

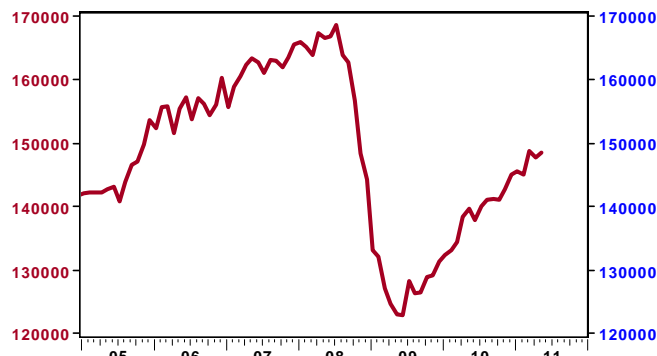
May Durable Goods

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Andrew Hull – Economic Analyst
Strider Elass – Economic Analyst

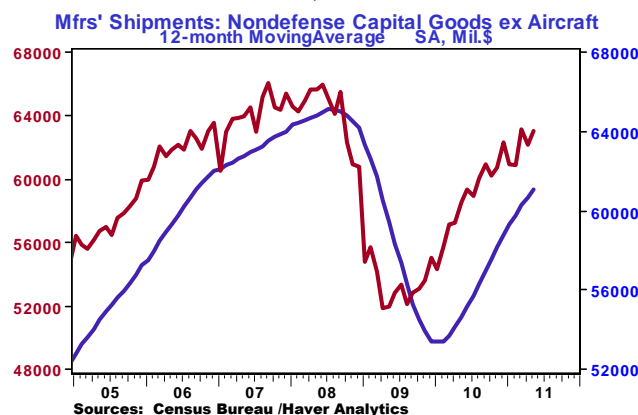
- New orders for durable goods increased 1.9% in May (2.8% including upward revisions to April). The consensus expected a gain of 1.5%. Orders excluding transportation rose 0.6% in May (1.9% including upward revisions to April). The consensus expected 0.9%. From a year ago, overall new orders are up 9.0%, while orders excluding transportation are up 7.2%
- The overall increase in orders was led by civilian aircraft. Almost all other major categories of orders increased as well.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 1.4% in May and even if unchanged in June, will be up at a 7.2% annual rate in Q2 versus the Q1 average.
- Unfilled orders rose 0.9% in May and are up 6.3% from last year.

Implications: The economy is still alive and kicking, and today’s report on durable goods shows it. New orders for durable goods increased 1.9% in May, beating the expected increase of 1.5%, and were revised up for April as well. Most of the gain in May was due to civilian aircraft, which are very volatile from month to month. However, excluding the transportation sector, orders were still up 0.6% in May and up 1.9% including upward revisions for April. Moreover, the gains in May were widespread, with almost every major category of orders increasing. In other words, this is not just a Boeing story. Shipments of “core” capital goods (which exclude civilian aircraft and defense and which the government uses to calculate GDP) bounced back 1.4% in May. These shipments are up 7.7% versus a year ago and up at a much faster 14.9% annual rate in the past three months. Given record corporate profits and balance sheet cash, relatively low borrowing rates in the corporate sector, a recent rise in commercial and industrial lending, plus full expensing for tax purposes for 2011, we believe business investment will continue to increase substantially for at least the next couple of years.

Manufacturers' Shipments: Durable Goods ex Transportation
 SA, Mil.\$



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft
 SA, Mil.\$



Durable Goods <i>All Data Seasonally Adjusted</i>	May-11	Apr-11	Mar-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	1.9%	-2.7%	4.6%	15.4%	12.1%	9.0%
Ex Defense	1.9%	-2.9%	4.2%	12.9%	13.6%	10.4%
Ex Transportation	0.6%	-0.4%	2.6%	12.0%	5.3%	7.2%
Primary Metals	1.8%	1.3%	7.2%	49.3%	6.9%	22.0%
Industrial Machinery	1.2%	0.2%	8.4%	45.7%	24.0%	11.2%
Computers and Electronic Products	0.4%	1.9%	-3.4%	-4.8%	-7.3%	-0.7%
Transportation Equipment	5.8%	-9.4%	10.6%	26.0%	36.4%	14.7%
Capital Goods Orders	5.6%	-5.4%	6.1%	26.0%	22.9%	10.6%
Capital Goods Shipments	0.8%	-2.0%	3.6%	9.5%	5.6%	4.7%
Defense Shipments	-1.1%	-6.2%	3.5%	-15.0%	-13.1%	-17.5%
Non-Defense, Ex Aircraft	1.4%	-1.5%	3.7%	14.9%	7.9%	7.7%
Unfilled Orders for Durable Goods	0.9%	0.5%	0.7%	8.9%	6.7%	6.3%

Source: Bureau of the Census