

June Durable Goods

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- New orders for durable goods declined 4.0% in June (-4.6% including revisions to prior months). The consensus expected a decline of 1.4%. Orders excluding transportation fell 0.5% in June (-0.6% including revisions to prior months), below the consensus expected increase of 0.3%. Orders are down 6.4% from a year ago while orders excluding transportation are down 3.6%.
- The decline in overall orders in June was led by aircraft and computers and electrical products. The largest gain was for motor vehicles.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure fell 0.4% in June and declined at a 1.7% annualized rate in the second quarter.
- Unfilled orders declined 0.9% in June and are down 1.9% from last year.

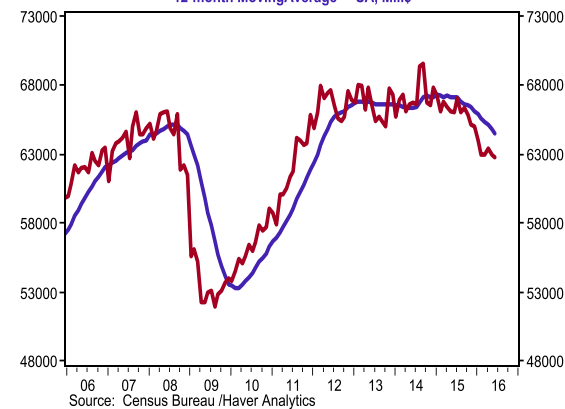
Implications: Durable goods orders fell in June at the fastest pace in nearly two years. Reason for panic? We think not. Aircraft led orders lower, as Boeing reported just twelve new orders in June, compared to 125 in May and 153 in June 2015. Excluding transportation, durable goods orders declined 0.5% in June. Orders have been relatively weak in 2016 compared to other measures of the economy, coming in contrast to continued gains in employment, rising wages, a pick-up in inflation, and positive readings from the ISM for both the manufacturing and service sectors. What could be causing the divergence in readings? First, companies are becoming more efficient, making better use out of existing equipment. Second, companies may be paring back on spending due to the slowdown in global growth and uncertainty regarding international operations. If that's the case, expect orders to pick up in the months ahead as the dust settles and companies feel more confidence building for the future. The employment market shows that companies are planning for growth. Shipments of "core" capital goods - non-defense, excluding aircraft - declined 0.4% in June, and fell at a 1.7% annualized rate in the second quarter versus the Q1 average. This is the measure that the government uses for calculating GDP, so durable goods were a drag, but that doesn't mean that we expect GDP growth slowed in Q2. The first estimate of second quarter growth comes on Friday, and we are forecasting that the U.S. economy grew at around a 2.3% rate, a pick-up from the 1.1% annual rate in the Q1, and just slightly below the 2.5% annual growth rate seen over the past two years. Looking forward, we expect durable goods to rebound. Outside of aircraft, the biggest drag on orders in the past year has been machinery, but that should end soon given the rebound in energy prices. In other words, business investment should pick up in the months ahead. In addition, consumer purchasing power is growing with more jobs and higher incomes, while debt ratios remain very low, leaving room for an upswing in big-ticket spending. On the housing front, pending home sales, which are contracts on existing homes, rose 0.2% in June after declining 3.7% in May. Combined, the past two months suggests existing home sales, which are counted at closing, may take a temporary breather in July after rising substantially earlier this year.

Manufacturers' New Orders: Durable Goods Excl Transportation
SA, Mil.\$



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

Mfrs' Shipments: Nondefense Capital Goods ex Aircraft
12-month Moving Average SA, Mil.\$



Durable Goods <i>All Data Seasonally Adjusted</i>	Jun-16	May-16	Apr-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-4.0%	-2.8%	3.2%	-14.5%	-3.2%	-6.4%
Ex Defense	-3.9%	-1.6%	3.6%	-7.9%	-2.9%	-6.4%
Ex Transportation	-0.5%	-0.4%	0.3%	-2.5%	-0.8%	-3.6%
Primary Metals	-1.3%	-1.3%	-0.8%	-12.6%	-2.2%	-10.5%
Industrial Machinery	-0.1%	0.5%	-2.5%	-8.0%	0.0%	-7.2%
Computers and Electronic Products	-2.2%	-1.0%	2.9%	-1.6%	-2.2%	0.3%
Transportation Equipment	-10.5%	-7.1%	8.5%	-33.7%	-8.0%	-11.6%
Capital Goods Orders	-12.3%	-5.9%	7.5%	-38.1%	2.2%	-16.5%
Capital Goods Shipments	-0.7%	1.4%	0.4%	4.4%	1.4%	-4.3%
Defense Shipments	3.8%	3.0%	-3.9%	11.2%	-0.2%	0.9%
Non-Defense, Ex Aircraft	-0.4%	-0.5%	0.6%	-1.5%	-6.7%	-4.9%
Unfilled Orders for Durable Goods	-0.9%	0.0%	0.6%	-1.0%	-1.4%	-1.9%

Source: Bureau of the Census