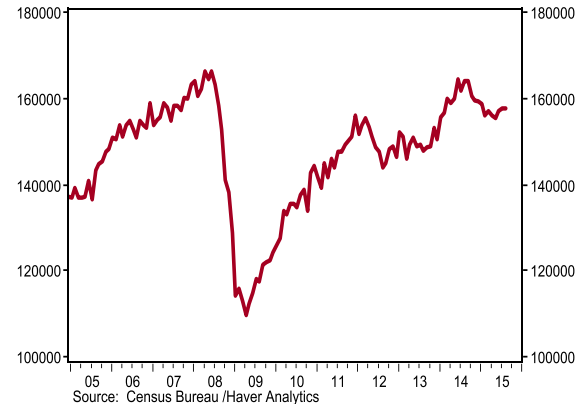


August Durable Goods

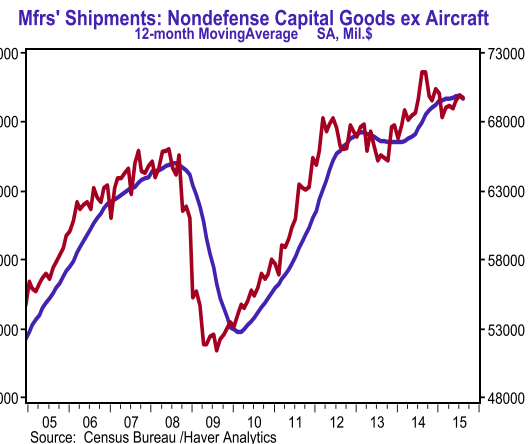
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- New orders for durable goods declined 2.0% in August (-2.2% including revisions to prior months), narrowly beating the consensus expected decline of 2.3%. Orders excluding transportation were unchanged in August, but declined 0.1% including revisions to prior months, falling slightly short of the consensus expected +0.1%. Orders are down 2.3% from a year ago while orders excluding transportation are down 3.9%.
- The decline in overall orders in August was led by civilian aircraft, autos, and fabricated metal products. The largest gainer was machinery.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure declined 0.2% in August (-0.3% including revisions to prior months). If unchanged in September, these shipments will be up at a 3.6% annualized rate in Q3 versus the Q2 average.
- Unfilled orders declined 0.2% in August and are down 1.3% from last year.

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



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



Implications: After two consecutive months of very strong gains, new orders for durable goods took a breather in August dropping 2%, coming in very close to consensus expectations. However, even including August’s decline, orders are accelerating, up at a 16.9% annual rate over the past three months. A big chunk of the decline in August came from the very volatile transportation sector, specifically a 1.6% drop in autos, and a 5.1% drop in civilian aircraft orders, which helped bring the overall transportation sector down 5.8% for the month. Orders excluding transportation were unchanged in August and are also accelerating, up 5.6% annualized over the past three months, so the recent trend in orders is improving on a broad basis, not just in the volatile transportation sector. Some pessimists may point out that orders are down 2.3% from a year ago, but this doesn’t tell the whole story, as the decline is due almost entirely to the precipitous drop in energy prices since mid-2014, which has cut into orders related to drilling for energy. We believe oil prices will average at higher levels in the next few years, so these factors are temporary. “Core” shipments, which exclude defense and aircraft, declined 0.2% in August and were down 0.3% including revisions to prior months. Plugging these and other recent data into our models, we are forecasting real GDP grew at a 3.7% annual rate in Q2 and will be up at a 2% 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. In other recent news on the manufacturing front, the Richmond Fed index, which measures sentiment among mid-Atlantic factories, fell to -5 in September versus 0 in August. We expect next week’s national ISM index to still signal growth, but at a slower pace. In other news today, initial claims for unemployment insurance rose 3,000 last week to 267,000, the 29th consecutive week below 300,000. This, paired with a 1,000 decline in continuing claims to 2.242 million, signals continued improvement in the labor market. Right now, we’re expecting payroll gains of about 200,000 in September.

Durable Goods <i>All Data Seasonally Adjusted</i>	Aug-15	Jul-15	Jun-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-2.0%	1.9%	4.1%	16.9%	10.1%	-2.3%
Ex Defense	-1.0%	0.9%	4.2%	17.5%	8.0%	-2.6%
Ex Transportation	0.0%	0.4%	1.0%	5.6%	2.1%	-3.9%
Primary Metals	0.1%	-2.1%	-2.6%	-17.1%	-12.0%	-13.1%
Industrial Machinery	1.0%	1.5%	2.4%	21.0%	10.2%	-8.1%
Computers and Electronic Products	-0.2%	1.2%	0.9%	7.3%	13.3%	2.8%
Transportation Equipment	-5.8%	5.0%	10.8%	44.6%	29.1%	1.3%
Capital Goods Orders	-4.7%	3.1%	9.9%	35.6%	13.6%	-7.0%
Capital Goods Shipments	1.1%	0.2%	1.8%	12.8%	8.1%	0.4%
Defense Shipments	-4.6%	0.7%	10.7%	28.2%	22.6%	3.2%
Non-Defense, Ex Aircraft	-0.2%	0.5%	1.0%	5.3%	4.2%	-2.5%
Unfilled Orders for Durable Goods	-0.2%	0.2%	0.0%	0.2%	-1.2%	-1.3%

Source: Bureau of the Census