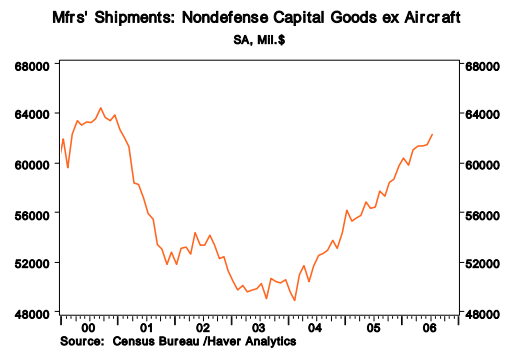
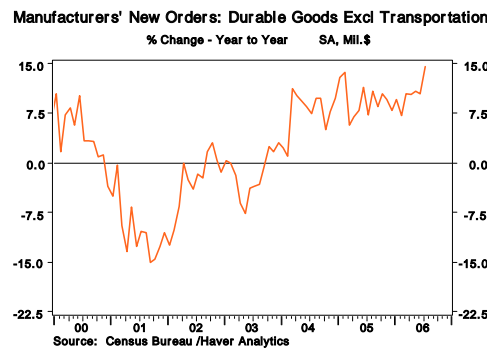
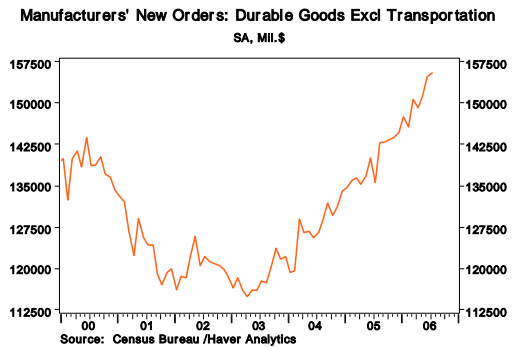
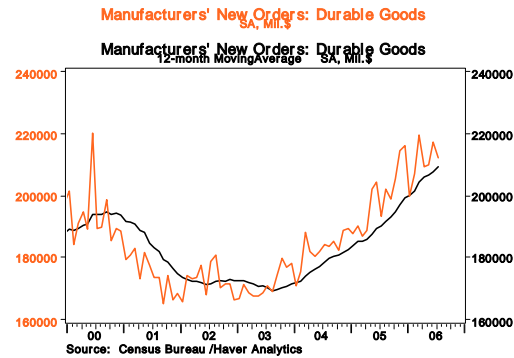


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JULY DURABLE GOODS

- New orders for durable goods fell 2.4% in July, well below the consensus estimates of a 0.5% decline. This decline follows an upwardly revised 3.5% increase in June (originally +2.9%). New orders for durable goods are up 9.7% in the past year.
- Transportation orders fell 9.6% in July, highlighted by a 7.0% decline in motor vehicle orders and a 10% drop in civilian aircraft orders. Excluding transportation, new orders increased 0.5% in July, and are up 14.6% in the past year.
- Shipments of durable goods fell 1.3% last month but are up 7.9% in the past year. Shipments of non-defense capital goods, ex aircraft (a proxy for business CAPEX) jumped 1.3% in July, and are up 10.2% in the past year.



Implications: Weakness in transportation equipment activity pulled headline durable goods orders down 2.4% in July, while shipments fell 1.3%. Durable goods data are notoriously volatile on a month-to-month basis, especially transportation orders. Excluding transportation, durable goods orders increased 0.5% in July and are up 18.1% at an annual rate over the last three months and 14.6% in the past year – the fastest 12-month gain since 1995. Shipments of non-defense capital goods, excluding aircraft, increased 1.3% in July – which is 5.7% above the average level of Q2. This suggests that the business investment component of Q3 GDP will snap back and show growth in the 5%-10% range. Moreover, the 12-month change in unfilled orders of non-defense capital goods orders, ex aircraft is at a six-year high of 14.2%. This should keep capital spending strong for the remainder of the year. Separately, initial claims for unemployment benefits fell 1,000 to 313,000 last week. The less-volatile, four-week moving average rose to 315,250 – a level consistent with a healthy employment market. For some reason the markets have convinced themselves that the economy is slowing sharply. The biggest question being asked of economists is whether the economy is in for a soft or hard landing. Our view remains the same. The landing gear has not yet been lowered. We are still cruising at an altitude of roughly 3.5% real GDP growth.

| Durable Goods Orders <i>All data seasonally adjusted</i> | Jul-06 | Jun-06 | May-06 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr over yr % ch. |
|---|---------------|--------|--------|--------------------------|--------------------------|---------------------|
| Durable Goods Orders | -2.4% | 3.5% | 0.3% | 5.4% | 12.6% | 9.7% |
| Ex Defense | -1.9% | 1.8% | 0.5% | 1.3% | 7.6% | 8.9% |
| Ex Transportation | 0.5% | 2.2% | 1.6% | 18.1% | 11.2% | 14.6% |
| Primary Metals | 1.2% | 1.1% | 6.2% | 39.4% | 30.4% | 30.3% |
| Industrial Machinery | 1.9% | 0.3% | 4.3% | 28.9% | 8.0% | 18.5% |
| Computers and Electronic Products | 4.6% | 6.7% | -1.9% | 43.8% | 34.1% | 18.0% |
| Transportation Equipment | -9.6% | 7.1% | -2.8% | -21.8% | 16.6% | -1.7% |
| Shipments | -1.3% | 0.3% | 3.0% | 8.2% | 2.7% | 7.9% |
| Unfilled Orders | 1.4% | 1.7% | 0.7% | 16.1% | 20.4% | 20.1% |
| Capital Goods Orders | -1.7% | 6.5% | -2.5% | 8.7% | 35.2% | 12.9% |
| Defense | -15.1% | 51.8% | -7.1% | 105.6% | 442.9% | 29.4% |
| Nondefense Capital Goods | 0.2% | 2.1% | -2.0% | 1.1% | 20.0% | 11.1% |

Source: Bureau of the Census

This report was prepared by First Trust Advisors, L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security