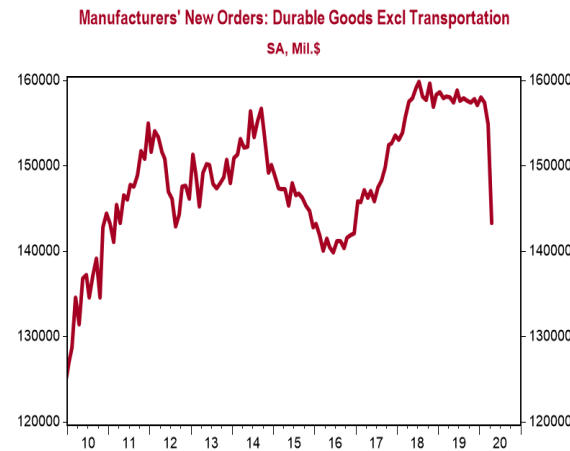


April Durable Goods

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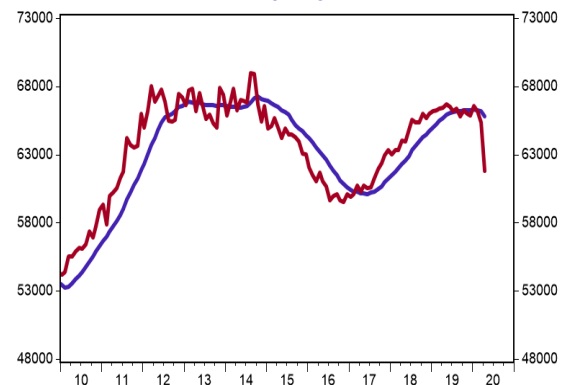
- New orders for durable goods declined 17.2% in April (-18.4% including revisions to prior months), narrowly beating the consensus expected drop of 19.0%. Orders excluding transportation declined 7.4% in April (-8.4% including revisions), easily beating the consensus expected decline of 15.0%. Orders are down 29.3% from a year ago, while orders excluding transportation are down 9.3%.
- The decline in orders in April was led by motor vehicles.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 5.4% in April. If unchanged in May and June, these shipments will be down at a 23.2% annualized rate in Q2 versus the Q1 average.
- Unfilled orders declined 1.6% in April and are down 4.7% in the past year.

Implications: Before we dive into the durables report, this morning we got the latest reading on initial unemployment claims, which came in at 2.12 million last week, maintaining the spate of extremely high readings since March. However, initial claims dropped, 323,000 last week and have dropped eight weeks in a row after peaking at 6.87 million in late March. We are also closely following continuing claims, data for which lag initial claims by one week. Continuing claims fell 3.86 million to 21.05 million in the week ending May 16, the first decline since February. The reason that's important is that, typically, the economy has hit bottom when continuing claims peak or slightly before. In other words, the economy may have hit bottom in early May, returning to growth on a monthly basis in June and on a quarterly basis in the third quarter. Now back to durables, where new orders extended a steep decline in April, as the effects of the near-nationwide Coronavirus shutdown were felt across the board. But while the headline number was abysmal, the details of the report were stronger than the consensus expected. The bulk of the April decline came from the volatile transportation sector, where orders for motor vehicles plunged. Excluding transportation, new orders fell 7.4% in April, compared to the consensus expected decline of 15.0%. A look at the details shows broad-based declines across sectors, with primary metals and fabricated metal products leading the drop, down 13.8% and 12.0%, respectively. The computer and electronic products category held up well, with orders declining by a modest 0.3%, probably reflecting extra equipment needed to help people work from home. One of the most important pieces of data from today's report, shipments of "core" non-defense capital goods ex-aircraft (a key input for business investment in the calculation of GDP growth), declined 5.4% in April and, if unchanged in May and June, will be down 23.2% at an annualized rate in Q2 vs the Q1 average. At present, we're estimating that real GDP will decline at around a 35% rate in the second quarter. April was among the worst months we have ever seen, and while we have started to reopen the country in May, it is still operating at limited capacity. Across the board, economic data will continue to be ugly in the months ahead, though many high frequency numbers are already moving in the "bad, but less bad" direction. How long the standstill – including limited capacity operations - lasts will play a large part in deciding just how drastic the decline in activity ultimately is, and how fast or slow the recovery will be. In other recent news, the Richmond Fed index, a measure of mid-Atlantic factory sentiment, rose to -27 in May from -53 in April. While the negative reading still signals contraction, the rise is a step in the right direction as we move back towards growth.



Source: Census Bureau/Haver Analytics

Mfrs' Shipments: Nondefense Capital Goods ex Aircraft SA, Mil.\$
 Mfrs' Shipments: Nondefense Capital Goods ex Aircraft 12-month Moving Average SA, Mil.\$



Source: Census Bureau/Haver Analytics

| Durable Goods <i>All Data Seasonally Adjusted</i> | Apr-20 | Mar-20 | Feb-20 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % Change |
|--|---------------|--------|--------|--------------------------|--------------------------|----------------------|
| New Orders for Durable Goods | -17.2% | -16.6% | 2.0% | -75.4% | -50.5% | -29.3% |
| <i>Ex Defense</i> | -16.2% | -17.4% | 0.1% | -77.0% | -50.5% | -30.1% |
| <i>Ex Transportation</i> | -7.4% | -1.7% | -0.3% | -32.2% | -17.1% | -9.3% |
| <i>Primary Metals</i> | -13.8% | -4.3% | -1.1% | -55.7% | -30.5% | -21.1% |
| <i>Industrial Machinery</i> | -6.8% | -1.8% | -0.1% | -30.1% | -18.2% | -9.9% |
| <i>Computers and Electronic Products</i> | -0.3% | -0.7% | 0.2% | -3.2% | 0.1% | -1.6% |
| <i>Transportation Equipment</i> | -47.3% | -43.1% | 6.4% | -99.0% | -90.0% | -67.6% |
| Capital Goods Orders | -1.8% | -29.6% | 7.4% | -69.5% | -49.7% | -26.9% |
| Capital Goods Shipments | -10.2% | 0.4% | 1.2% | -31.0% | -19.5% | -3.6% |
| <i>Defense Shipments</i> | 3.9% | -3.0% | -1.8% | -4.4% | 4.9% | -0.5% |
| <i>Non-Defense, Ex Aircraft</i> | -5.4% | -1.2% | -0.6% | -25.6% | -12.9% | -1.5% |
| Unfilled Orders for Durable Goods | -1.6% | -2.1% | 0.3% | -12.5% | -7.0% | -4.7% |

Source: Bureau of the Census