

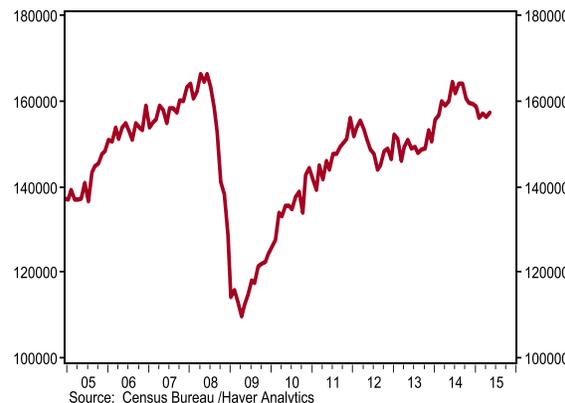
May Durable Goods

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- New orders for durable goods declined 1.8% in May, coming in below the consensus expected decline of 1.0%, and were down 2.3% including revisions to prior months. Orders excluding transportation rose 0.5% in May, matching consensus expectations. Orders are down 2.5% from a year ago while orders excluding transportation are down 1.6%.
- The decline in overall orders in May was due to civilian aircraft. Most other categories of orders were up, led by computers and electronic products.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 0.3% in May (+0.1% including revisions to prior months). If unchanged in June these shipments will be up at a 1.6% annualized rate in Q2 versus the Q1 average.
- Unfilled orders slipped 0.5% in May but are up 5.8% from last year.

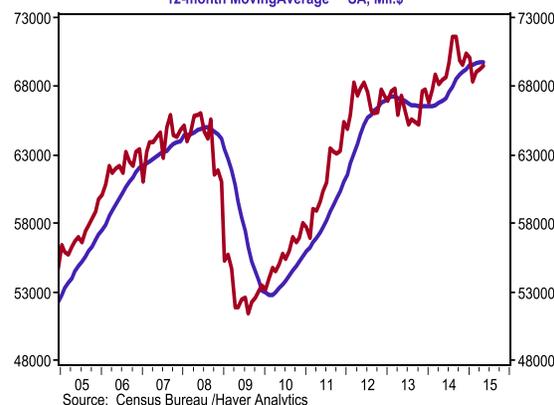
Implications: Don't judge a book by its cover. Although the headline number for new orders of durable goods fell 1.8% in May, the underlying details of the report were more encouraging. The decline in overall orders was due to the very volatile transportation sector, specifically a 35.3% drop in civilian aircraft orders, which brought the overall transportation sector down 6.4% in May. Orders excluding transportation rose 0.5% as most major categories showed small gains. Orders for durables had been facing downward pressure from the drop in energy prices since the middle of last year. But, now that energy prices have stopped falling and have somewhat stabilized, orders for durables outside the transportation sector should continue to move higher. Orders for machinery used for mining and in oil and gas fields were down 40% in the year ending in March. But these machinery orders were up slightly in April and overall machinery orders were up 0.5% in April and 0.4% in May. "Core" shipments, which exclude defense and aircraft, rose 0.3% in May. If unchanged in June, "core" shipments will be up at a 1.6% annual rate in Q2 versus the Q1 average. Plugging these and other recent data into our models, we are forecasting an upward revision to Q1 real GDP growth to a -0.3% annual rate from a previous government estimate of -0.7%. However, just like last year, we expect a rapid rebound in real GDP growth in Q2. We also expect stronger gains in orders for durables in the year ahead. 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. In other news today, the Richmond Fed index, which measures mid-Atlantic factory sentiment, rose to +6 in June from +1 in May. As a result, it looks like the national ISM Manufacturing index will be up in June.

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>	May-15	Apr-15	Mar-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-1.8%	-1.5%	5.1%	6.6%	-5.9%	-2.5%
Ex Defense	-2.1%	-0.8%	3.4%	1.8%	-5.8%	-2.3%
Ex Transportation	0.5%	-0.3%	0.6%	3.3%	-3.0%	-1.6%
Primary Metals	0.6%	1.1%	-2.5%	-3.5%	-12.5%	-9.2%
Industrial Machinery	0.4%	0.5%	-0.5%	1.6%	-7.7%	-6.3%
Computers and Electronic Products	2.2%	-2.8%	7.6%	30.1%	14.3%	8.3%
Transportation Equipment	-6.4%	-4.0%	15.1%	14.4%	-11.7%	-4.5%
Capital Goods Orders	-5.2%	-3.1%	8.4%	-2.1%	-16.0%	-7.0%
Capital Goods Shipments	-0.5%	0.7%	1.5%	7.1%	1.8%	4.4%
Defense Shipments	0.3%	-1.9%	6.7%	21.6%	-4.6%	1.0%
Non-Defense, Ex Aircraft	0.3%	0.3%	1.0%	6.6%	-0.3%	1.5%
Unfilled Orders for Durable Goods	-0.5%	-0.2%	0.1%	-2.3%	-4.1%	5.8%

Source: Bureau of the Census