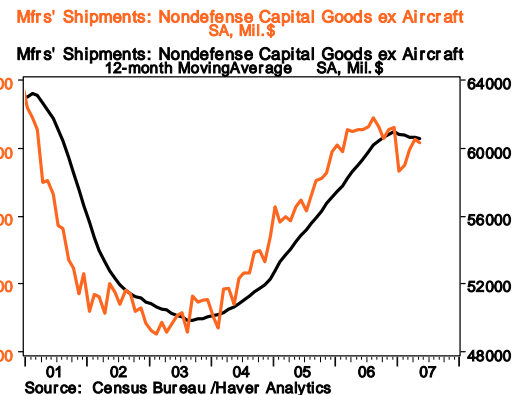
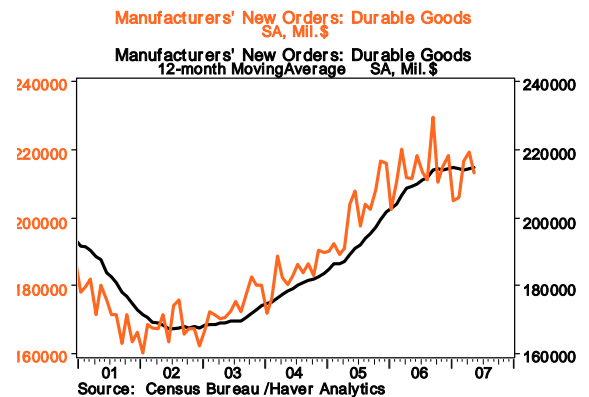


MAY DURABLE GOODS

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- New orders for durable goods declined 2.8% in May, a larger drop than the consensus expected. New orders excluding transportation declined 1.0% versus a consensus expected gain of 0.2%.
- The weakness in new orders was concentrated in civilian aircraft, which accounted for two-thirds of the decline. However, orders also fell for primary metals, machinery, and electrical equipment and appliances. Areas of strength included communications equipment (part of computers and electronics) and motor vehicles and parts.
- When calculating business investment for the GDP accounts, the Commerce Department uses non-defense capital goods shipments excluding aircraft. That indicator fell only 0.2% in May, although the figure for April was revised down slightly to a 0.9% gain from a previous estimate of 1.0%.
- Unfilled orders rose 0.8% in May and are up 20.0% versus a year ago, larger than any year-to-year increase from 1980 to 2005. Unfilled orders for non-defense capital goods ex-aircraft increased for the 31st straight month and are up 16.8% versus a year ago.

Implications: Given the strength in new orders and shipments in March and April, the traditional month-to-month volatility in capital goods data, and the concentration of May's weakness in civilian aircraft orders, we do not read much into today's data. In fact, unlike most analysts, we had forecast the report would be a bit weaker than it actually was. Even with the data for May, in the past three months orders for non-defense capital goods ex-aircraft are up at a healthy 15.9% annual rate. Meanwhile, shipments of these goods are up at a 9.5% annual rate. These figures are consistent with our forecast that business investment will contribute about one percentage point to real GDP growth in the second quarter. Our view remains that businesses, flush with substantial profit growth the last few years, will expand capacity in the year ahead, confident the economic expansion will continue.



Durable Goods <i>All Data Seasonally Adjusted</i>	May-07	Apr-07	Mar-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-2.8%	1.1%	5.1%	14.0%	-1.9%	0.7%
Ex Defense	-3.2%	1.2%	5.3%	13.3%	1.0%	0.1%
Ex Transportation	-1.0%	2.5%	1.6%	12.8%	3.7%	-0.8%
Primary Metals	-3.6%	7.1%	5.8%	42.4%	18.6%	1.0%
Industrial Machinery	-1.6%	-1.2%	5.4%	10.6%	0.6%	-4.5%
Computers and Electronic Products	1.8%	1.6%	-1.3%	8.9%	-7.0%	5.0%
Transportation Equipment	-6.8%	-1.8%	13.6%	16.9%	-13.8%	4.6%
Capital Goods Orders	-7.0%	-0.1%	12.5%	19.7%	-7.6%	4.1%
Capital Goods Shipments	0.1%	1.1%	1.2%	9.8%	-0.8%	0.4%
Defense Shipments	3.0%	0.6%	-2.9%	2.1%	3.7%	6.0%
Non-Defense, Ex Aircraft	-0.2%	0.9%	1.6%	9.5%	-2.4%	-1.2%
Unfilled Orders for Durable Goods	0.8%	1.9%	1.8%	19.8%	16.1%	20.0%

Source: Bureau of the Census