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July Durable Goods

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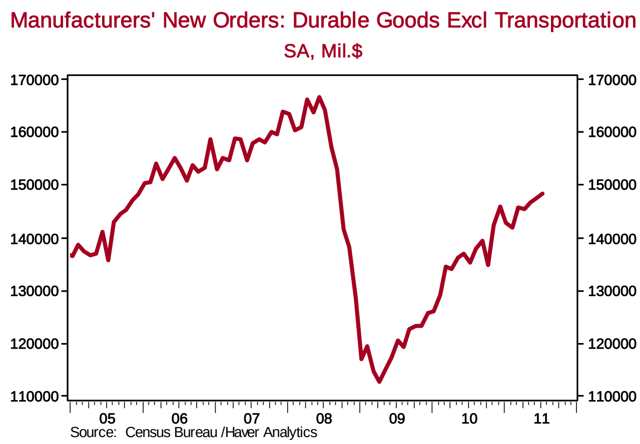
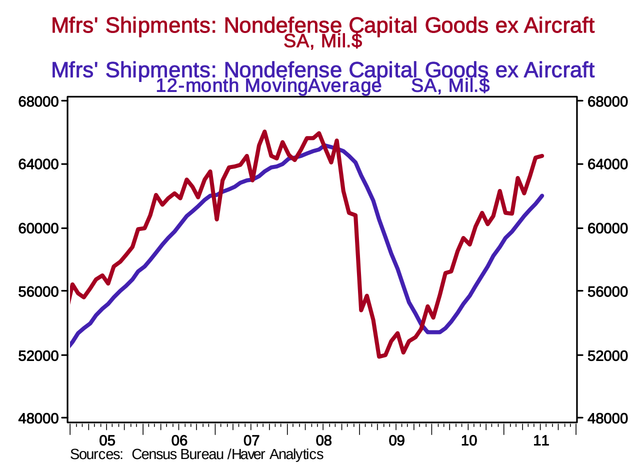
- New orders for durable goods increased 4.0% in July (4.7% including upward revisions for June). The consensus expected a gain of 2.0%. Orders excluding transportation rose 0.7% in July (0.9% including June revisions). The consensus expected -0.5%. Overall new orders are up 9.2% from a year ago, while orders excluding transportation are up 9.6%.
- The gain in orders was led by motor vehicles, civilian aircraft, and primary metals.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.2% in July (0.9% including revisions to June) and even if unchanged in August/September will be up at an 8.1% annual rate in Q3 versus the Q2 average.
- Unfilled orders rose 0.7% in July and are up 7.0% from last year.





Implications: As of July, before recent stock market turmoil and (unwarranted) fears of another recession, business investment in equipment was continuing to grow at a robust rate, signaling the temporary nature of the soft patch. Moreover, the details of today's report suggest growth will continue, undermining arguments that we are going into a recession. New orders grew 4% in July, easily beating consensus expectations. Much of the gain was due to aircraft, which are very volatile from month to month, as well as motor vehicles (probably due to easing of supply-chain disruptions from Japan). However, excluding the transportation sector, orders were up 0.7%, easily beating the consensus expected decline. Shipments of "core" capital goods (which exclude aircraft and defense, and which the government uses to calculate GDP) increased 0.9% including upward revisions for June. These shipments are up 9.5% in the past year and are accelerating, up at a 15.9% annual rate over the past three months. Perhaps the most bullish detail in the report was that unfilled orders for these core capital goods are up about 15% versus a year ago. This is much better than prior to all the recessions of the past few decades. Given record corporate profits and balance sheet cash, a recent rise in commercial and industrial lending, plus full expensing for tax purposes for 2011, we believe business investment will increase substantially over the next couple of years.

Durable Goods *All Data Seasonally Adjusted*	Jul-11	Jun-11	May-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**4.0%**	-1.3%	2.0%	20.3%	11.6%	9.2%
Ex Defense	**4.8%**	-0.9%	1.6%	23.6%	15.7%	10.8%
Ex Transportation	**0.7%**	0.6%	0.8%	8.5%	8.1%	9.6%
Primary Metals	**10.3%**	0.2%	0.2%	50.4%	22.1%	27.9%
Industrial Machinery	**-1.5%**	-1.8%	2.5%	-3.4%	15.1%	16.3%
Computers and Electronic Products	**-3.4%**	1.0%	0.4%	-7.8%	-4.2%	-3.2%
Transportation Equipment	**14.6%**	-6.7%	5.8%	63.3%	22.3%	8.0%
Capital Goods Orders	**1.3%**	-2.7%	5.6%	17.5%	9.0%	8.4%
Capital Goods Shipments	**0.6%**	1.6%	1.0%	13.7%	11.1%	3.8%
Defense Shipments	**-5.2%**	-1.9%	-1.0%	-27.9%	-16.0%	-20.6%
Non-Defense, Ex Aircraft	**0.2%**	1.9%	1.7%	15.9%	12.1%	9.5%
Unfilled Orders for Durable Goods	**0.7%**	0.3%	0.9%	7.9%	7.6%	7.0%

Source: Bureau of the Census