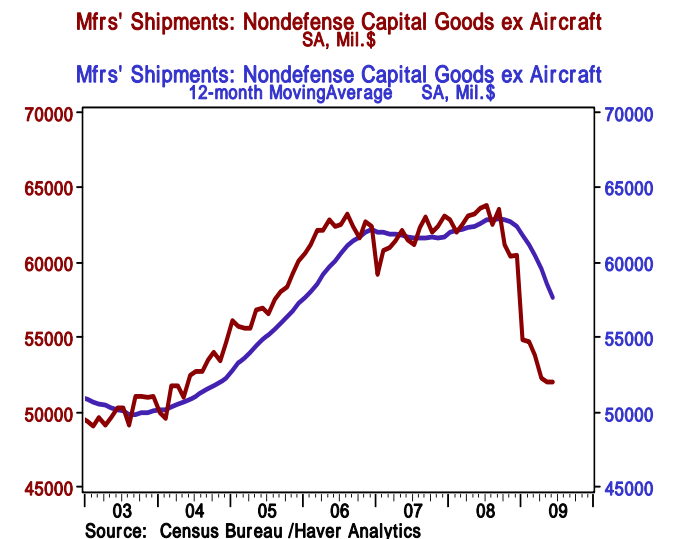
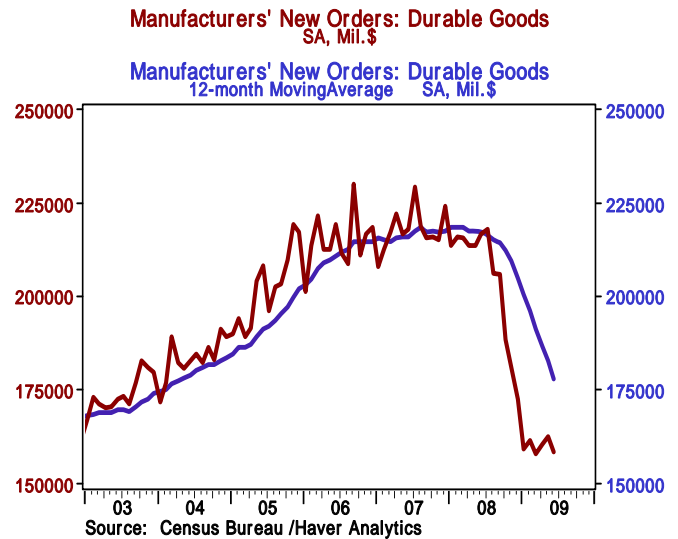


## JUNE DURABLE GOODS

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- New orders for durable goods fell 2.5% in June versus a consensus expected decline of 0.6%. Excluding transportation, orders increased 1.1% versus consensus expectations that these orders would be unchanged.
- All the drop in overall orders was attributable to the volatile transportation sector, which fell 12.8%, led by a large decline in civilian aircraft. The increase in orders outside the transportation sector was led by primary metals and industrial machinery, which has now increased three months in a row.
- When calculating business investment for GDP purposes, the government uses shipments of non-defense capital goods excluding aircraft. That measure increased 0.1% in June, the best showing since September 2008. For Q2 as a whole, these shipments were down at a 16.2% annual rate versus the Q1 average.

**Implications:** The headline drop in new orders was not good news, but the details of today’s report show improvement. The most volatile segment for new orders is the transportation sector, and in June it accounted for the entire drop, suggesting room for a significant rebound next month. Outside the transportation sector, orders were up 1.1%, the second straight increase. In particular, orders for industrial machinery are up at a 58.7% annual rate in the past three months, the fastest pace since the early 1990s. In addition, shipments of “core” capital goods (excluding defense and aircraft) increased 0.1% in June, the best showing since the collapse of Lehman Brothers in September 2008. In other news yesterday, the Richmond Fed index, a measure of manufacturing in the mid-Atlantic region, increased to +14 in July, the highest level since April 2006. Even better, the Case-Shiller home price index showed a surprisingly small 0.2% decline in home prices (seasonally-adjusted) in May, with 8 of 20 major metropolitan areas showing increases in home prices. Although consumer confidence fell in July, we believe this was due to the weakness in the stock market at the start of the month following a soft employment report. Given the rebound in stocks since then, we expect a healthy rebound in consumer confidence for August.



Durable Goods <i>All Data Seasonally Adjusted</i>	Jun-09	May-09	Apr-09	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>-2.5%</b>	1.3%	1.4%	0.7%	-15.7%	-26.8%
<i>Ex Defense</i>	<b>-0.7%</b>	0.9%	0.2%	1.2%	-12.9%	-27.6%
<i>Ex Transportation</i>	<b>1.1%</b>	0.8%	-0.2%	7.2%	-12.1%	-24.1%
<i>Primary Metals</i>	<b>8.9%</b>	-0.2%	0.2%	40.7%	-19.1%	-46.6%
<i>Industrial Machinery</i>	<b>4.4%</b>	7.3%	0.2%	58.7%	-5.4%	-26.3%
<i>Computers and Electronic Products</i>	<b>-2.5%</b>	2.2%	-3.5%	-14.7%	-6.0%	-15.1%
<i>Transportation Equipment</i>	<b>-12.8%</b>	2.7%	6.3%	-17.6%	-26.3%	-34.5%
<b>Capital Goods Orders</b>	<b>-8.0%</b>	8.7%	1.3%	5.1%	-18.6%	-28.1%
<b>Capital Goods Shipments</b>	<b>0.6%</b>	-0.8%	-1.9%	-8.4%	-17.3%	-13.8%
<i>Defense Shipments</i>	<b>4.3%</b>	1.0%	2.7%	37.2%	66.3%	19.5%
<i>Non-Defense, Ex Aircraft</i>	<b>0.1%</b>	-0.5%	-2.9%	-12.5%	-26.0%	-18.3%
<b>Unfilled Orders for Durable Goods</b>	<b>-0.9%</b>	-0.3%	-1.1%	-8.9%	-14.5%	-9.5%

Source: Bureau of the Census