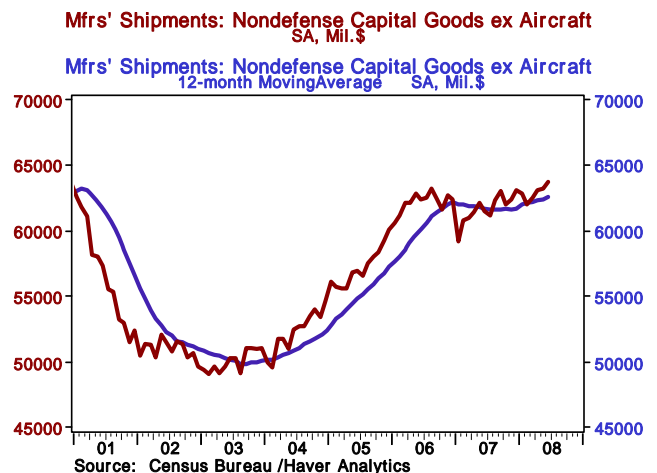
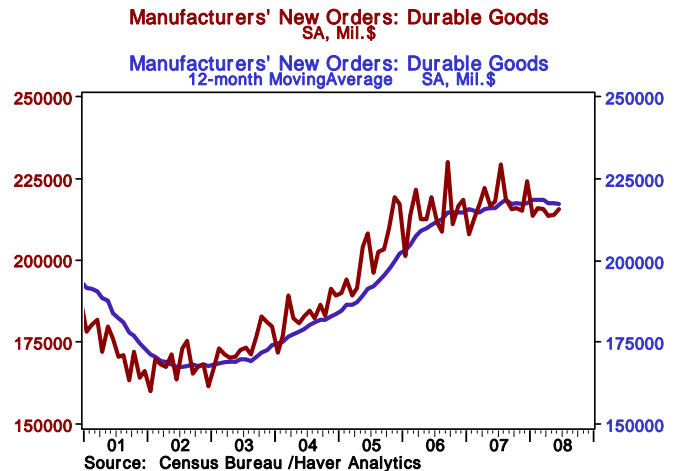


JUNE DURABLE GOODS

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- New orders for durable goods were up 0.8% in June, better than the consensus expected decline of 0.3%. Excluding transportation, orders rose 2.0%, easily beating the consensus expected drop of 0.2%. Orders are down 1.1% versus a year ago, but up 6.2% excluding transportation.
- Strength in orders was widespread in June. The largest gains were in primary metals, machinery, and motor vehicles/parts (due to the end of the American Axle strike). The weakest sector, by far, was civilian aircraft.
- When calculating business investment for the GDP accounts, the government uses shipments of non-defense capital goods excluding aircraft. That measure increased 0.7% in June, although the gain in May was revised down to 0.2% from a previously reported 0.5%. For the second quarter as a whole, these shipments are up at a 5.9% annual rate versus the Q1 average, the strongest quarter in a year.
- Unfilled orders rose 0.9% in May and are up 15.3% versus last year.

Implications: To still believe the US is in recession requires willful ignorance of the healthy trend in business investment. Shipments of “core” capital goods (ex-defense, ex-aircraft) have increased four months in a row, are up at a 7.9% annual rate in the past three months, and are now at the highest level since the peak of the high-tech boom in 2000. The strength in orders is widespread. Only the transportation sector has orders below last year’s level, which is a side-effect of the surge in oil prices. The gains in business investment will help sustain strong productivity growth, which has kept economic growth positive despite the decline in payrolls. Today’s data are consistent with our estimate that real GDP grew at a 3% annual rate in Q2.



Durable Goods <i>All Data Seasonally Adjusted</i>	Jun-08	May-08	Apr-08	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	0.8%	0.1%	-1.0%	-0.3%	-7.6%	-1.1%
Ex Defense	0.1%	-0.6%	-0.8%	-5.4%	-9.1%	-3.9%
Ex Transportation	2.0%	-0.5%	1.9%	14.4%	6.4%	6.2%
Primary Metals	5.1%	-1.8%	2.5%	25.3%	22.6%	22.7%
Industrial Machinery	2.3%	-3.7%	4.8%	13.8%	3.3%	11.8%
Computers and Electronic Products	-0.5%	2.7%	-2.0%	0.6%	2.2%	4.9%
Transportation Equipment	-2.6%	1.9%	-8.3%	-31.4%	-35.5%	-17.5%
Capital Goods Orders	-0.9%	1.7%	-1.9%	-4.5%	-14.7%	0.3%
Capital Goods Shipments	0.5%	-0.5%	2.4%	9.6%	4.0%	4.4%
Defense Shipments	0.3%	-2.3%	6.9%	20.3%	34.9%	20.4%
Non-Defense, Ex Aircraft	0.7%	0.2%	1.0%	7.9%	1.9%	3.5%
Unfilled Orders for Durable Goods	0.9%	0.9%	0.7%	10.7%	11.8%	15.3%

Source: Bureau of the Census