

April Durable Goods

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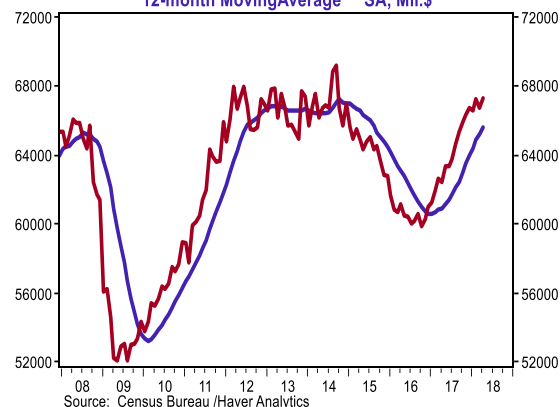
- New orders for durable goods declined 1.7% in April (-2.6% including revisions to prior months), coming in below the consensus expected decline of 1.3%. Orders excluding transportation rose 0.9% in April (-1.5% including revisions to prior months), beating the consensus expected rise of 0.5%. Orders are up 7.8% from a year ago while orders excluding transportation are up 7.9%.
- The decline in orders in April was led by commercial aircraft and machinery.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.8% in April. If unchanged in May and June, these shipments will be up at a 2.9% annualized rate in Q2 versus the Q1 average.
- Unfilled orders rose 0.5% in April, and are up 3.7% in the past year.

Implications: A drop in commercial aircraft orders in April – following large gains in February and March – overshadowed an otherwise healthy durable goods report. Excluding the typically volatile transportation sector, orders rose 0.9% in April as nearly all major categories showed gains, led by fabricated metal products and electrical equipment, appliances & components. More importantly, and even including downward revisions to prior months, the trend in orders (both including and excluding transportation) continues to show a pickup in the pace of activity. This is in part due to the shift to full tax expensing of business investments instead of depreciation over several years, paired with tax cuts that increase the value of new business projects. We expect these will continue to serve as a tailwind (particularly for machinery orders) through the remainder of 2018 and into 2019. Among the best news in today’s report was a 0.8% increase in shipments for non-defense capital goods excluding aircraft. If unchanged in May and June, these “core” shipments – the calculation most relevant to government calculations of business investment for GDP purposes – will be up at a 2.9% annualized rate in Q2 versus the Q1 average. Unfortunately, today’s report also included downward revisions to first quarter data, which, paired with other economic data since the initial estimate, suggests real GDP growth of 2.2% in the first quarter, down from the government’s initial estimate of 2.3%. As we noted in a recent [Monday Morning Outlook](#), don’t view moderate first quarter growth as a sign that the economy isn’t picking up pace. It is. We are still penciling-in a 4.0% growth rate in Q2 and anticipate average growth of around 3% for 2018. In sum, today’s report of healthy economic growth gives yet another reason investors should be feeling optimistic heading into the holiday weekend. So enjoy the long weekend, remember those that have fought to protect our freedom, and rest easy knowing the economy is doing fine.

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 MovingAverage SA, Mil.\$



Durable Goods <i>All Data Seasonally Adjusted</i>	Apr-18	Mar-18	Feb-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-1.7%	2.7%	4.5%	24.0%	13.7%	7.8%
Ex Defense	-1.9%	4.3%	2.2%	19.4%	12.4%	8.6%
Ex Transportation	0.9%	0.4%	1.3%	11.1%	5.9%	7.9%
Primary Metals	1.3%	4.6%	3.6%	45.3%	29.5%	17.4%
Industrial Machinery	-0.8%	-3.2%	3.3%	-3.3%	-6.9%	2.5%
Computers and Electronic Products	1.1%	1.5%	-1.1%	5.8%	2.0%	8.0%
Transportation Equipment	-6.1%	6.9%	10.8%	53.2%	30.6%	7.7%
Capital Goods Orders	-5.7%	4.4%	9.6%	35.7%	17.2%	7.7%
Capital Goods Shipments	-2.5%	2.1%	0.1%	-1.4%	3.8%	6.4%
Defense Shipments	12.9%	-2.1%	-5.2%	20.3%	21.4%	17.8%
Non-Defense, Ex Aircraft	0.8%	-0.7%	1.0%	4.6%	4.1%	7.8%
Unfilled Orders for Durable Goods	0.5%	0.8%	0.4%	7.3%	4.3%	3.7%

Source: Bureau of the Census