

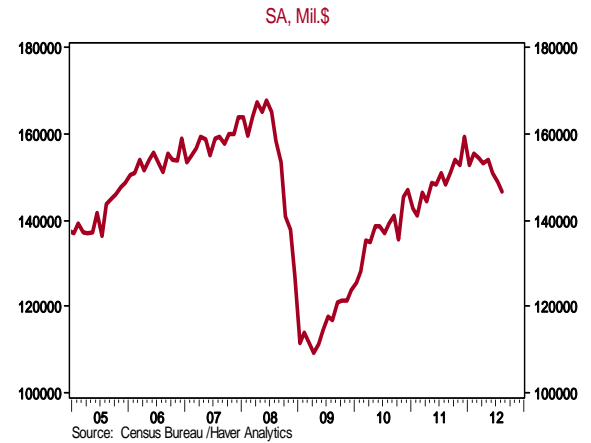
# August Durable Goods

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

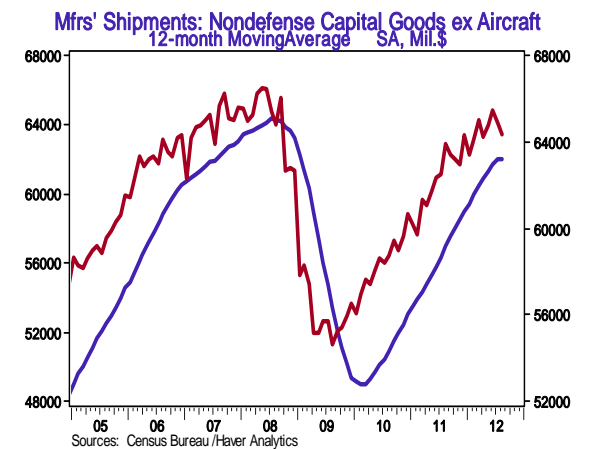
- New orders for durable goods plummeted 13.2% in August (-13.9% including revisions to July), coming in well below the consensus expected decline of 5.0%. Orders excluding transportation fell 1.6% (-2.2% including revisions to July), falling short of the consensus expected gain of 0.2%. Overall new orders are down 6.7% from a year ago, while orders excluding transportation are down 1.1%.
- The decline in overall orders was led by a massive drop in civilian aircraft. Orders for motor vehicles and machinery also fell substantially.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure was down 0.9% in August (-1.5% including revisions to July).
- Unfilled orders were down 1.7% in August but are up 5.4% from last year.

**Implications:** Very ugly report today on durable goods. New orders fell 13.2% in August, the largest decline since January 2008. Most of the drop was due to the very volatile transportation sector. Orders for civilian aircraft fell 101.8% from a month ago – yes, that means civilian aircraft orders were actually *negative* for the month on a seasonally-adjusted basis! – and autos were down a sharp 11% as well. (The drop in autos makes up for the 12% surge last month; both up and down are due to changes in the timing of summer factory retooling.) But even apart from aircraft and autos, the report was still weak. Orders ex-transportation were down 1.6%, led by a 4.7% decline in machinery. Machinery orders are now down 10.1% from a year ago. Shipments of “core” capital goods, which exclude defense and aircraft, were down 0.9% in August. This is troubling as core shipments usually fall in the first month of each quarter and then rebound in the last two months. So far, the rebound hasn’t happened. The bottom line is that both the headline and underlying details suggest hesitation in business investment. We think some companies are postponing purchases of big ticket items until after the election, in the hopes of more clarity, and improvement, in public policy. If so, expect a rebound after the election. Monetary policy is loose, corporate profits are close to record highs, balance sheet cash is at a record high (earning almost zero interest), and we are still in the early stages of a home building recovery. All of these indicate more business investment ahead. In other news this morning, pending home sales, which are contracts on existing homes, declined 2.6% in August. Given this data and the large surge in existing home sales in August (counted at closing), expect a pullback in existing home sales in September. However, sales will still be up around 8 - 10% from a year ago.

Manufacturers' New Orders: Durable Goods Excl Transportation



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft



Durable Goods <i>All Data Seasonally Adjusted</i>	Aug-12	Jul-12	Jun-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>-13.2%</b>	3.3%	1.6%	-31.1%	-21.2%	-6.7%
<b>Ex Defense</b>	<b>-12.4%</b>	4.7%	-0.7%	-31.0%	-20.5%	-5.7%
<b>Ex Transportation</b>	<b>-1.6%</b>	-1.3%	-2.2%	-18.4%	-11.2%	-1.1%
<b>Primary Metals</b>	<b>-1.7%</b>	1.8%	-1.5%	-5.7%	-8.2%	2.7%
<b>Industrial Machinery</b>	<b>-4.7%</b>	-6.2%	-2.5%	-42.4%	-29.6%	-10.1%
<b>Computers and Electronic Products</b>	<b>-3.4%</b>	-0.8%	-4.9%	-30.8%	-16.3%	-3.9%
<b>Transportation Equipment</b>	<b>-34.9%</b>	13.1%	10.8%	-55.8%	-41.8%	-19.6%
<b>Capital Goods Orders</b>	<b>-26.2%</b>	2.0%	8.1%	-55.9%	-47.4%	-22.7%
<b>Capital Goods Shipments</b>	<b>-1.7%</b>	-0.4%	0.9%	-5.0%	2.1%	1.0%
<b>Defense Shipments</b>	<b>-1.7%</b>	-4.7%	1.9%	-16.7%	7.7%	-6.6%
<b>Non-Defense, Ex Aircraft</b>	<b>-0.9%</b>	-1.1%	1.4%	-2.8%	1.1%	0.9%
<b>Unfilled Orders for Durable Goods</b>	<b>-1.7%</b>	0.7%	0.4%	-2.4%	-1.5%	5.4%

Source: Bureau of the Census