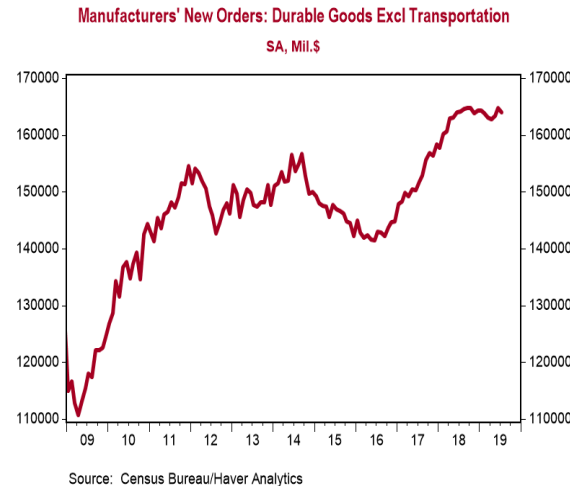


July Durable Goods

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

- New orders for durable goods rose 2.1% in July (+2.0% including revisions to prior months), beating the consensus expected gain of 1.2%. Orders excluding transportation declined 0.4% in July, versus consensus expectations for no change. Orders are up 0.7% from a year ago while orders excluding transportation are down 0.1%.
- The rise in orders in July was led by motor vehicles and aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.7% in July. If unchanged in August and September, these orders will be down at a 2.2% annualized rate in Q3 versus the Q2 average
- Unfilled orders rose 0.1% in July but are down 0.4% in the past year.

Implications: Ignore the headline, focus on the details. Orders for durable goods jumped once again in July, rising 2.1% following a 1.8% rise in orders in June. But while the June report showed strength virtually across the board, the July report leaves something to be desired. Orders from the volatile transportation category rose 7.0% in July, leading the way in a month that saw weakness from many of the major categories. Strip out just transportation, and durable goods orders declined 0.4% in July. Is that decline a reason for concern? Not really. May and June had the fastest two-month rise in non-transportation orders in more than a year, so a breather was to be expected. Metals were the key contributors to the slowdown outside transportation, with fabricated metal products and primary metals declining 0.9% and 1.0%, respectively. Electrical equipment and computer and electronic products rose in July, but couldn't offset the declines in other categories. Arguably the most important number in today's report – "core" shipments of non-defense capital goods ex-aircraft (a key input for business investment in the calculation of GDP growth) – declined 0.7% in July, and, if unchanged in August and September, will be down at a 2.2% annualized rate in Q3 vs the Q2 average. That said, we don't expect this measure to be unchanged in the coming months, but rather to move higher. Orders for "core" goods (a proxy for business investment) rose 0.4% in July after a strong 0.9% rise in June and a 0.2% increase in May. As these orders flow through to shipments, we will see a return toward the trend seen in 2018, which posted the fastest full-year growth rate in "core" shipments since 2012. At the end of the day, today's report could have been better, but the weaknesses also look temporary. The pouting pundits have defaulted to blaming the trade war for any weakness they see in the data, and we don't expect this report to be any different. The markets have the Fed's ear, with wails of "uncertainty" drowning out what the bulk of the data are actually telling us about activity in the economy. Unfortunately, the Fed has moved off the path of data dependence, so even if a rate cut isn't needed, we are likely to see one in September.



Durable Goods <i>All Data Seasonally Adjusted</i>	Jul-19	Jun-19	May-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	2.1%	1.8%	-2.3%	6.3%	-4.4%	0.7%
Ex Defense	1.4%	3.1%	-1.2%	13.5%	-4.3%	0.7%
Ex Transportation	-0.4%	0.8%	0.4%	3.3%	-0.4%	-0.1%
Primary Metals	-1.0%	0.5%	-0.6%	-4.2%	-10.1%	-7.3%
Industrial Machinery	-0.6%	1.7%	0.1%	4.8%	-0.2%	-0.9%
Computers and Electronic Products	0.2%	-1.5%	0.5%	-3.2%	0.6%	1.2%
Transportation Equipment	7.0%	4.1%	-7.5%	12.3%	-11.5%	2.3%
Capital Goods Orders	6.2%	1.0%	-6.6%	0.8%	-11.8%	1.2%
Capital Goods Shipments	-2.9%	0.6%	0.4%	-7.4%	-10.5%	0.0%
Defense Shipments	-2.3%	-1.0%	0.6%	-10.3%	-6.8%	12.4%
Non-Defense, Ex Aircraft	-0.7%	0.0%	0.4%	-1.1%	-0.5%	2.8%
Unfilled Orders for Durable Goods	0.1%	-0.6%	-0.8%	-5.2%	-3.7%	-0.4%

Source: Bureau of the Census