

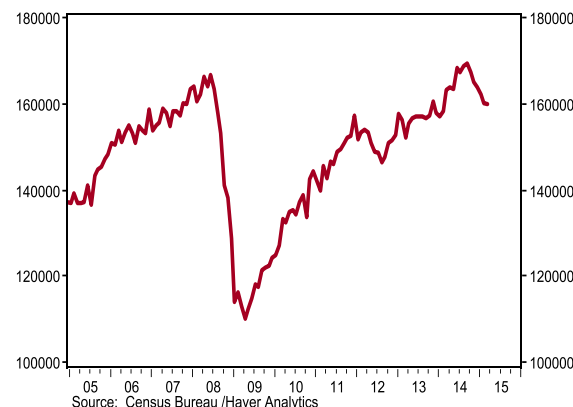
March Durable Goods

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- New orders for durable goods rose 4.0% in March, coming in well above the consensus expected gain of 0.6%. Orders excluding transportation slipped 0.2% in March (-0.8% including revisions to prior months), below the consensus expected gain of 0.3%. Orders are up 0.7% from a year ago while orders excluding transportation are down 1.9%.
- The increase in overall orders was led by aircraft and autos. 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 declined 0.4% in March (-0.5% including revisions to prior months). These shipments declined at a 2.2% annual rate in Q1 versus the Q4 average.
- Unfilled orders were unchanged in March but are up 8.0% from last year.

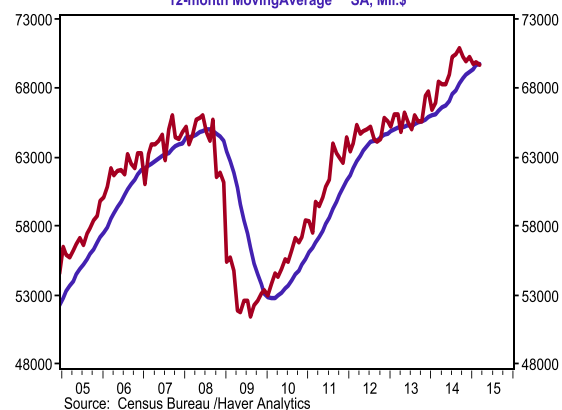
Implications: Don't get too excited about the big headline 4% gain in new orders for durable goods in March; the underlying details of the report were tepid, signaling that the economy is still a Plow Horse. Although the increase in orders for durables was much stronger than the 0.6% the consensus expected, the gain was all due to the very volatile transportation sector. Orders excluding transportation declined 0.2% in March and have dropped for six consecutive months. However, we think much of the recent decline is directly and indirectly due to the huge drop in energy prices and the resulting drop in drilling activity. But, now that energy prices have stopped falling, orders for durables outside the transportation sector should soon start moving up again. In the meantime, we don't have to fear the onset of a recession. These orders fell for five straight months back in 2012, yet real GDP accelerated in 2012 from 2011. The other piece of soft news in today's report was that "core" shipments, which exclude defense and aircraft, declined 0.4% in March. "Core" shipments were down at a 2.2% annual rate in Q1 versus the Q4 average and it looks like the equipment component of real GDP declined at about a 5% annual rate in Q1. Plugging these data into our models for overall real GDP keeps our forecast for Q1 at a 0.7% annual rate versus a consensus expected growth rate of 1.0%. Moving forward, we expect to see a rebound in orders and shipments as temporary headwinds recede. 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. Meanwhile, profit margins are 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
SA, Mil.\$



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

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



Durable Goods <i>All Data Seasonally Adjusted</i>	Mar-15	Feb-15	Jan-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	4.0%	-1.4%	1.9%	19.3%	-2.5%	0.7%
<i>Ex Defense</i>	2.6%	-1.0%	2.2%	16.1%	-3.3%	0.6%
<i>Ex Transportation</i>	-0.2%	-1.3%	-0.9%	-8.8%	-10.7%	-1.9%
<i>Primary Metals</i>	-0.2%	-0.3%	-1.5%	-7.5%	-19.2%	-3.1%
<i>Industrial Machinery</i>	-1.5%	-2.5%	-0.2%	-15.5%	-18.8%	-11.6%
<i>Computers and Electronic Products</i>	3.0%	-1.2%	0.8%	11.0%	1.1%	0.0%
<i>Transportation Equipment</i>	13.5%	-1.8%	8.9%	116.3%	17.7%	6.5%
Capital Goods Orders	4.8%	-1.3%	7.1%	50.2%	-4.7%	-2.8%
Capital Goods Shipments	0.6%	0.0%	-0.9%	-1.3%	-1.9%	3.6%
<i>Defense Shipments</i>	8.8%	0.6%	-13.6%	-19.9%	5.2%	4.2%
<i>Non-Defense, Ex Aircraft</i>	-0.4%	0.1%	-0.6%	-3.4%	-3.6%	1.7%
Unfilled Orders for Durable Goods	0.0%	-0.5%	-0.3%	-3.1%	-2.2%	8.0%

Source: Bureau of the Census