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July Durable Goods

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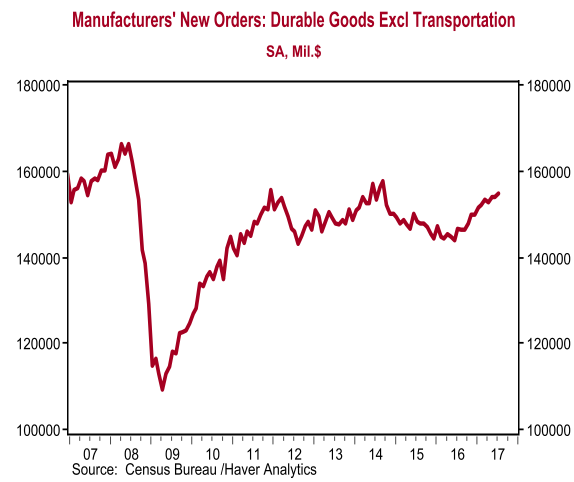
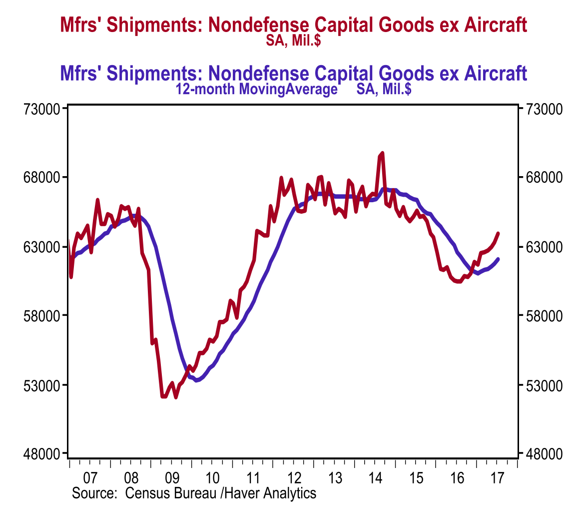
- New orders for durable goods declined 6.8% in July, coming in below the consensus expected decline of 6.0%. Orders excluding transportation rose 0.5% in July, narrowly beating the consensus expected rise of 0.4%. Orders are up 4.1% from a year ago while orders excluding transportation are up 5.6 %.
- The decline in orders in July was led by commercial aircraft, motor vehicles, and machinery.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 1.0% in July. If unchanged in August and September, these shipments will be up at a 5.9% annual rate in Q3 vs the Q2 average.
- Unfilled orders declined 0.3% in July but are up 0.6% from last year.





Implications: The headlines of today's durable goods report obscure what was actually a pretty solid report. While new orders fell at the fastest pace in nearly three years, it was all due to commercial aircraft. July commercial aircraft orders fell 70.7% after rising 129.3% in June. Exclude the consistently volatile transportation sector, and orders rose 0.5% in July, narrowly beating consensus expectations. The ex-transportation figure is a more reliable measure of the health of durables orders and continues the steady rise higher that began in mid-2016. In the past year, orders ex-transportation are up 5.6%, compared to a 1.2% decline for the twelve months ending July 2016, and 3.3% decline for the period ending July of 2015. Looking at the details of non-transportation orders shows gains for nearly every category. Computers and electronic products led the way, rising 1.6% in July, while fabricated metal products, electrical equipment, appliances & components, and primary metals also ticked higher. Outside of transportation, the only major category to show a decline was machinery, which fell for just the second time in the past nine months. In other words, ignore the large headline decline, durables are doing just fine. The best news in today's report was for shipments of non-defense capital goods ex-aircraft, or "core" shipments – the measure most important for calculating GDP growth. These rose 1.0% in July and, if unchanged in August and September, will be up at a 5.9% annual rate in Q3 vs the Q2 average. That would represent the fourth consecutive quarter of growing shipments, following the four quarters of declines that began in late 2015. In part, this reflects the fact that energy prices have been more stable since the huge decline in late 2014. However, it also likely reflects the willingness of businesses to invest more aggressively for efficiency purposes as the labor market gets tighter. It looks like companies may be tired of waiting for Washington to make progress on tax reform and other issues, and starting to commit to significant longer-term decisions.

Durable Goods *All Data Seasonally Adjusted*	Jul-17	Jun-17	May-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**-6.8%**	6.4%	0.0%	-3.1%	4.3%	4.1%
Ex Defense	**-7.8%**	6.4%	0.6%	-5.0%	2.0%	2.6%
Ex Transportation	**0.5%**	0.1%	0.8%	5.6%	4.4%	5.6%
Primary Metals	**0.0%**	0.3%	0.0%	1.2%	8.4%	10.4%
Industrial Machinery	**-1.4%**	0.6%	2.6%	7.3%	4.7%	7.2%
Computers and Electronic Products	**1.6%**	-0.3%	-0.3%	4.0%	-2.0%	-0.3%
Transportation Equipment	**-19.0%**	19.1%	-1.6%	-18.5%	4.1%	1.2%
Capital Goods Orders	**-16.4%**	19.5%	-0.9%	-3.9%	8.1%	5.1%
Capital Goods Shipments	**2.1%**	0.4%	0.9%	14.8%	9.6%	5.4%
Defense Shipments	**3.2%**	-2.6%	0.5%	4.3%	9.2%	5.0%
Non-Defense, Ex Aircraft	**1.0%**	0.6%	0.3%	7.7%	7.2%	5.7%
Unfilled Orders for Durable Goods	**-0.3%**	1.3%	-0.1%	3.4%	2.3%	0.6%

Source: Bureau of the Census