

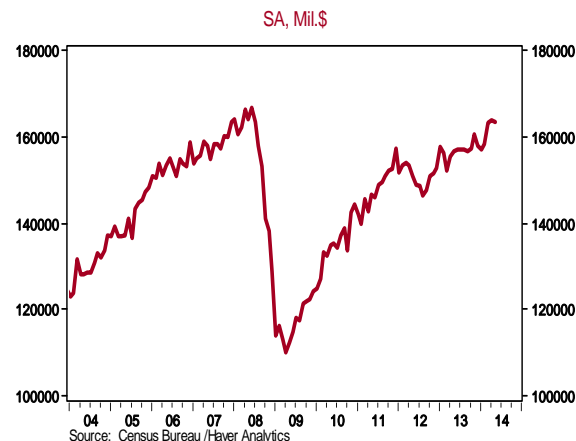
## May Durable Goods

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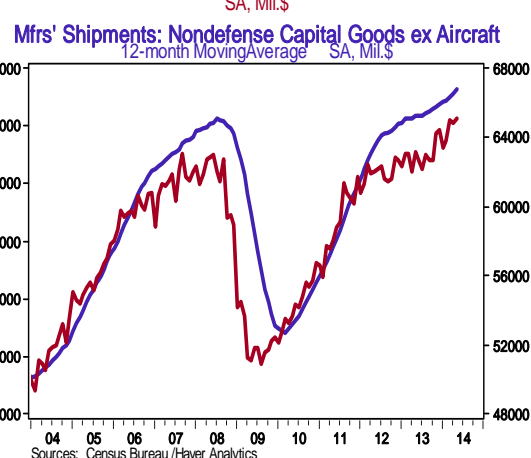
- New orders for durable goods declined 1.0% in May (-0.8% including revisions to prior months), falling short of the no change the consensus expected. Orders excluding transportation declined 0.1% in May but increased 0.1% including revisions to prior months. The consensus expected an increase of 0.3%. Orders are up 2.7% from a year ago while orders excluding transportation are up 4.4%.
- The decline in overall orders was led by unspecified transportation equipment (probably government submarine orders). Orders for civilian aircraft also declined. The largest gains were for autos and primary metals.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 0.4% in May. If unchanged in June, these shipments will be up at a 6.6% annual rate in Q2 versus the Q1 average.
- Unfilled orders increased 0.6% in May and are up 7.9% from last year.

**Implications:** New orders for durable goods slipped 1% in May. However, cutting through the monthly volatility, we see an acceleration in business investment. The US military ordered a boatload of submarines in April (yes, bad pun intended). As a result, overall orders increased 0.8% in April despite a decline of 0.8% outside the defense sector. Without this large order in May, the figures reversed, with overall orders declining 1%, but up 0.6% excluding the defense sector. As the table below shows, ex-defense orders are up at a 12.1% annual rate in the past three months versus a 2.2% gain in the past year. Orders for primary metals, fabricated metals, computers/electronics, and autos have all accelerated. Some of this acceleration is likely an offset to weakness we had this winter, but some of it also reflects a growing backlog of orders. Unfilled orders are up at a 9.7% annual rate in the past three months and up 7.9% versus a year ago. Shipments of “core” capital goods, which exclude defense and aircraft – a good proxy for business equipment investment – increased 0.4% in May, and are up at a 9.1% annual rate in the past three months. We are on the cusp of a large increase in business investment over the next couple of years. Consumer purchasing power is growing and debt ratios are low, leaving room for an upswing in appliances. Meanwhile, profit margins are still high, corporate balance sheets are loaded with cash, and capacity utilization is near long-term norms, leaving more room (and need) for business investment.

Manufacturers' New Orders: Durable Goods Excl Transportation



Mfrs' Shipments: Nondefense Capital Goods ex Aircraft



Durable Goods <i>All Data Seasonally Adjusted</i>	May-14	Apr-14	Mar-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>-1.0%</b>	0.8%	3.7%	14.9%	-2.8%	2.7%
<b>Ex Defense</b>	<b>0.6%</b>	-0.8%	3.1%	12.1%	-3.7%	2.2%
<b>Ex Transportation</b>	<b>-0.1%</b>	0.4%	3.0%	14.3%	3.8%	4.4%
<b>Primary Metals</b>	<b>1.9%</b>	0.8%	2.8%	24.0%	3.1%	5.2%
<b>Industrial Machinery</b>	<b>-0.3%</b>	-2.4%	4.3%	6.3%	2.1%	8.6%
<b>Computers and Electronic Products</b>	<b>-1.7%</b>	-1.6%	7.2%	15.4%	-5.7%	-1.5%
<b>Transportation Equipment</b>	<b>-3.0%</b>	1.7%	5.2%	16.5%	-15.4%	-0.9%
<b>Capital Goods Orders</b>	<b>-4.6%</b>	3.3%	10.5%	40.6%	-11.5%	-1.0%
<b>Capital Goods Shipments</b>	<b>-0.9%</b>	-0.5%	2.3%	3.5%	-1.5%	0.0%
<b>Defense Shipments</b>	<b>-2.3%</b>	1.3%	0.2%	-3.3%	-23.2%	-3.8%
<b>Non-Defense, Ex Aircraft</b>	<b>0.4%</b>	-0.4%	2.2%	9.1%	3.0%	3.4%
<b>Unfilled Orders for Durable Goods</b>	<b>0.6%</b>	0.9%	0.8%	9.7%	6.0%	7.9%

Source: Bureau of the Census