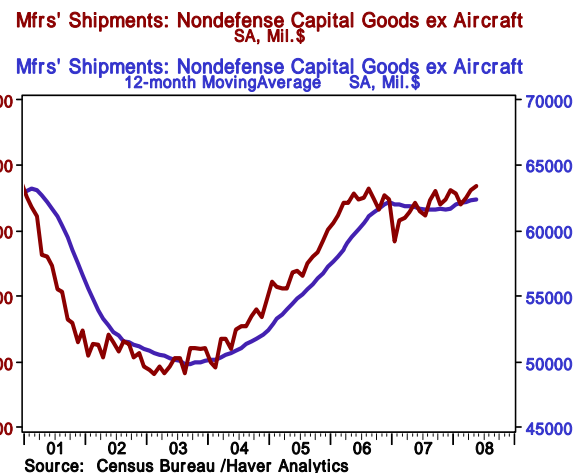
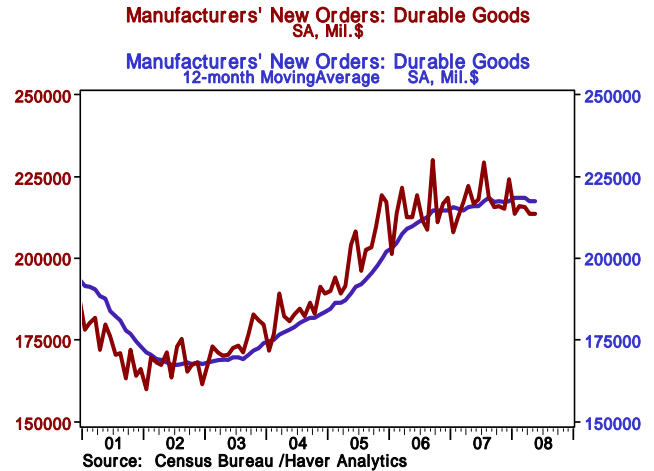


MAY DURABLE GOODS

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- New orders for durable goods were unchanged in May, as the consensus expected. Excluding transportation, orders declined 0.9%, also meeting consensus expectations. Orders are down 1.5% versus a year ago but up 1.4% excluding transportation.
- The strongest sector in May was civilian aircraft. The weakest sectors were motor vehicles (which we expect to reverse next month given the end of a strike at a GM parts supplier) and industrial machinery.
- When calculating business investment for the GDP accounts, the government uses shipments of non-defense capital goods excluding aircraft. That measure increased 0.6% in May and the gain in April was revised up to 0.9% (from a previously reported 0.2%). So far in the second quarter, these orders are up at a 5.2% annual rate versus the Q1 average, potentially making it the strongest quarter in a year.
- Unfilled orders rose 0.9% in May and are up 15.8% versus last year.

Implications: Today’s report on durable goods is better than the headline data and underscores the absence of a recession in the business sector. Although overall orders were unchanged in May and down 0.9% excluding the volatile transportation sector, shipments of “core” capital goods (ex-defense, ex-aircraft) have increased three months in a row, climbing at a 9.4% annual rate. Given the end of a strike at a GM parts supplier, we expect further gains in the months ahead. Although industrial machinery orders fell 5.3% in May, this drop comes after large gains in March and April and orders in this sector are still up 8.1% versus a year ago. Today’s data support our view that the economy is accelerating out of the sluggish growth we experienced in the final quarter of 2007 and first quarter of 2008.



Durable Goods <i>All Data Seasonally Adjusted</i>	May-08	Apr-08	Mar-08	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	0.0%	-1.0%	-0.2%	-4.5%	-1.4%	-1.5%
<i>Ex Defense</i>	-0.6%	-0.8%	0.1%	-4.8%	-6.0%	-3.0%
<i>Ex Transportation</i>	-0.9%	1.9%	1.8%	12.2%	5.7%	1.4%
<i>Primary Metals</i>	-1.3%	2.8%	2.5%	16.6%	11.8%	8.1%
<i>Industrial Machinery</i>	-5.3%	5.1%	8.5%	36.4%	13.8%	8.1%
<i>Computers and Electronic Products</i>	2.0%	-2.2%	0.9%	3.0%	6.0%	-2.4%
<i>Transportation Equipment</i>	2.6%	-8.3%	-5.1%	-36.5%	-17.5%	-8.6%
Capital Goods Orders	1.5%	-1.9%	-0.3%	-2.8%	4.5%	3.1%
<i>Capital Goods Shipments</i>	-0.2%	2.3%	0.6%	11.4%	4.7%	3.5%
<i>Defense Shipments</i>	-2.3%	6.9%	2.8%	32.6%	27.7%	16.6%
<i>Non-Defense, Ex Aircraft</i>	0.6%	0.9%	0.8%	9.4%	3.3%	2.1%
Unfilled Orders for Durable Goods	0.9%	0.7%	1.3%	12.4%	14.9%	15.8%

Source: Bureau of the Census

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