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July Durable Goods

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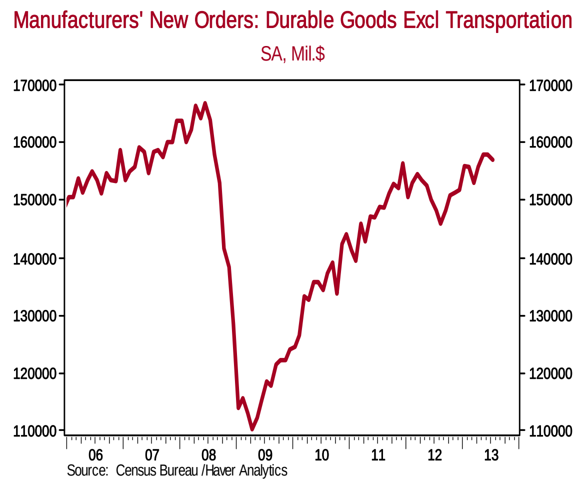
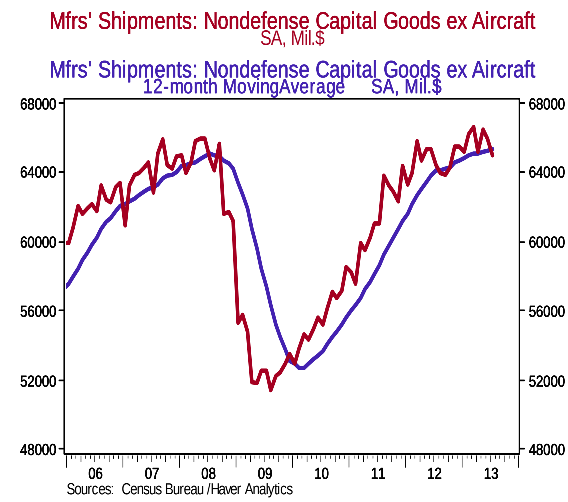
- New orders for durable goods dropped 7.3% in July (-7.2% including revisions to June), coming in well below the consensus expected decline of 4.0%. Orders excluding transportation slipped 0.6% (-0.4% including revisions to June). The consensus expected a gain of 0.5%. Overall new orders are down 0.3% from a year ago, while orders excluding transportation are up 5.9%.
- The drop in overall orders was led by a massive fall in civilian aircraft, along with a dip in computers/electronics.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 1.5% in July. If these shipments are unchanged in August and September they will be down at a 5.3% annual rate in Q3 versus the Q2 average.
- Unfilled orders rose 0.4% in July and are up 4.3% from last year.





Implications: Get a grip. Today's weak report on durable goods is not the end of the world. The details show the economy is still a plow horse. Why shouldn't you be worried when orders for durables plummet 7.3%? First, the durables report is notoriously volatile. Orders dropped roughly 13% in August 2012 and about 6% twice earlier this year, in January and then again in March, with no recession. Second, the drop in orders in July was mostly due to civilian aircraft, a category which is likely to rebound sharply in the coming months. Orders excluding transportation were down, but only 0.6%. The most worrisome sign in the report was that shipments of "core" capital goods, which exclude defense and aircraft, fell 1.5% in July and are up a tepid 0.8% from a year ago. As a result, with modest business investment in equipment, it now looks like real GDP growth in the third quarter is coming in at roughly a 1.5% annual rate. Once again, more plow horse. The good news in the report was that unfilled orders were up again, hitting a new record high, and are accelerating, with growth at a 16% annual rate in the past three months. The news on unfilled orders supports our optimism about an eventual acceleration in business investment. 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 should goad more firms to update their capital stock. In addition, the recovery in home building should generate more demand for big-ticket consumer items, such as appliances. That's why Home Depot is doing so well. The bottom line is that today's report is not the start of a new negative trend. Expect more plow horse growth in the months ahead.

Durable Goods *All Data Seasonally Adjusted*	**Jul-13**	**Jun-13**	**May-13**	**3-mo % ch. annualized**	**6-mo % ch. annualized**	**Yr to Yr % Change**
New Orders for Durable Goods	**-7.3%**	3.9%	5.5%	6.6%	11.0%	-0.3%
Ex Defense	**-6.7%**	2.9%	5.1%	3.2%	8.4%	1.2%
Ex Transportation	**-0.6%**	0.1%	1.3%	3.1%	1.4%	5.9%
Primary Metals	**0.0%**	-1.5%	2.3%	3.4%	16.3%	4.1%
Industrial Machinery	**0.0%**	1.2%	0.5%	7.2%	-5.5%	13.0%
Computers and Electronic Products	**-3.6%**	-0.8%	3.2%	-5.1%	3.4%	-0.7%
Transportation Equipment	**-19.4%**	11.7%	15.1%	15.3%	38.3%	-11.8%
Capital Goods Orders	**-16.1%**	9.1%	13.7%	17.2%	17.5%	-6.8%
Capital Goods Shipments	**-1.9%**	-1.3%	5.8%	10.3%	3.0%	1.5%
Defense Shipments	**-5.9%**	1.7%	2.2%	-8.3%	2.4%	-3.2%
Non-Defense, Ex Aircraft	**-1.5%**	-0.8%	2.0%	-1.1%	-0.6%	0.8%
Unfilled Orders for Durable Goods	**0.4%**	2.1%	1.2%	16.0%	9.2%	4.3%

Source: Bureau of the Census