

May Durable Goods

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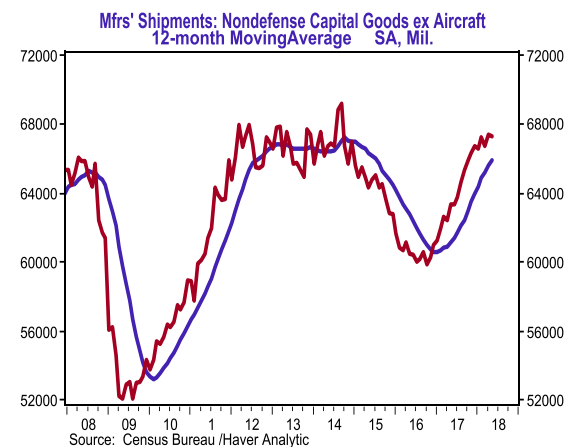
- New orders for durable goods declined 0.6% in May (+0.1% including revisions to prior months), beating the consensus expected decline of 1.0%. Orders excluding transportation declined 0.3% in May (+0.7% including revisions to prior months), versus a consensus expected rise of 0.5%. Orders are up 9.2% from a year ago while orders excluding transportation are up 7.8%.
- The decline in orders in May was led by motor vehicles and commercial aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure fell 0.1% in May. If unchanged in June, these shipments will be up at a 3.1% annualized rate in Q2 versus the Q1 average.
- Unfilled orders rose 0.5% in May, and are up 4.6% in the past year.

Implications: A large drop in motor vehicle and parts orders—paired with a dip in orders for commercial aircraft – pushed durable goods orders lower in May. But remember, there was a major fire at a key auto parts supplier in central Michigan (also a key contributor to the slowdown in industrial production reported earlier this month), so the dip is likely to be short-lived. Excluding the volatile transportation sector, orders still declined 0.3% in May, though prior months saw significant upward revisions. A look at the details shows fabricated metal products and electrical equipment, appliances & computers led the decline in May, more than offsetting rising orders for machinery and communications equipment. What is most important is that the trend in orders (both including and excluding transportation) continues to show a healthy pace of activity, with total orders up 9.2% in the past year, and orders excluding transportation up 7.8%. We expect the tax cuts and full expensing changes will continue to serve as a tailwind (particularly for machinery orders) through the remainder of 2018 and into 2019. Also of note in today’s report was a 0.1% decline in shipments of non-defense capital goods excluding aircraft (a key input in the calculation of GDP growth). Despite the modest decline, if unchanged in June these shipments will be up at a healthy 3.1% annual rate in Q2 vs the Q1 average. Plugging this report, as well as another report on trade and inventories, into our GDP model suggests real GDP is growing at a 5.0% annual rate in Q2. While rhetoric on TV and in the news may suggest companies are fretting trade tensions, their actions are saying otherwise. In recent manufacturing news, the Richmond Fed index, a measure of mid-Atlantic factory sentiment, rose to 20 in June from 16 in May, signaling optimism from manufacturers in that region. On the housing front, the national Case-Shiller index reported home prices were up 0.3% in April and are up 6.4% versus a year ago, an acceleration from the 5.7% gain in the twelve months ending April 2017. In the last year, price gains were led by Seattle, Las Vegas, and San Francisco. In other housing news this morning, pending home sales (contracts on existing homes) fell 0.5% in May following a 1.3% decline in April. These reports suggest existing home sales, counted at closing, will move modestly lower in June.

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



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



Durable Goods <i>All Data Seasonally Adjusted</i>	May-18	Apr-18	Mar-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-0.6%	-1.0%	2.7%	4.5%	9.0%	9.2%
<i>Ex Defense</i>	-1.5%	-1.5%	4.3%	5.0%	6.9%	7.9%
<i>Ex Transportation</i>	-0.3%	1.9%	0.5%	8.6%	8.4%	7.8%
<i>Primary Metals</i>	-0.4%	2.4%	4.7%	29.8%	22.3%	18.1%
<i>Industrial Machinery</i>	0.3%	1.7%	-3.1%	-4.8%	12.8%	3.2%
<i>Computers and Electronic Products</i>	-0.1%	1.9%	1.5%	14.1%	2.2%	8.3%
<i>Transportation Equipment</i>	-1.0%	-6.1%	6.9%	-2.8%	10.3%	12.1%
Capital Goods Orders	0.2%	-4.8%	4.2%	-2.2%	11.7%	14.1%
<i>Capital Goods Shipments</i>	2.0%	-2.3%	2.1%	6.9%	4.3%	7.1%
<i>Defense Shipments</i>	-4.4%	13.3%	-2.1%	26.4%	10.1%	13.3%
<i>Non-Defense, Ex Aircraft</i>	-0.1%	1.0%	-0.7%	0.7%	3.0%	6.3%
Unfilled Orders for Durable Goods	0.5%	0.6%	0.8%	8.1%	5.5%	4.6%

Source: Bureau of the Census