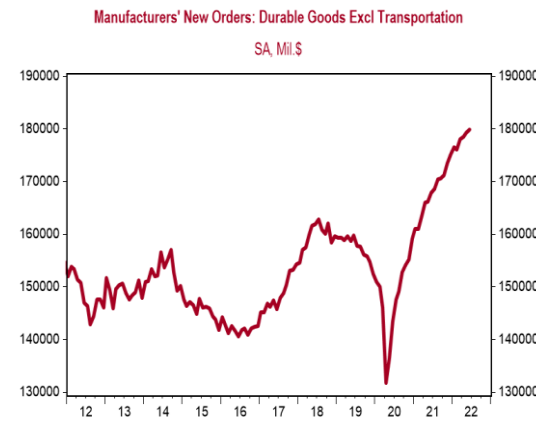


Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke, CFA – Senior Economist

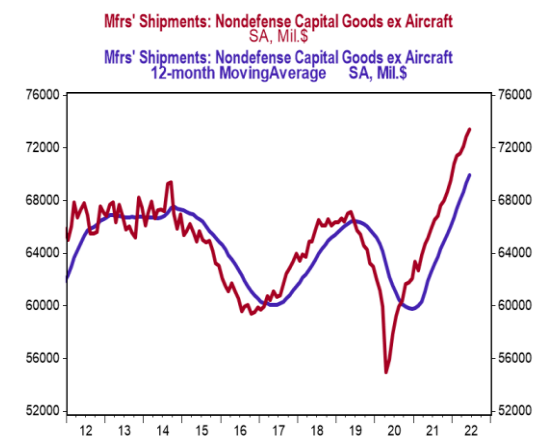
June Durable Goods

- New orders for durable goods rose 1.9% in June, easily beating the consensus expected decline of 0.4%. Orders excluding transportation increased 0.3% in June (+0.1% including revisions to prior months), beating the consensus expected gain of 0.2%. Orders are up 10.9% from a year ago, while orders excluding transportation are up 7.2%.
- The rise in orders in June was led by defense aircraft, autos, and computer and electronic products.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 0.7% in June and rose at a 9.0% annualized rate in Q2 versus the Q1 average.
- Unfilled orders rose 0.7% in June and are up 7.0% in the past year.

Implications: New orders for durable goods handily beat consensus expectations in June, while core details of the report combat the narrative of an economy already in recession. We get our first look at second quarter GDP tomorrow, and while growth will likely not prove stellar, we don't think it will decline, either. The underlying details of the durables report showed orders activity was largely positive, with transportation and electronics the standouts. Defense aircraft orders surged in June but were partially offset by a decline in orders for commercial airplanes. The transportation sector is notoriously volatile month-to-month, and stripping that out shows orders grew a more modest 0.3% in June. Ex-transportation orders grew for electrical equipment (+2.5%), computers and electronic products (+1.5%) and fabricated metals products (+0.3%). Orders for primary metals declined 1.1% in June after jumping 2.0% in May, and machinery orders likewise cooled (-0.2%) after a healthy 1.3% the prior month. Further back in the process, unfilled orders continue to rise, suggesting activity will remain positive as companies battle to keep up with demand that has far outpaced supply. One of the most important pieces of today's report, shipments of "core" non-defense capital goods ex-aircraft (a key input for business investment in the calculation of GDP), rose 0.7% in June, following a 0.8% increase in April and an upwardly revised +1.0% in May. These orders grew at a 9.0% annualized pace in Q2 versus the Q1 average, and will provide a tailwind to second quarter GDP growth, which is currently [tracking around 0.5% annualized growth](#) following the Q1 GDP decline. Orders for durable goods have recovered sharply since the pandemic, up 71.3% from the April 2020 bottom and now sit 17.8% above the pre-pandemic high set in February 2020. We expect business investment will remain a tailwind for GDP growth throughout 2022 as companies continue to reopen and recover from the severe economic consequences of the COVID shutdowns. In other recent news, yesterday the Federal Reserve released its monthly report on the M2 money supply for June. The best news in the report is that M2 growth has moderated year-to-date, up at 1.7% annualized rate through the first half of the year. That's well below the 14.5% annualized growth seen during the first half of 2021, or the 40.1% annualized surge in the first half of 2020 as Congress and the Fed bypassed the fire hose and simply opened the stimulus hydrant to full blast. The moderation in additional M2 growth helps control inflation pressures from building even further, but past actions have the Fed – which will very likely announce an additional 75 basis point rate hike this afternoon – battling from behind the curve.



Source: Census Bureau/Haver Analytics



Source: Census Bureau/Haver Analytics

Durable Goods <i>All Data Seasonally Adjusted</i>	Jun-22	May-22	Apr-22	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	1.9%	0.8%	0.4%	13.2%	13.0%	10.9%
<i>Ex Defense</i>	0.4%	0.7%	0.2%	5.8%	8.8%	9.4%
<i>Ex Transportation</i>	0.3%	0.5%	0.2%	4.2%	5.5%	7.2%
<i>Primary Metals</i>	-1.1%	2.0%	0.9%	7.1%	10.8%	10.8%
<i>Industrial Machinery</i>	-0.2%	1.3%	1.0%	8.5%	8.0%	9.1%
<i>Computers and Electronic Products</i>	1.5%	0.2%	0.0%	6.8%	4.5%	0.0%
<i>Transportation Equipment</i>	5.1%	1.5%	0.8%	33.8%	29.8%	18.9%
Capital Goods Orders	-0.3%	1.0%	0.6%	5.4%	14.2%	5.6%
Capital Goods Shipments	-0.5%	1.8%	0.5%	7.4%	10.1%	11.8%
<i>Defense Shipments</i>	-1.6%	2.3%	-1.3%	-2.9%	4.1%	8.0%
<i>Non-Defense, Ex Aircraft</i>	0.7%	1.0%	0.8%	10.6%	11.6%	11.9%
Unfilled Orders for Durable Goods	0.7%	0.3%	0.5%	6.3%	7.3%	7.0%

Source: Bureau of the Census