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Data Watch

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AUGUST DURABLE GOODS

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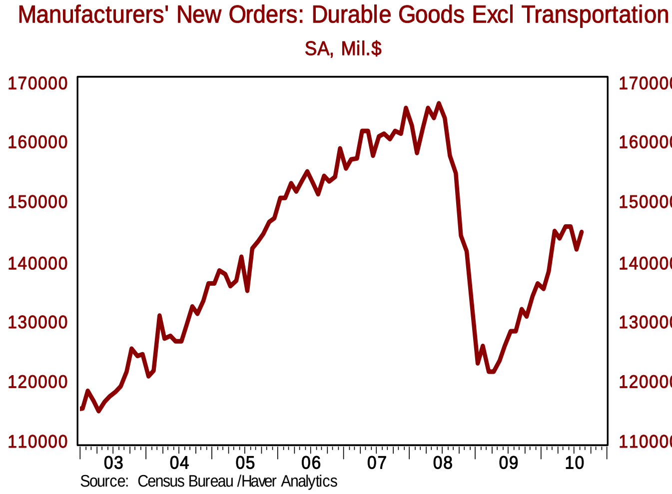
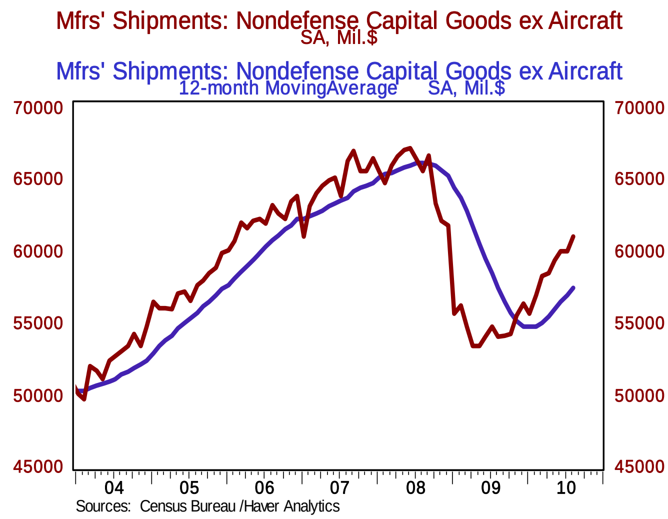
- New orders for durable goods declined 1.3% in August, close to the consensus expected loss of 1.0%. Excluding transportation, orders increased 2.0%, beating the consensus expected increase of 1.0%. Orders are up 11.2% versus a year ago, 12.9% excluding transportation.
- The decline in orders in August was all due to the extremely volatile transportation sector, primarily civilian aircraft and also autos. Every other major category of orders increased in August, led by computers/electronics and industrial machinery.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 1.6% in August (+2.9% including large upward revisions for July). If these shipments are unchanged in September, they will still be up at a 9.7% annual rate in Q3 versus the Q2 average.
- Unfilled orders slipped 0.1% in August but were up 0.7% excluding the transportation sector.





Implications: Another day, another nail in the coffin for the double dip. Ignore the headline decline in orders for durable goods; it was all transportation, which is extremely volatile from month to month. *Every single other major category* of orders increased in August: computers/electronics, industrial machinery, metals – both primary and fabricated – plus electrical equipment/appliances. Meanwhile, shipments of "core" capital goods (which exclude civilian aircraft and defense) increased 1.6% in August – the seventh consecutive monthly gain – were revised up substantially for July (to a 0.1% gain from a previously reported -1%), and are up 13% versus last year. Business investment in equipment is poised to increase substantially over the next couple of years. In the past 14 months, capacity utilization in the industrial sector has risen from 68% to 75%. In another year, we could easily be at the long-term average of 80%. This is happening because of both continued economic growth and falling capacity, as the capital stock depreciates. Meanwhile, corporate profits and the cash assets of nonfinancial companies are near record highs. So businesses have both the motive and opportunity to buy more equipment. Finally, a political consensus is moving toward letting companies use full expensing for investment in the year of purchase.

Durable Goods *All Data Seasonally Adjusted*	Aug-10	Jul-10	Jun-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**-1.3%**	0.7%	-0.2%	-3.0%	3.0%	11.2%
Ex Defense	**-1.2%**	0.7%	0.2%	-1.4%	4.9%	12.3%
Ex Transportation	**2.0%**	-2.8%	0.2%	-2.7%	9.7%	12.9%
Primary Metals	**2.4%**	0.3%	-3.9%	-5.3%	4.1%	27.7%
Industrial Machinery	**3.9%**	-9.6%	4.1%	-8.5%	26.2%	24.6%
Computers and Electronic Products	**3.8%**	-0.5%	-0.9%	9.6%	21.5%	14.8%
Transportation Equipment	**-10.3%**	11.6%	-1.1%	-3.9%	-14.2%	6.3%
Capital Goods Orders	**-0.9%**	-0.8%	0.2%	-6.2%	-4.2%	17.2%
Capital Goods Shipments	**-0.8%**	2.4%	1.3%	11.8%	7.6%	7.9%
Defense Shipments	**-4.2%**	-1.6%	-1.9%	-27.0%	-33.4%	-17.2%
Non-Defense, Ex Aircraft	**1.6%**	0.1%	0.9%	11.1%	14.7%	13.0%
Unfilled Orders for Durable Goods	**-0.1%**	-0.1%	0.1%	-0.4%	1.0%	-1.5%

Source: Bureau of the Census