

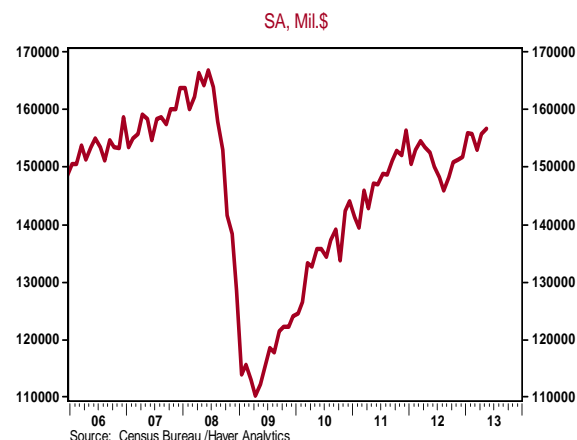
May Durable Goods

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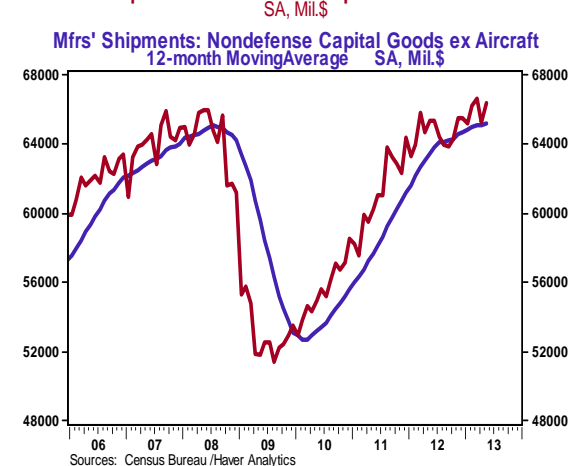
- New orders for durable goods increased 3.6% in May (3.7% including revisions to prior months), coming in above the consensus expected gain of 3.0%. Orders excluding transportation increased 0.7% (1.0% including revisions to prior months), well above consensus expectations of no change. Overall new orders are up 7.6% from a year ago, while orders excluding transportation are up 2.8%.
- The rise in overall orders was led by a massive gain in civilian aircraft, along with gains in computers and electronic products and machinery.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 1.7% in May (1.0% including revisions to prior months). If unchanged in June, these shipments will be unchanged in Q2 versus the Q1 average.
- Unfilled orders rose 0.8% in May and are up 3.1% from last year.

Implications: A very solid report on durable goods this morning. New orders for durables rose 3.6% in May, and hit the highest level since February 2008. The largest gain was in the transportation sector – specifically in aircraft– which is extremely volatile month to month. However, orders were still up 0.7% excluding transportation and including revisions to prior months ex-transportation orders were up 1.0%, much better than the consensus expected no change. Shipments of “core” capital goods, which exclude defense and aircraft, rebounded sharply in May, up 1.7%, the largest gain since November. Still, unless we see a major move higher next month it looks like business investment in equipment will show only a slight gain in Q2, consistent with our forecast of 2.5% real GDP growth for the quarter. However, we expect a pick-up in the quarters ahead. New orders for core capital goods increased 1.1% in May and unfilled orders were up 0.8%. These data hint at an acceleration in business investment beyond Q2. We expect orders to continue to trend upward over the next several months. Monetary policy is loose and, for Corporate America, borrowing costs are low and balance sheet cash and profits are at or near record highs. Meanwhile, the obsolescence cycle and higher capacity use should goad more firms to replace and build-out their capital stock. In addition, the recovery in home building should generate more demand for big-ticket consumer items, such as appliances. The bottom line is that today’s report shows the Plow Horse economy is moving along just fine and may even be starting to pick up its gait.

Manufacturers' New Orders: Durable Goods Excl Transportation



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft



Durable Goods <i>All Data Seasonally Adjusted</i>	May-13	Apr-13	Mar-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	3.6%	3.6%	-5.9%	3.9%	12.4%	7.6%
Ex Defense	3.5%	2.5%	-4.5%	5.8%	14.2%	8.2%
Ex Transportation	0.7%	1.7%	-1.6%	3.1%	7.4%	2.8%
Primary Metals	0.9%	2.3%	-5.5%	-9.5%	4.2%	6.0%
Industrial Machinery	1.2%	1.0%	-1.5%	2.8%	14.2%	6.5%
Computers and Electronic Products	2.7%	4.7%	-0.6%	30.2%	9.5%	-5.2%
Transportation Equipment	10.2%	8.3%	-15.0%	5.7%	24.4%	19.2%
Capital Goods Orders	9.6%	5.4%	-12.0%	6.8%	29.3%	14.0%
Capital Goods Shipments	5.3%	-3.7%	2.7%	17.4%	4.9%	3.6%
Defense Shipments	0.0%	-5.7%	3.8%	-7.8%	-9.9%	-3.5%
Non-Defense, Ex Aircraft	1.7%	-2.0%	0.6%	0.9%	2.7%	1.6%
Unfilled Orders for Durable Goods	0.8%	0.3%	-0.6%	2.3%	4.7%	3.1%

Source: Bureau of the Census