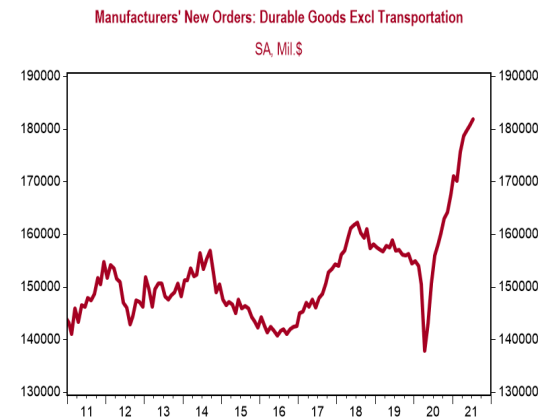


Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke, CFA – Senior Economist

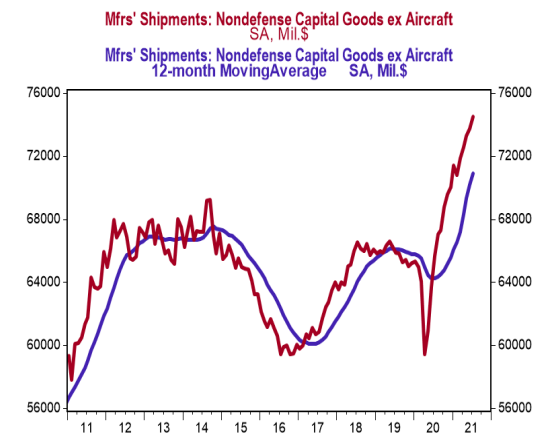
July Durable Goods

- New orders for durable goods declined 0.1% in July (-0.3% including revisions to prior months), versus a consensus expected decline of 0.3%. Orders excluding transportation increased 0.7% in July (+0.8% including revisions), beating the consensus expected +0.5%. Orders are up 17.6% from a year ago, while orders excluding transportation are up 16.7%.
- The decline in orders in July was led by commercial aircraft, communications equipment, and electrical equipment.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 1.0% in July. If unchanged in August and September, these shipments will be up at a 7.3% annualized rate in Q3 versus the Q2 average.
- Unfilled orders rose 0.3% in July and are up 2.0% in the past year.

Implications: Durable goods orders declined in July, but it was almost entirely due to the very volatile commercial aircraft category that can (and does) swing wildly from month to month. Strip out just that category, and durable goods rose a very healthy 2.7% in July. That said, growth is expected to moderate as the U.S. economy continues to shift from a focus on goods towards a return to services, which were heavily restricted throughout much of last year (just take a look at restaurant and bar sales, up at a 80.4% annualized rate year-to-date). But that isn't the only headwind over the coming months, as companies continue to battle supply-chain shortages. As we have seen across a number of economic reports – housing starts, manufacturing surveys, and new home sales – there is a battle taking place between consumers who are back in force as restrictions have eased, and companies that are struggling to keep up with demand while inputs (including labor) remain hard to come by. It may seem odd then that autos (an area plagued by semiconductor shortages) saw strong 5.8% growth in new orders in July, but this was helped along by seasonal adjustment factors as auto manufacturers reduced - or cancelled - seasonal plant shutdowns in order to fill as much demand as they can. Even ignoring the jump in autos, activity moved broadly higher, with orders excluding transportation up 0.7% in July. The details show activity across sectors was largely positive, with orders for computers & related products (+3.3%), industrial machinery (+2.9%), primary metals (+2.7%), and fabricated metal products (+0.3%) rising, while communications equipment (-4.5%) and electrical equipment (-1.8%) declined. On a year-ago basis, durable goods orders are up a massive 17.6% from July 2020. 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 1.0% in July, and if unchanged in August and September, these shipments will be up at a 7.3% annualized rate in the third quarter. Some will focus on the fact that quarterly growth rates in this measure of business investment have slowed: 39.9% annualized growth rate in Q3 2020, 17.8% annualized growth in Q4, 11.3% annualized growth in the first quarter of 2021, and 10.6% annualized growth in Q2. But those growth rates were skewed by unprecedented shutdowns and snarled supply chains. Business investment is still a tailwind that will help lift real GDP substantially in 2021.



Source: Census Bureau/Haver Analytics



Source: Census Bureau/Haver Analytics

Durable Goods All Data Seasonally Adjusted	Jul-21	Jun-21	May-21	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-0.1%	0.8%	3.2%	16.4%	11.9%	17.6%
Ex Defense	-1.2%	0.9%	2.8%	10.7%	14.1%	18.3%
Ex Transportation	0.7%	0.6%	0.6%	7.5%	13.2%	16.7%
Primary Metals	2.7%	0.8%	3.0%	29.3%	39.9%	35.5%
Industrial Machinery	2.9%	2.0%	0.6%	23.9%	24.5%	21.8%
Computers and Electronic Products	-0.4%	0.7%	0.0%	1.3%	1.2%	6.7%
Transportation Equipment	-2.2%	1.4%	10.0%	41.8%	8.8%	19.8%
Capital Goods Orders	-5.0%	1.2%	6.9%	11.8%	20.5%	36.4%
Capital Goods Shipments	1.1%	1.7%	-1.0%	7.4%	9.2%	18.7%
Defense Shipments	5.8%	1.1%	-3.7%	12.6%	13.6%	9.9%
Non-Defense, Ex Aircraft	1.0%	0.6%	1.0%	11.0%	8.8%	15.8%
Unfilled Orders for Durable Goods	0.3%	0.8%	1.0%	8.8%	8.0%	2.0%

Source: Bureau of the Census