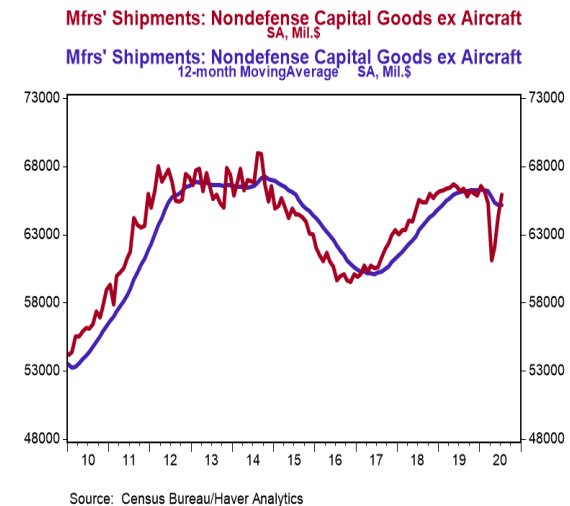
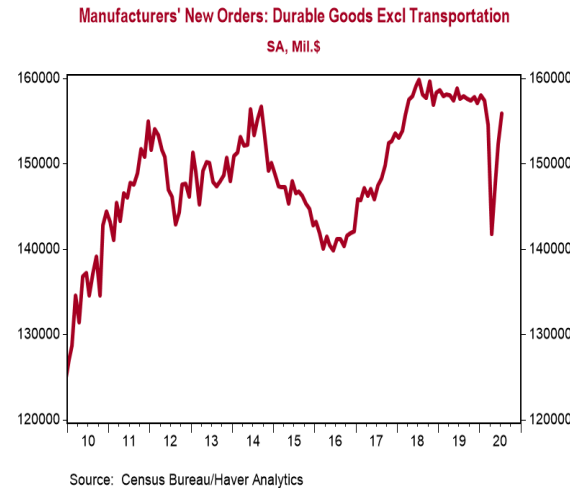


July Durable Goods

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

- New orders for durable goods increased 11.2% in July, easily beating the consensus expected gain of 4.8%. Orders excluding transportation rose 2.4% in July, beating the consensus expected gain of 2.0%. Orders are down 5.0% from a year ago, while orders excluding transportation are down 1.0%.
- The increase in orders in June was led by motor vehicles and defense aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 2.4% in July. If unchanged in August and September, these shipments will be up at a 23.7% annualized rate in Q3 versus the Q2 average.
- Unfilled orders declined 0.8% in July and are down 5.4% in the past year.

Implications: New orders for durable goods orders soared in July, easily beating the consensus expected increase to post a third consecutive monthly gain. New orders now sit just 6.7% below the February pre-pandemic high, signaling a sharp recovery in the manufacturing sector as you can see in the chart to the right. The volatile transportation sector was the biggest source of strength in July, jumping 35.6%, as a surge in orders for motor vehicles and parts as well as defense aircraft more than offset declining civilian aircraft orders. However, even excluding transportation, orders came in above expectations, rising 2.4% in July. It's also worth noting that orders for every core non-transportation category rose for the month. Electrical equipment registered the largest improvement, up 4.1%, followed by fabricated metal products (+2.0%), machinery (+2.0%), computers & electronic products (+2.2%), and primary metals (+0.2%). Meanwhile, the only major category to post a decline in July was civilian aircraft, where orders continued to fall (but at a slower pace than in June) as major airlines continue to cancel prior purchase orders due to a highly uncertain economic outlook related to the pandemic. 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), rose 2.4% in July. Even if these orders remain unchanged in August and September, this measure will be up at a 23.7% annualized rate in Q3 versus the Q2 average, suggesting that business investment, which was a major drag on real GDP in the second quarter, will be a major tailwind in Q3. While this represents growth from a very low base, Q3 is on track to see double-digit positive real GDP growth. At present, we estimate real GDP growth at a 20.0% annual rate, but the risk is more to the upside than downside. For example, the Atlanta Fed's "GDP Now" model currently has Q3 growth at a 25.6% annual rate, but we are sticking with a slightly more conservative forecast as we expect inventories reductions to show a drag on growth. We also expect the economy will continue to grow at an above-trend pace in Q4 and through 2021, but the road to recovery will take time. What matters most, is that we have started our way down the path.



| Durable Goods <i>All Data Seasonally Adjusted</i> | Jul-20 | Jun-20 | May-20 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % Change |
|--|--------------|--------|--------|--------------------------|--------------------------|----------------------|
| New Orders for Durable Goods | 11.2% | 7.7% | 15.0% | 259.7% | -8.7% | -5.0% |
| Ex Defense | 9.9% | 9.7% | 15.0% | 268.7% | -10.6% | -6.3% |
| Ex Transportation | 2.4% | 4.0% | 3.4% | 46.5% | -2.6% | -1.0% |
| Primary Metals | 0.2% | 4.4% | 8.4% | 65.3% | -16.6% | -8.4% |
| Industrial Machinery | 2.0% | 3.7% | 1.1% | 31.3% | -6.5% | -3.2% |
| Computers and Electronic Products | 2.2% | -0.1% | 0.5% | 10.8% | 4.4% | 3.3% |
| Transportation Equipment | 35.6% | 19.7% | 78.8% | 6985.8% | -19.8% | -12.3% |
| Capital Goods Orders | 13.6% | -15.7% | 24.4% | 101.2% | -23.1% | -13.9% |
| Capital Goods Shipments | 1.8% | 3.7% | 0.1% | 25.1% | -9.0% | -9.2% |
| Defense Shipments | 1.2% | -1.6% | -0.5% | -3.9% | -4.5% | -1.8% |
| Non-Defense, Ex Aircraft | 2.4% | 3.8% | 1.5% | 35.3% | -2.0% | -3.2% |
| Unfilled Orders for Durable Goods | -0.8% | -1.4% | 0.0% | -8.2% | -10.3% | -5.4% |

Source: Bureau of the Census