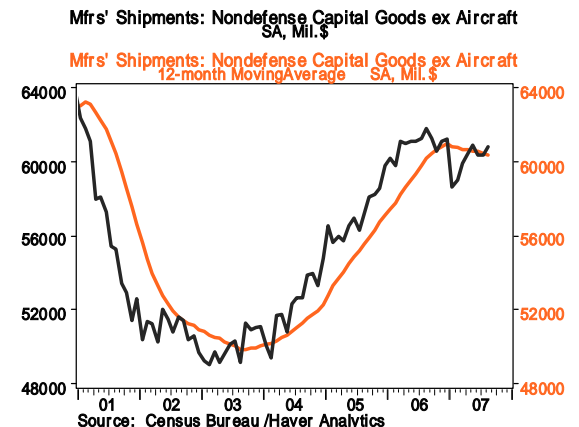


## AUGUST DURABLE GOODS

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- New orders for durable goods declined 4.9% in August versus a consensus expected drop of 4.0%. Excluding transportation, orders declined 1.8% versus a consensus expected drop of 1.0%. New orders are up 4.0% versus last year, 1.4% excluding transportation.
- The decline in orders in August (-\$11.3 billion) was mostly due to non-defense aircraft and parts (-\$9.0 billion) and motor vehicles and parts (-\$2.7 billion). Other weak sectors included industrial machinery (-\$1.5 billion) and computers/electronics (-\$0.6 billion). Strong sectors included defense aircraft (+\$1.7 billion) and electrical equipment (+\$0.3 billion).
- When calculating business investment for the GDP accounts, the government uses non-defense capital goods shipments excluding aircraft. That measure rose 0.8% in August, but was revised down to show no change in July versus an originally estimated increase of 0.4%. On net, these shipments are unchanged versus their second quarter average.
- Unfilled orders rose 1.2% in August and are up 21.9% versus a year ago.

**Implications:** The guts of today's report on durable goods are much better than the negative headline numbers suggest. Although new orders for durable goods were off 4.9%, the drop follows increases of 1.8% and 6.1% in the previous two months. Putting these figures together, orders are up at an 11.1% annual rate in the past three months. Moreover, shipments of capital goods ex-defense/ex-aircraft increased 0.8% in August, more than outweighing the downward revision to July. In addition, unfilled orders are up 21.9% versus last year, the largest gain since 1983, suggesting plenty of shipments in the months ahead. We continue to forecast 3% real GDP growth in Q3.



Durable Goods <i>All Data Seasonally Adjusted</i>	Aug-07	Jul-07	Jun-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>-4.9%</b>	6.1%	1.8%	11.1%	13.4%	4.0%
<b>Ex Defense</b>	<b>-5.9%</b>	4.7%	2.2%	3.2%	8.9%	3.4%
<b>Ex Transportation</b>	<b>-1.8%</b>	3.4%	-1.3%	1.2%	8.2%	1.4%
<b>Transportation Equipment</b>	<b>-11.2%</b>	11.9%	9.1%	38.1%	26.6%	10.6%
<b>Capital Goods Orders</b>	<b>-10.5%</b>	8.2%	4.3%	4.1%	14.4%	4.6%
<b>Capital Goods Shipments</b>	<b>0.3%</b>	1.9%	-0.8%	5.2%	9.0%	0.5%
<b>Defense Shipments</b>	<b>-3.0%</b>	9.3%	-4.0%	7.2%	3.4%	2.5%
<b>Non-Defense, Ex Aircraft</b>	<b>0.8%</b>	0.0%	-0.8%	-0.2%	6.4%	-1.5%
<b>Unfilled Orders for Durable Goods</b>	<b>1.2%</b>	2.4%	1.6%	22.8%	21.4%	21.9%

Source: Bureau of the Census