

August Durable Goods

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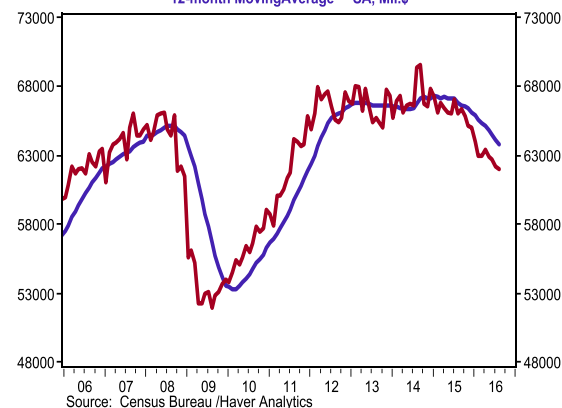
- New orders for durable goods were unchanged in August (-0.7% including revisions to prior months). The consensus expected a decline of 1.5%. Orders excluding transportation declined 0.4% in August (-0.6% including revisions to prior months), versus a consensus expected decline of 0.5%. Orders are down 1.3% from a year ago while orders excluding transportation are down 1.1%.
- The largest declines in August were for commercial aircraft and electrical equipment, appliances & components. The largest gains were for defense aircraft and 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 August. If unchanged in September, these shipments will be down at a 5.7% annualized rate in the third quarter.
- Unfilled orders declined 0.1% in August and are down 2.1% from last 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.\$



Implications: After large swings in June and July, durable goods orders were unchanged in August as rising defense and motor vehicle orders offset declines in most other categories. While orders have remained subdued in the past year - new orders are down 1.3% in the past twelve months – we think 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 a wider breakdown in economic activity. The largest gains in August came from the volatile transportation sector, where a rise in orders for defense aircraft and autos more than offset declining commercial aircraft orders. Exclude the transportation sector, and orders declined 0.4% in August. But taking a look at the trend in orders - up 1.6% at an annual rate in the past three months compared to a 0.9% annual rate in the past six months and a decline of 1.1% from a year ago - and it's clear that orders outside the transportation sector are slowly rising. This may be in part a sign of improvement in the energy sector (next week's factory orders report will have more details), which had been pulling down machinery investment since oil prices started declining in mid-2014. As a whole, orders have been relatively flat in 2016, in contrast to the continued gains in employment, rising wages, a pick-up in inflation, and steady expansion in the service sector. 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. Shipments of "core" capital goods - non-defense, excluding aircraft – declined 0.4% in August, and if unchanged in September, will be a drag on Q3 GDP growth. But core capital goods orders have risen in each of the last three months, and are up at the fastest three-month pace in nearly two years. In other words, expect shipments to follow suit higher in the months ahead. On the manufacturing front, the Richmond Fed index, a measure of mid-Atlantic manufacturing sentiment rose to -8 in September from -11 in August. On the housing front, the national Case-Shiller price index rose 0.4% in July and is up 5.1% from a year ago. Price gains in the past year have been led by Portland, Seattle, Denver, and Dallas.

| Durable Goods All Data Seasonally Adjusted | Aug-16 | Jul-16 | Jun-16 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % Change |
|---|-------------|--------|--------|--------------------------|--------------------------|----------------------|
| New Orders for Durable Goods | 0.0% | 3.6% | -4.3% | -3.3% | 2.6% | -1.3% |
| Ex Defense | -1.0% | 3.0% | -4.0% | -8.4% | -1.6% | -2.9% |
| Ex Transportation | -0.4% | 1.1% | -0.3% | 1.6% | 0.9% | -1.1% |
| Primary Metals | 0.2% | 1.2% | -1.0% | 1.5% | 0.2% | -4.4% |
| Industrial Machinery | -0.5% | 1.0% | 0.3% | 2.9% | -2.8% | -8.0% |
| Computers and Electronic Products | -0.2% | 2.5% | -1.2% | 4.3% | 6.9% | 2.5% |
| Transportation Equipment | 0.6% | 8.9% | -11.5% | -11.7% | 5.8% | -1.6% |
| Capital Goods Orders | -1.0% | 10.7% | -12.4% | -15.0% | 9.5% | -5.3% |
| Capital Goods Shipments | -2.0% | 0.2% | -0.8% | -10.0% | -1.9% | -7.3% |
| Defense Shipments | -2.3% | 3.8% | 3.1% | 19.3% | 6.0% | 2.9% |
| Non-Defense, Ex Aircraft | -0.4% | -0.7% | -0.4% | -5.8% | -3.1% | -6.2% |
| Unfilled Orders for Durable Goods | -0.1% | -0.2% | -0.9% | -4.9% | -1.2% | -2.1% |

Source: Bureau of the Census