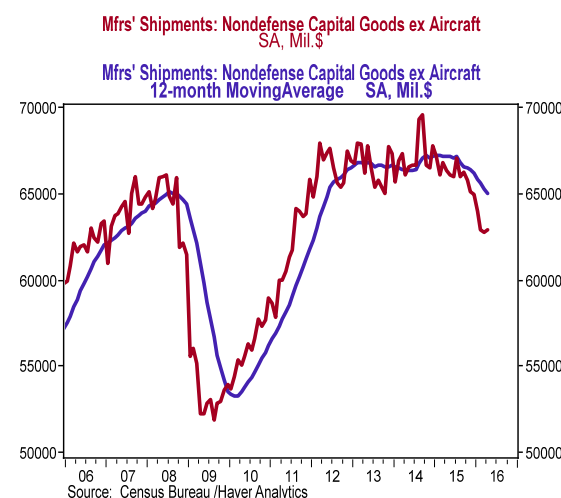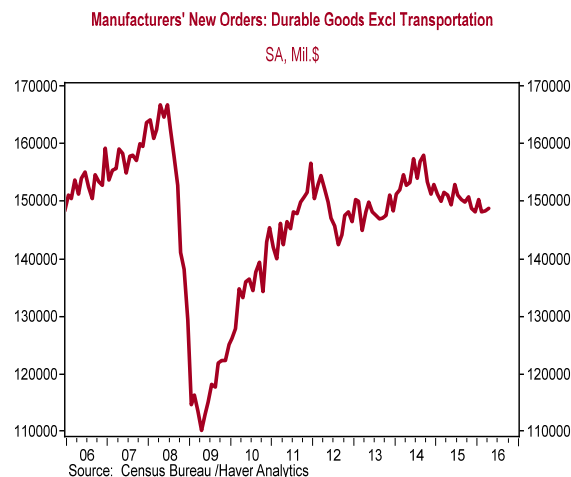# April Durable Goods

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- New orders for durable goods rose 3.4% in April (+3.9% including revisions to prior months). The consensus expected a gain of 0.5%. Orders excluding transportation rose 0.4% in April, slightly above the consensus expected increase of 0.3%. Orders are up 1.9% from a year ago while orders excluding transportation are down 1.4%.

- The rise in overall orders in April was led by commercial aircraft and motor vehicles. The largest decline was for machinery.

- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.3% in April (unchanged from March including revisions to prior months). If unchanged in May and June, these shipments will be down at a 1.7% annualized rate in Q2 versus the Q1 average.

- Unfilled orders rose 0.6% in April but remain down 1.7% from last year.

Implications: Durable goods orders rose for the third time in four months, easily beating consensus expectations as commercial aircraft and motor vehicles led new orders 3.4% higher in April. Even excluding the volatile transportation sector, orders rose 0.4% in April, narrowly beating consensus expectations. Shipments of "core" capital goods - non-defense, excluding aircraft – rose 0.3% in April, but were unchanged including revisions to prior months. These shipments are what the government uses in its calculation of the business equipment investment component of GDP, so the downward revisions to prior months will have a slightly downward impact on tomorrow's Q1 GDP report. But, given better data on consumer spending, inventories, and international trade, we still expect tomorrow's report to show Q1 GDP grew at around a 0.8% annual rate, an upward revision from the initial reading of 0.5%. The biggest drag on orders in the past year has been machinery, but that should end soon given the rebound in energy prices. In other words, business investment should pick up in the months ahead. In addition, consumer purchasing power is growing with more jobs and higher incomes, while debt ratios remain very low, leaving room for an upswing in big-ticket spending. In other news this morning, new claims for unemployment benefits declined 10,000 last week to 268,000, marking 64 consecutive weeks below 300,000, the longest stretch in more than forty years. Continuing claims rose 10,000 to 2.16 million. Plugging these figures into our models suggests payrolls are up close to 200,000 in May. In housing new this morning, pending home sales, which are contracts on existing homes, rose 5.1% in April, the largest increase for any month in more than five years. Following a 1.6% gain in March, pending sales suggest a large increase in existing home sales in May (counted at closing). In other recent housing news, the FHFA index which measures prices for homes financed with conforming mortgages, increased 0.7% in March and was up 6.1% from a year ago. Put this all together and the odds of a June rate hike from the Fed keep rising.

Manufacturers' New Orders: Durable Goods Excl Transportation
SA, Mil.$

Source: Census Bureau /Haver Analytics

Mfrs' Shipments: Nondefense Capital Goods ex Aircraft
SA, Mil.$

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

Source: Census Bureau /Haver Analytics

Durable Goods *All Data Seasonally Adjusted*	Apr-16	Mar-16	Feb-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**3.4%**	1.9%	-3.3%	7.4%	1.2%	1.9%
Ex Defense	**3.7%**	-0.6%	-2.4%	2.6%	-0.5%	0.0%
Ex Transportation	**0.4%**	0.1%	-1.5%	-3.9%	-2.4%	-1.4%
Primary Metals	**0.0%**	1.9%	-1.3%	2.4%	-6.3%	-9.2%
Industrial Machinery	**-1.9%**	-0.8%	-3.4%	-21.7%	-14.9%	-7.1%
Computers and Electronic Products	**1.9%**	0.5%	-1.1%	5.2%	1.7%	4.0%
Transportation Equipment	**8.9%**	5.3%	-6.7%	31.1%	7.9%	8.2%
Capital Goods Orders	**7.2%**	7.5%	-10.5%	13.1%	-1.9%	2.0%
Capital Goods Shipments	**0.0%**	-0.2%	-2.2%	-9.4%	-10.3%	-5.9%
Defense Shipments	**-4.1%**	-0.4%	3.4%	-5.1%	-20.7%	1.7%
Non-Defense, Ex Aircraft	**0.3%**	-0.3%	-1.6%	-6.1%	-8.4%	-5.1%
Unfilled Orders for Durable Goods	**0.6%**	0.0%	-0.5%	0.4%	-0.6%	-1.7%

Source: Bureau of the Census