%. Orders excluding transportation fell 0.3% in May, below the consensus expected increase of 0.1%. Orders are up 3.2% from a year ago while orders excluding transportation are down 0.4%.
- The decline in overall orders in May was led by military aircraft and motor vehicles.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.5% in May (-0.2% including revisions to prior months). If unchanged in June, these shipments will be down at a 0.8% annualized rate in Q2 versus the Q1 average.
- Unfilled orders rose 0.2% in May but remain down 0.9% from last year.

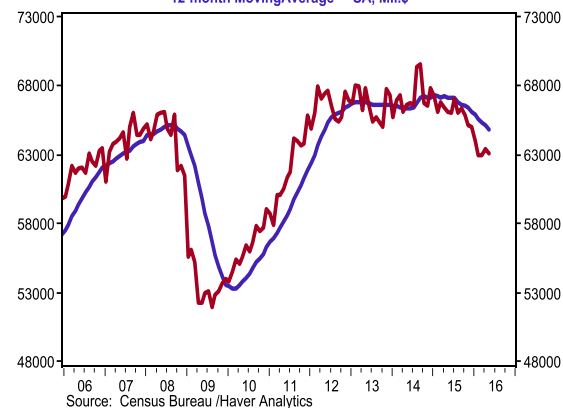
Implications: In case you missed it, the UK voted yesterday to leave the European Union. [As we wrote earlier this month](#), we view this as a positive development, a move towards freedom. The short-term volatility is a buying opportunity. With that out of the way, on to the data. Durable goods orders declined 2.2% in May, following a combined 5.3% rise in March and April. Military aircraft and motor vehicles led orders lower in May, although most major categories showed a pullback as well. Even excluding the volatile transportation sector, orders fell 0.3% in May, coming in below the consensus expected rise of 0.1%. Shipments of “core” capital goods - non-defense, excluding aircraft – declined 0.5% in May, but were down a more modest 0.2% including upward revisions to prior months. This is the measure that the government uses for calculating GDP. If unchanged in June, these shipments will be down at a 0.8% annual rate in Q2 vs the Q1 average. But that doesn’t mean that we expect GDP growth slowed in the second quarter. The first estimate of Q2 growth is still a month off, but we are forecasting that the U.S. economy grew at around a 2.0% rate in the second quarter. We also get a final reading on Q1 GDP next Thursday, which we expect will show the economy grew at a 1.1% annual rate, up from the 0.8% estimate released in May (the initial Q1 GDP release estimated growth of 0.5%). Looking forward, we expect durable goods to rebound. The biggest drag on orders in the past year has been machinery, but that should end soon given the bounce in energy prices. In other words, business investment should pick up in the months ahead. In addition, consumer purchasing power is growing with more jobs and higher incomes, while debt ratios remain very low, leaving room for an upswing in big-ticket spending. While the Fed may cite the May slowdown in orders along with the UK exit vote and market volatility as reasons to hold off on a July (and possibly even September) rate hike, we think this puts too much emphasis on short-term events. The plow horse economy continues to move forward.

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>	May-16	Apr-16	Mar-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-2.2%	3.3%	2.0%	12.4%	-1.5%	3.2%
<i>Ex Defense</i>	-0.9%	3.7%	-0.5%	9.6%	2.9%	3.1%
<i>Ex Transportation</i>	-0.3%	0.5%	0.3%	1.7%	-0.2%	-0.4%
<i>Primary Metals</i>	-1.4%	-0.7%	1.9%	-1.2%	15.8%	-8.3%
<i>Industrial Machinery</i>	-0.2%	-2.0%	0.1%	-8.0%	-12.9%	-5.6%
<i>Computers and Electronic Products</i>	-0.1%	2.8%	0.3%	12.5%	2.8%	3.1%
<i>Transportation Equipment</i>	-5.6%	8.5%	5.3%	35.5%	-3.9%	10.5%
Capital Goods Orders	-4.9%	7.9%	7.8%	49.6%	-7.8%	6.0%
Capital Goods Shipments	1.3%	0.4%	0.0%	7.1%	-8.7%	-2.9%
<i>Defense Shipments</i>	2.1%	-4.0%	-0.4%	-9.4%	-2.3%	5.3%
<i>Non-Defense, Ex Aircraft</i>	-0.5%	0.6%	0.0%	0.8%	-6.2%	-4.6%
Unfilled Orders for Durable Goods	0.2%	0.6%	0.0%	3.3%	-0.1%	-0.9%

Source: Bureau of the Census