

## July Durable Goods

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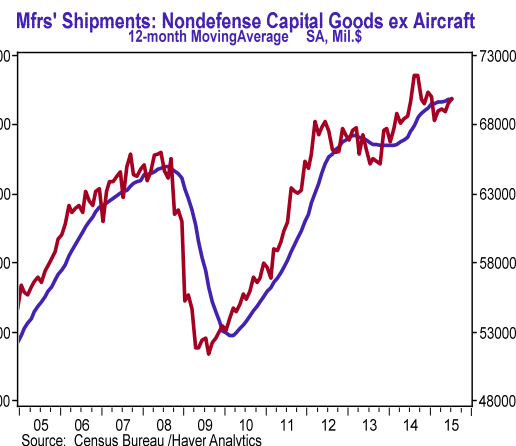
- New orders for durable goods rose 2.0% in July (2.6% including revisions to prior months), coming in well above the consensus expected decline of 0.4%. Orders excluding transportation rose 0.6% in July, 0.9% including revisions to prior months, coming in higher than the consensus expected 0.3% gain. Orders are down 19.6% from a year ago while orders excluding transportation are down 2.5%.
- The increase in overall orders in July was led by autos, computers & electronic products, and machinery.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 0.6% in July (+1.3% including revisions to prior months). If unchanged in August and September, these shipments will be up at a 4.5% annualized rate in Q3 versus the Q2 average.
- Unfilled orders rose 0.2% in July and are down 0.6% from last year.

**Implications:** A surprisingly strong report on new orders of durable goods shows the economy continues to plow on with no signs of weakening. Orders for durable goods rose 2% in July, exceeding even the highest estimate of all 76 economists who were surveyed, and were revised higher for previous months. A big chunk of the gain in July came from the very volatile transportation sector, specifically a 4% increase in autos, which brought the overall transportation sector up 4.7% for the month. The good news was that orders excluding transportation still rose 0.6%. Some pessimists may point out that orders are down 19.6% from a year ago, but this is due to a statistical anomaly. In July of last year, transportation orders soared as Boeing took in a massive order for 324 new planes. Excluding the volatile transportation sector, orders are still down 2.5% from a year ago. But this too doesn't tell the whole story, as the decline is due almost entirely to the precipitous drop in energy prices since mid-2014. We believe these factors are temporary, and in the last three months orders excluding transportation are up at a 5% annual rate. The best news in the report was that "core" shipments, which exclude defense and aircraft, increased 0.6% in July and were up 1.3% including revisions to prior months. Plugging these and other recent data into our models, we are forecasting real GDP grew at a 3.3% annual rate in Q2 and will be up at a 2.0% annual rate in Q3. 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.

Manufacturers' New Orders: Durable Goods Excl Transportation  
SA, Mil.\$



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



Durable Goods <i>All Data Seasonally Adjusted</i>	Jul-15	Jun-15	May-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>New Orders for Durable Goods</b>	<b>2.0%</b>	4.1%	-2.3%	15.5%	6.7%	-19.6%
<b>Ex Defense</b>	<b>1.0%</b>	4.2%	-2.5%	10.9%	3.8%	-21.2%
<b>Ex Transportation</b>	<b>0.6%</b>	1.0%	-0.3%	5.0%	-0.9%	-2.5%
<b>Primary Metals</b>	<b>-1.8%</b>	-2.6%	0.2%	-15.8%	-17.3%	-14.6%
<b>Industrial Machinery</b>	<b>1.5%</b>	2.3%	0.4%	17.9%	1.3%	-5.1%
<b>Computers and Electronic Products</b>	<b>2.0%</b>	0.8%	0.5%	13.9%	14.6%	7.5%
<b>Transportation Equipment</b>	<b>4.7%</b>	10.7%	-6.3%	39.2%	24.0%	-39.7%
<b>Capital Goods Orders</b>	<b>3.2%</b>	9.7%	-5.6%	30.3%	14.5%	-36.9%
<b>Capital Goods Shipments</b>	<b>0.3%</b>	1.8%	-1.2%	3.4%	1.3%	2.0%
<b>Defense Shipments</b>	<b>1.5%</b>	10.8%	-0.6%	56.0%	34.5%	11.0%
<b>Non-Defense, Ex Aircraft</b>	<b>0.6%</b>	0.9%	-0.4%	4.6%	-0.2%	0.5%
<b>Unfilled Orders for Durable Goods</b>	<b>0.2%</b>	0.0%	-0.5%	-1.2%	-1.9%	-0.6%

Source: Bureau of the Census