

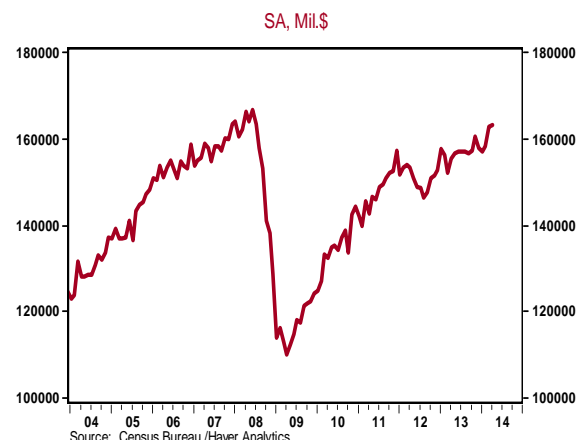
April Durable Goods

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

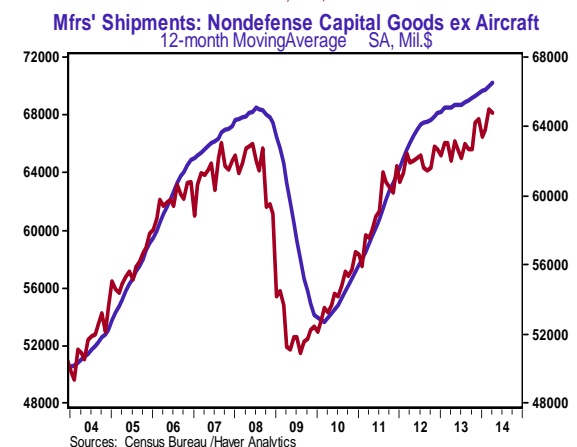
- New orders for durable goods increased 0.8% in April (+1.8% including revisions to prior months), easily beating the consensus expected decline of 0.7%. Orders excluding transportation increased 0.1% in April (+0.9% including revisions to prior months). The consensus expected no change. Orders are up 7.1% from a year ago while orders excluding transportation are up 4.8%.
- The gain in overall orders was led by transportation equipment and fabricated metals, which offset a decline in machinery.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.4% in April, but was up 0.2% including revisions for March. If unchanged in May and June, these shipments will be up at a 5.3% annual rate in Q2 versus the Q1 average.
- Unfilled orders increased 1.0% in April and are up 8.2% from last year.

Implications: New orders for durable goods increased for the third straight month in April, coming in much better than the consensus expected. Orders increased 0.8% in April and 1.8% including upward revisions for March. After a terrible winter, new orders for durables have come back with a vengeance, up at a 31.6% annualized rate in the past three months. Once again the transportation sector led the way, but the gains were outside the auto and aircraft sectors. Orders excluding transportation increased 0.1% in April and are up at a 16.3% annual rate in the past three months. Shipments of “core” capital goods, which exclude defense and aircraft, declined 0.4%, but were up including revisions for March. We think business investment will accelerate over the next couple of years. Consumer purchasing power is growing and debt ratios are low, leaving room for an upswing in appliances. Meanwhile, businesses have record profits and balance sheet cash at the same time that capacity utilization is near long-term norms, leaving more room (and need) for business investment. Signaling future gains, unfilled orders for “core” capital goods rose 0.8% in April, hitting a new record high, and are up 9.7% from a year ago. In other manufacturing news this morning, the Richmond Fed index, a measure of factory sentiment in the mid-Atlantic region, was unchanged at +7 in May. On the housing front, the Case-Shiller index, which measures home prices in 20 key metro areas, increased 1.2% (seasonally-adjusted) in March and is up 12.4% in the past year. Price gains in the past year have been led by Las Vegas, San Francisco, and San Diego. The smallest gain has been in Cleveland. The FHFA price index, for homes financed with conforming mortgages, increased 0.7% in March and is up 6.5% from a year ago. Look for continued home price gains in the year ahead, but not as fast as in the past twelve months.

Manufacturers' New Orders: Durable Goods Excl Transportation



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft (SA, Mil.\$)



Durable Goods <i>All Data Seasonally Adjusted</i>	Apr-14	Mar-14	Feb-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	0.8%	3.6%	2.6%	31.6%	7.8%	7.1%
<i>Ex Defense</i>	-0.8%	2.9%	2.3%	18.6%	4.2%	5.0%
<i>Ex Transportation</i>	0.1%	2.9%	0.8%	16.3%	7.2%	4.8%
<i>Primary Metals</i>	-0.4%	2.5%	0.9%	12.7%	-1.6%	5.5%
<i>Industrial Machinery</i>	-2.9%	4.4%	0.1%	5.6%	13.1%	7.2%
<i>Computers and Electronic Products</i>	-1.1%	7.3%	-0.2%	25.6%	5.2%	2.9%
<i>Transportation Equipment</i>	2.3%	5.0%	6.9%	73.6%	9.2%	12.3%
Capital Goods Orders	3.0%	10.5%	-0.6%	64.2%	19.9%	12.6%
<i>Capital Goods Shipments</i>	-0.4%	2.2%	0.3%	9.1%	5.4%	6.9%
<i>Defense Shipments</i>	1.4%	0.2%	-1.7%	-0.4%	-4.1%	0.2%
<i>Non-Defense, Ex Aircraft</i>	-0.4%	2.1%	0.8%	10.7%	7.9%	5.2%
Unfilled Orders for Durable Goods	1.0%	0.8%	0.3%	8.3%	6.9%	8.2%

Source: Bureau of the Census