

July Durable Goods

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- New orders for durable goods increased 4.4% in July (+4.1% including revisions to prior months). The consensus expected an increase of 3.4%. Orders excluding transportation rose 1.5% in July (+1.6% including revisions to prior months), easily beating the consensus expected increase of 0.4%. Orders are down 3.3% from a year ago while orders excluding transportation are down 0.6%.
- The rise in overall orders in July was led by aircraft and computers and electronic products.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure fell 0.4% in July. If unchanged in August and September, the shipments will be down at a 4.0% annualized rate in the third quarter.
- Unfilled orders declined 0.1% in July and are down 2.1% from last year.

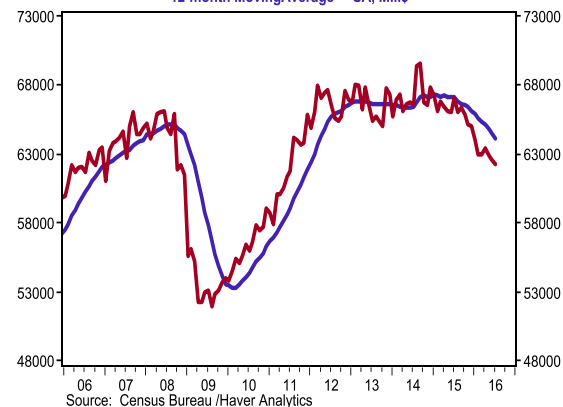
Implications: After showing the largest single-month decline in nearly two years in June, new orders for durable goods made it all back in July. That's not to say that orders are booming - new orders are down 3.3% in the past year – but the decline is largely the result of efficiency improvements and falling prices for technology (the device you are reading this on now costs a fraction of what equivalent technology would have cost just years ago), not signs of looming recession. Aircraft led orders higher, as Boeing reported 73 new orders in July, compared to just twelve orders in June. But even excluding transportation, durable goods orders rose 1.5% in July, led by orders for capital goods (think machinery and equipment for the farm, construction, and power generation industries), and computers and electronic products. In particular, machinery orders rose 1.6%, which may be a sign of improvement in the energy sector. (Next week's factory orders report will have more details.) Orders have been relatively flat in 2016, in contrast to the 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 cautious with 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 job market shows that companies are planning for growth. Shipments of "core" capital goods - non-defense, excluding aircraft – declined 0.4% in July, and if unchanged in August and September, will be a drag on Q3 GDP growth. But with the rise in core capital goods orders over the last two months, expect shipments to follow suit in moving higher. 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 employment front, initial unemployment claims declined 1,000 last week to 261,000, the 77th consecutive week below 300,000. Meanwhile, continuing claims fell 30,000 to 2.145 million. Plugging these figures into our models suggests payroll growth of about 150,000-160,000 in August.

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 All Data Seasonally Adjusted	Jul-16	Jun-16	May-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	4.4%	-4.2%	-2.9%	-11.1%	-2.4%	-3.3%
Ex Defense	3.8%	-4.0%	-1.6%	-7.6%	-2.6%	-2.9%
Ex Transportation	1.5%	-0.3%	-0.5%	2.9%	-0.5%	-0.6%
Primary Metals	1.4%	-1.0%	-1.3%	-3.2%	-2.1%	-4.1%
Industrial Machinery	1.6%	0.3%	0.2%	8.6%	-7.1%	-5.3%
Computers and Electronic Products	3.6%	-1.1%	-0.9%	6.7%	7.7%	3.5%
Transportation Equipment	10.5%	-11.4%	-7.1%	-31.7%	-6.1%	-7.9%
Capital Goods Orders	12.7%	-12.3%	-6.0%	-25.3%	-7.0%	-9.1%
Capital Goods Shipments	0.2%	-0.8%	1.2%	2.3%	-2.4%	-5.4%
Defense Shipments	1.1%	3.1%	3.0%	33.1%	12.8%	-1.6%
Non-Defense, Ex Aircraft	-0.4%	-0.5%	-0.7%	-6.5%	-5.2%	-7.1%
Unfilled Orders for Durable Goods	-0.1%	-0.9%	0.0%	-3.7%	-1.7%	-2.1%

Source: Bureau of the Census