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August Durable Goods

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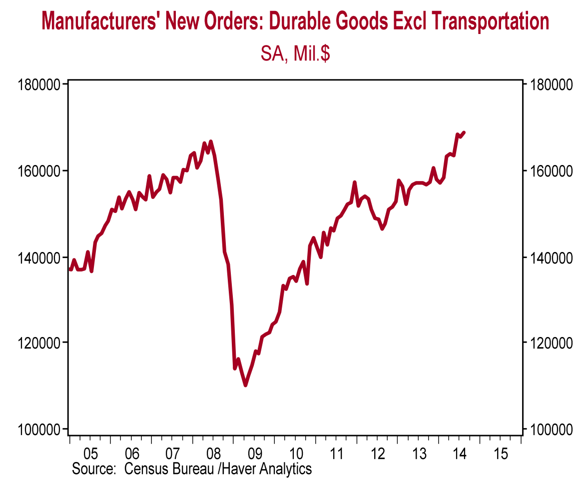
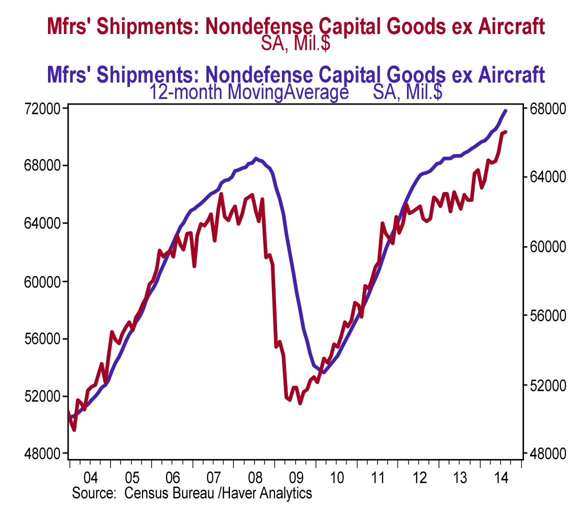
- New orders for durable goods fell 18.2% in August, very close to the consensus expected decline of 18.0%. Orders excluding transportation rose 0.7% in August (0.8% including revisions to prior months) coming in slightly above the consensus expected 0.6% gain. Orders are up 8.9% from a year ago while orders excluding transportation are up 7.3%.
- The huge drop in overall orders was almost all due to civilian aircraft. Autos also fell while computers and electronic products increased.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.1% in August (+0.6% including revisions to prior months). If unchanged in September, these shipments will be up at an 11.2% annual rate in Q3 versus the Q2 average.
- Unfilled orders increased 0.6% in August and are up 12.8% from last year.



Implications: What goes up must come down,…at least when it's orders for durable goods. Orders for durables skyrocketed in July, both literally and figuratively, with a massive increase in Boeing plane orders that generated the largest gain on record for durables going back to 1958. A spike in Boeing orders is obviously not going to happen every month and so a return to a normal level of plane orders in August meant overall durable orders had to fall back to earth as well. This kind of monthly volatility is why it's important to look at the trend, which is clearly upward. Orders for durables are up 8.9% from a year ago and up 7.3% excluding the transportation sector, a new record high for non-transportation. Meanwhile, shipments of "core" capital goods, which exclude defense and aircraft – a good proxy for business equipment investment – rose 0.1% in August and were upwardly revised in July. These "core" shipments are up 6.6% versus a year ago, up an annualized 10.3% in the past six months and 12.7% rate in the past three months - a clear sign of acceleration. As a result, it now looks like business investment in equipment is growing at about a 14% annual rate in Q3 and real GDP grew at roughly a 3% rate. The Richmond Fed index, a measure of mid-Atlantic manufacturing sentiment, increased to 14 in September from 12 in August, which backs up the national data. In other news this morning, new claims for unemployment insurance increased 12,000 last week to a still low 293,000. Continuing claims rose 7,000 to 2.44 million. Plugging these figures into our payroll models suggests a gain of about 220,000 in September, both nonfarm and private. This is better than the consensus forecast, which, spooked by last month's tepid report, is around 200,000.



Durable Goods *All Data Seasonally Adjusted*	Aug-14	Jul-14	Jun-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**-18.2%**	22.5%	2.7%	12.5%	14.0%	8.9%
Ex Defense	**-19.0%**	24.9%	2.7%	17.0%	13.6%	9.2%
Ex Transportation	**0.7%**	-0.5%	3.0%	12.9%	13.6%	7.3%
Primary Metals	**-0.7%**	-0.1%	2.0%	4.5%	15.1%	9.1%
Industrial Machinery	**0.7%**	-1.6%	5.0%	16.7%	9.8%	7.6%
Computers and Electronic Products	**1.7%**	-0.8%	3.8%	20.5%	18.7%	11.0%
Transportation Equipment	**-42.0%**	73.3%	2.2%	11.5%	15.0%	12.6%
Capital Goods Orders	**-33.9%**	52.4%	4.9%	24.8%	30.9%	12.9%
Capital Goods Shipments	**0.3%**	1.8%	2.6%	20.6%	11.6%	6.1%
Defense Shipments	**0.9%**	1.9%	-0.9%	8.0%	4.1%	-5.8%
Non-Defense, Ex Aircraft	**0.1%**	1.9%	1.0%	12.7%	10.3%	6.6%
Unfilled Orders for Durable Goods	**0.6%**	5.3%	1.0%	31.4%	20.2%	12.8%

Source: Bureau of the Census