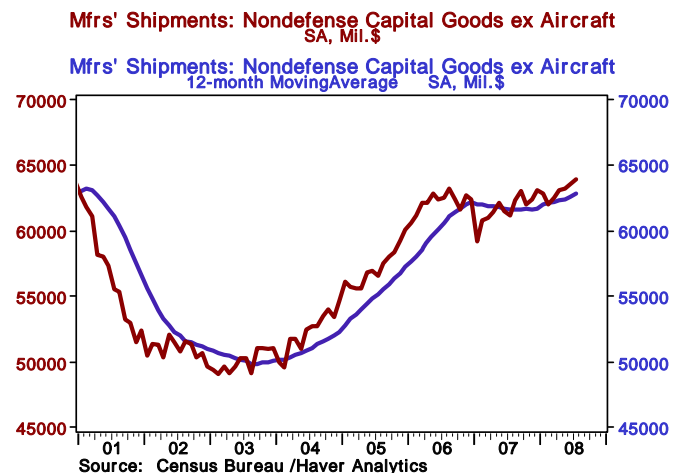
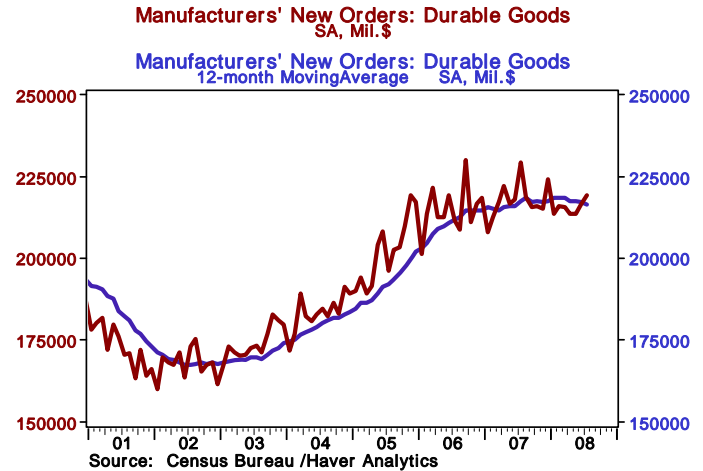


# JULY DURABLE GOODS

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- New orders for durable goods were up 1.3% in July. The consensus had expected no change. Excluding transportation, orders rose 0.7%, reversing the consensus expected decline of 0.7%. Orders are down 4.5% versus a year ago, but up 3.6% excluding transportation.
- Strength in orders in July was concentrated in civilian aircraft, industrial machinery, and primary metals. The weakest sector, by far, was defense, which is extremely volatile from month to month.
- 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 July, although the gain in June was revised down to 0.4% from a previously reported 0.7%. If these shipments remain unchanged in August and September, they will be up at a 3.9% annual rate in Q3 versus the Q2 average.
- Unfilled orders rose 0.8% in July and are up 13.7% versus last year.

**Implications:** As we noted last month, to believe the US is in recession requires denial about the healthy trend in business investment. Shipments of “core” capital goods (ex-defense, ex-aircraft) have increased five months in a row, are up at a 5.1% annual rate in the past three months, and are approaching the record high set in 2000 at the peak of the high-tech boom. These investments sustain productivity growth, lifting real GDP despite the decline in payrolls. Tomorrow we get the first revision to the real GDP growth rate in the second quarter, originally reported as 1.9%. Given new data on inventories, construction, and trade in the past month, we expect that figure to be revised up to 2.8%.



<b>Durable Goods</b> <i>All Data Seasonally Adjusted</i>	<b>Jul-08</b>	<b>Jun-08</b>	<b>May-08</b>	<b>3-mo % ch.</b> <b>annualized</b>	<b>6-mo % ch.</b> <b>annualized</b>	<b>Yr to Yr</b> <b>% Change</b>
<b>New Orders for Durable Goods</b>	<b>1.3%</b>	1.3%	0.1%	11.3%	5.3%	-4.5%
<b>Ex Defense</b>	<b>2.8%</b>	0.6%	-0.7%	11.5%	4.8%	-4.8%
<b>Ex Transportation</b>	<b>0.7%</b>	2.4%	-0.5%	11.0%	10.6%	3.6%
<b>Primary Metals</b>	<b>2.2%</b>	7.8%	-1.8%	36.8%	32.7%	18.3%
<b>Industrial Machinery</b>	<b>4.6%</b>	2.8%	-3.9%	14.0%	16.2%	8.6%
<b>Computers and Electronic Products</b>	<b>-1.3%</b>	-0.1%	2.8%	5.5%	3.5%	-1.9%
<b>Transportation Equipment</b>	<b>3.1%</b>	-1.9%	1.8%	12.2%	-7.9%	-21.6%
<b>Capital Goods Orders</b>	<b>2.0%</b>	-0.5%	1.5%	12.5%	6.5%	-5.5%
<b>Capital Goods Shipments</b>	<b>1.8%</b>	0.6%	-0.5%	7.8%	2.9%	5.7%
<b>Defense Shipments</b>	<b>3.6%</b>	1.0%	-2.3%	9.3%	22.3%	16.6%
<b>Non-Defense, Ex Aircraft</b>	<b>0.6%</b>	0.4%	0.2%	5.1%	3.5%	4.4%
<b>Unfilled Orders for Durable Goods</b>	<b>0.8%</b>	0.9%	0.9%	11.1%	12.3%	13.7%

Source: Bureau of the Census