

June Durable Goods

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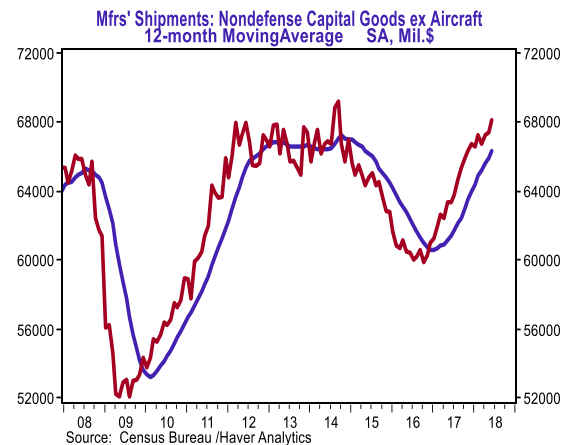
- New orders for durable goods rose 1.0% in June (+1.1% including revisions to prior months), lagging the consensus expected increase of 3.0%. Orders excluding transportation rose 0.4% in June (+0.7% including revisions to prior months), versus a consensus expected rise of 0.5%. Orders are up 3.2% from a year ago while orders excluding transportation are up 9.1%.
- The rise in orders in June was led by motor vehicles and defense aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 1.0% in June, and these shipments increased at a 4.6% annualized rate in Q2 versus the Q1 average.
- Unfilled orders rose 0.4% in June, and are up 3.6% in the past year.

Implications: A pickup in auto production and rising orders for defense aircraft led durable goods orders higher by 1.0% in June, though at a slower pace than the consensus expected. But while the rise in orders fell short of consensus expectations, that is almost entirely due to peculiarities in accounting for some of Boeing’s commercial aircraft orders. Apparently, orders that go through Boeing’s financing arm will now be gradually counted as orders over time, rather than in the month Boeing itself counts the order. So, even though Boeing counted 233 planes ordered in June versus 43 in May, the government’s count for the dollar values of these orders did not fully reflect those 233 planes. However, this means those orders will now appear in future periods. So on net, it’s a timing issue, not any sign of weakness in the durables sector. Stripping out the transportation sector – where volatility has also been exacerbated of late by a major fire at a key auto parts supplier in early May – and durable goods still rose a healthy 0.4% during a month that saw most major categories rise. A look at the details shows rising orders for computers & electronic products and industrial machinery more than offset a 0.4% decline in orders for primary metals. What is most important is that the trend in orders (both including and excluding transportation) continues to show a healthy pace of activity, with total orders up 3.2% in the past year, and orders excluding transportation up 9.1%. We expect the tax cuts, changes for full expensing of equipment, and what appears to be movement towards ending the tariff tantrums of late will serve as a tailwind (particularly for machinery orders) through the remainder of 2018 and into 2019. Of important note in today’s report, shipments of non-defense capital goods excluding aircraft (a key input in the calculation for tomorrow’s report on GDP growth), rose 1.0% in June and these orders rose at a 4.6% annual rate in Q2 vs the Q1 average. This morning also saw June preliminary data on wholesale inventories, which came in slightly below consensus expectations, and June international trade in goods, which saw a larger trade deficit than the consensus expected. Plugging all this data into our model suggests that real GDP grew at around a 4.3% annual rate in Q2. While rhetoric on TV and in the news may suggest companies have been fretting about trade tensions during the second quarter, their actions say otherwise. In other news this morning, initial jobless claims rose 9,000 to a still very low 217,000. Continuing claims declined 8,000 to 1.75 million. These figures suggest jobs creation continues at a solid clip.

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>	Jun-18	May-18	Apr-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	1.0%	-0.3%	-1.0%	-1.4%	4.9%	3.2%
<i>Ex Defense</i>	1.5%	-1.4%	-1.5%	-5.7%	2.9%	2.7%
<i>Ex Transportation</i>	0.4%	0.3%	1.9%	10.7%	7.0%	9.1%
<i>Primary Metals</i>	-0.4%	-0.1%	2.5%	7.9%	20.0%	18.2%
<i>Industrial Machinery</i>	0.2%	1.7%	1.7%	15.6%	3.1%	6.0%
<i>Computers and Electronic Products</i>	0.6%	0.6%	1.9%	13.6%	7.6%	10.3%
<i>Transportation Equipment</i>	2.2%	-1.4%	-6.1%	-19.9%	1.2%	-6.2%
Capital Goods Orders	0.2%	0.2%	-4.9%	-17.0%	4.6%	-6.2%
Capital Goods Shipments	1.9%	2.4%	-2.5%	7.2%	9.0%	9.4%
<i>Defense Shipments</i>	-0.7%	-4.3%	13.3%	34.1%	8.6%	14.4%
<i>Non-Defense, Ex Aircraft</i>	1.0%	0.2%	0.8%	8.4%	4.0%	7.5%
Unfilled Orders for Durable Goods	0.4%	0.5%	0.6%	6.2%	5.0%	3.6%

Source: Bureau of the Census

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