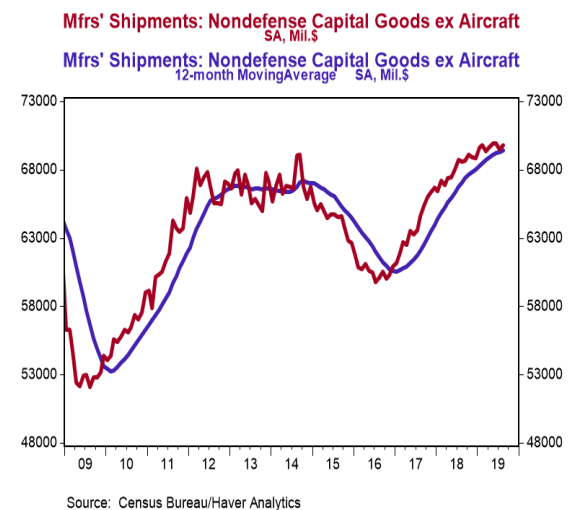
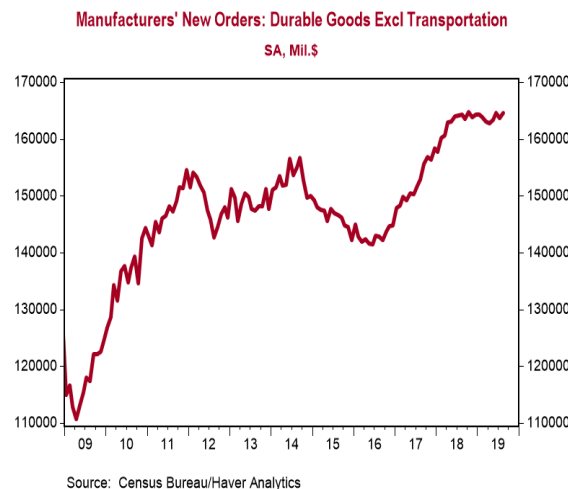


# August Durable Goods

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- New orders for durable goods rose 0.2% in August, easily beating the consensus expected decline of 1.1%. Orders excluding transportation rose 0.5% in August (+0.4% including revisions to prior months), versus the consensus expected +0.2%. Orders are down 3.0% from a year ago, while orders excluding transportation are up 0.2%.
- The rise in orders in August was led by fabricated metal products and primary metals.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.4% in August. If unchanged in September, these orders will be down at a 0.8% annualized rate in Q3 versus the Q2 average.
- Unfilled orders rose 0.1% in August but are down 0.9% in the past year.

**Implications:** New orders for durable goods rose 0.2% in August, handily beating the consensus estimate for a 1.1% decline. And the August gain follows a 1.8% increase in June and a 2.0% jump in July. Over the past three months, durable goods orders are up a strong 17.2% at an annualized rate, but remain down 3.0% in the past year. The consensus expected a decline in August due to lower commercial airplane orders, which proved true with non-defense aircraft orders down 17.1% from July, but orders for defense aircraft surged in August, largely offsetting what would have otherwise been a much larger decline from the transportation sector. Orders outside of the volatile transportation category rose 0.5% in August, as declining orders for electrical equipment and computers was more than offset by rising orders for primary metals, fabricated metal products, and machinery. 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) – rose 0.4% in August, but, if unchanged in September, will be down at a 0.8% annualized rate in Q3 vs. the Q2 average. That said, we don’t expect this measure to be unchanged in September, but rather to move higher. Orders for “core” capital goods (a proxy for business investment) are up at a healthy 3.0% annualized rate over the past three months. 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. Today’s report adds to the litany of recent data suggesting the Fed has no reason for further rate cuts (in fact, the fundamentals suggest rates should be moving higher). Does that mean the Fed will stand pat following last week’s cut and return to data dependence moving forward? We wouldn’t count on it. 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, and we expect to see one more rate cut – most likely in December – before the year is through.



<b>Durable Goods</b> <i>All Data Seasonally Adjusted</i>	<b>Aug-19</b>	<b>Jul-19</b>	<b>Jun-19</b>	<b>3-mo % ch.</b> <b>annualized</b>	<b>6-mo % ch.</b> <b>annualized</b>	<b>Yr to Yr</b> <b>% Change</b>
<b>New Orders for Durable Goods</b>	<b>0.2%</b>	2.0%	1.8%	17.2%	0.9%	-3.0%
<b>Ex Defense</b>	<b>-0.6%</b>	1.3%	3.1%	16.2%	-1.5%	-2.3%
<b>Ex Transportation</b>	<b>0.5%</b>	-0.5%	0.7%	2.8%	0.8%	0.2%
<b>Primary Metals</b>	<b>1.5%</b>	-1.1%	0.2%	2.3%	-8.8%	-6.4%
<b>Industrial Machinery</b>	<b>0.6%</b>	-1.1%	1.7%	4.3%	-1.9%	-1.3%
<b>Computers and Electronic Products</b>	<b>-0.3%</b>	0.0%	-1.5%	-7.0%	0.6%	1.2%
<b>Transportation Equipment</b>	<b>-0.4%</b>	7.2%	4.1%	52.4%	1.1%	-8.5%
<b>Capital Goods Orders</b>	<b>0.2%</b>	6.4%	1.1%	35.1%	3.7%	-8.8%
<b>Capital Goods Shipments</b>	<b>0.2%</b>	-2.8%	0.6%	-7.3%	-8.6%	0.9%
<b>Defense Shipments</b>	<b>0.5%</b>	-2.3%	-1.0%	-11.1%	4.1%	8.3%
<b>Non-Defense, Ex Aircraft</b>	<b>0.4%</b>	-0.6%	0.0%	-0.7%	-0.1%	1.1%
<b>Unfilled Orders for Durable Goods</b>	<b>0.1%</b>	0.1%	-0.6%	-2.0%	-2.8%	-0.9%

Source: Bureau of the Census