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July Durable Goods

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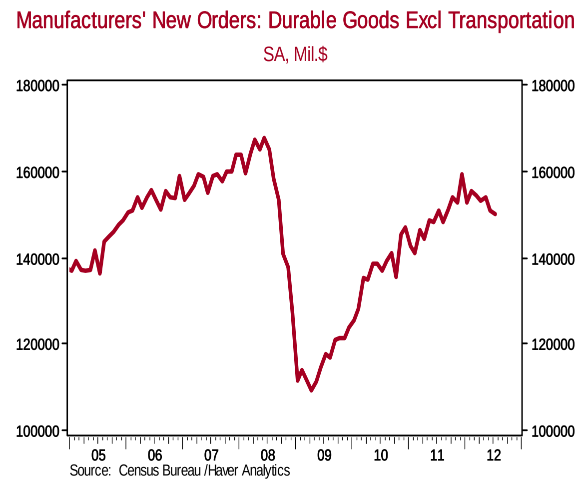
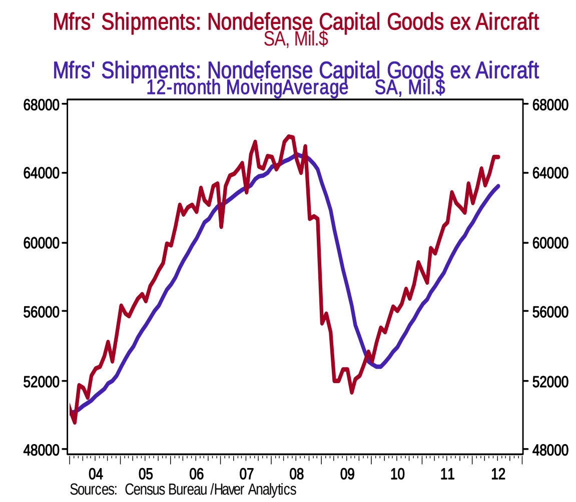
- New orders for durable goods increased 4.2% in July, (4.5% including upward revisions to June) easily beating the consensus expected gain of 2.5%. Orders excluding transportation declined 0.4%, (-1.1% including downward revisions to June) falling short of the consensus expected gain of 0.5%. Overall new orders are up 4.9% from a year ago, while orders excluding transportation are down 0.3%.
- The gain in overall orders was led by civilian aircraft and motor vehicles.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure was flat in July, but up 0.5% including upward revisions to June, and was up at a 5.4% annual rate in Q2 versus the Q1 average.
- Unfilled orders were up 0.8% in July and are up 8.0% from last year.

Implications: Overall new orders were up big in July, but the underlying details of the report suggest some hesitation in business investment. Durable goods orders rose 4.2% in July and were revised higher for June, but all of the gain was due to the volatile transportation sector, including civilian aircraft and autos. Meanwhile, industrial machinery fell for the second month in a row and is down 11.1% from a year ago. Although unfilled orders for durable goods were up 0.8% in July, unfilled orders for "core" capital goods were down for the second month in a row. On the brighter side, shipments of "core" capital goods, which excludes defense and aircraft were unchanged in July, but were revised higher in June and are up 6.2% in the past year. Believe it or not, the flat reading in July is not a surprise. Core shipments have dropped in the first month in 9 of the past 11 quarters, with a rebound in the following two months. The declines in machinery and unfilled "core" capital goods orders show that some companies may be postponing purchases until after the election. If this slowdown in purchases continues, expect a rebound after the election when companies have a better gauge of future policy. Monetary policy is loose, corporate profits are close to record highs, balance sheet cash is near a record high (earning almost zero interest), and we are in the early stages of a home building recovery. Moreover, capacity utilization at US factories is approaching its long-term norm, meaning companies have a growing incentive to update their equipment.





Durable Goods *All Data Seasonally Adjusted*	Jul-12	Jun-12	May-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**4.2%**	1.6%	1.5%	33.5%	10.9%	4.9%
Ex Defense	**5.7%**	-0.7%	0.9%	26.0%	8.3%	4.6%
Ex Transportation	**-0.4%**	-2.2%	0.7%	-7.4%	-3.2%	-0.3%
Primary Metals	**2.7%**	-1.5%	-3.5%	-9.2%	-2.6%	5.9%
Industrial Machinery	**-3.6%**	-2.5%	5.0%	-4.9%	-8.3%	-11.1%
Computers and Electronic Products	**1.0%**	-5.1%	-0.4%	-17.1%	0.4%	2.0%
Transportation Equipment	**14.1%**	10.8%	3.6%	193.5%	46.9%	16.2%
Capital Goods Orders	**3.9%**	8.2%	3.2%	81.1%	6.3%	7.3%
Capital Goods Shipments	**0.5%**	1.0%	1.8%	14.4%	6.9%	6.8%
Defense Shipments	**-4.6%**	2.0%	9.7%	29.8%	-4.6%	-2.0%
Non-Defense, Ex Aircraft	**0.0%**	1.5%	1.0%	10.6%	8.8%	6.2%
Unfilled Orders for Durable Goods	**0.8%**	0.4%	0.0%	4.8%	4.4%	8.0%

Source: Bureau of the Census