

April Durable Goods

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

- New orders for durable goods declined 0.7% in April, but beating the consensus which expected decline of 1.5%. March orders were revised up from a 0.7% gain to 2.3%. Orders excluding transportation declined 0.4% in April after rising a revised 0.8% in March. Orders are up 0.9% from a year ago while orders excluding transportation are up 4.9%.
- The decline in orders in April was led by commercial aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.1% in April after rising 0.2% in March and 1.2% in February. If unchanged in May and June, these shipments will be up at a 2.0% annual rate in Q2 vs the Q1 average.
- Unfilled orders rose 0.2% in April but are down 1.4% from last year.

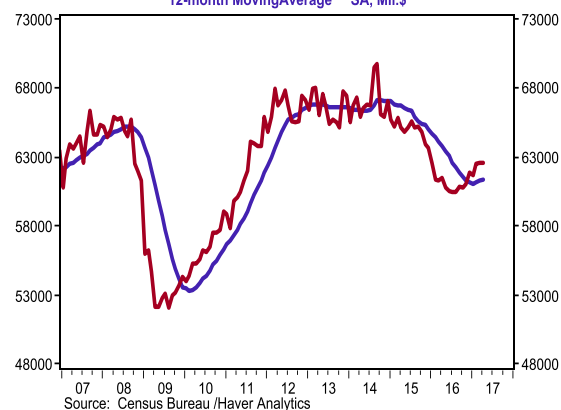
Implications: Durable goods data underwent a “benchmark revision” in April, which altered the level of overall orders and affected past monthly changes more significantly than usual. As a result, while the April durable goods orders decline of 0.7% suggests a slow start to Q2, we see no reason to sound an alarm. Following healthy gains for overall orders in February (1.4%) and March (2.3%), a lull in April was not unexpected. Commercial aircraft orders led the decline, though orders for most major categories fell. Strip out the typically volatile transportation sector and durable goods orders declined 0.4%, coming in below the consensus expected gain of 0.4%. The dip in April non-transportation orders was led by fabricated metal products and machinery. But there is little reason for concern. Non-transportation orders have been steadily trending higher since mid-2016 – up 4.9% in the past year – and April represents the first monthly decline since August. Despite the dip in machinery orders in April, we expect them to pick up again in the months ahead alongside continued improvements in the energy sector, which had been pulling down machinery investment after oil prices started declining in mid-2014. Across the board, companies may be waiting for Washington to make progress on tax reform and other issues, which could provide a boost to orders and increase investment in most durable goods sectors. In the meantime, economic growth continues to plow ahead, with new claims for unemployment insurance increased 1,000 last week to 234,000. The four-week moving average is a four-decade-low 235,000. Continuing claims rose 24,000 to 1.92 million. Plugging these figures into our models suggests robust job growth in May, with a payroll gain of around 200,000.

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>	Apr-17	Mar-17	Feb-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-0.7%	2.3%	1.4%	12.6%	-2.2%	0.9%
<i>Ex Defense</i>	-0.8%	1.1%	1.9%	9.3%	-2.9%	1.3%
<i>Ex Transportation</i>	-0.4%	0.8%	0.3%	3.0%	6.5%	4.9%
<i>Primary Metals</i>	-0.2%	0.4%	2.8%	12.2%	14.9%	9.9%
<i>Industrial Machinery</i>	-0.8%	0.7%	0.2%	0.4%	8.8%	7.0%
<i>Computers and Electronic Products</i>	1.4%	-2.3%	-0.7%	-6.1%	2.4%	0.4%
<i>Transportation Equipment</i>	-1.2%	5.3%	3.6%	34.8%	-16.3%	-6.0%
Capital Goods Orders	-1.2%	4.6%	2.3%	25.2%	-17.5%	-4.3%
Capital Goods Shipments	-0.2%	0.1%	1.0%	3.7%	3.3%	2.1%
<i>Defense Shipments</i>	1.7%	-3.9%	6.0%	15.1%	5.4%	15.4%
<i>Non-Defense, Ex Aircraft</i>	-0.1%	0.2%	1.2%	5.7%	6.0%	1.7%
Unfilled Orders for Durable Goods	0.2%	0.3%	-0.2%	1.4%	-1.0%	-1.4%

Source: Bureau of the Census