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July Durable Goods

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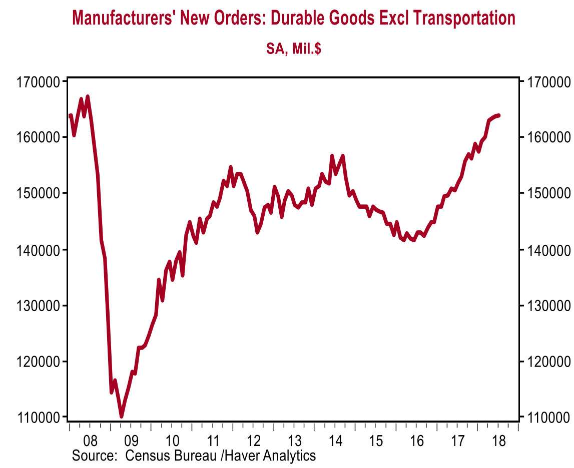
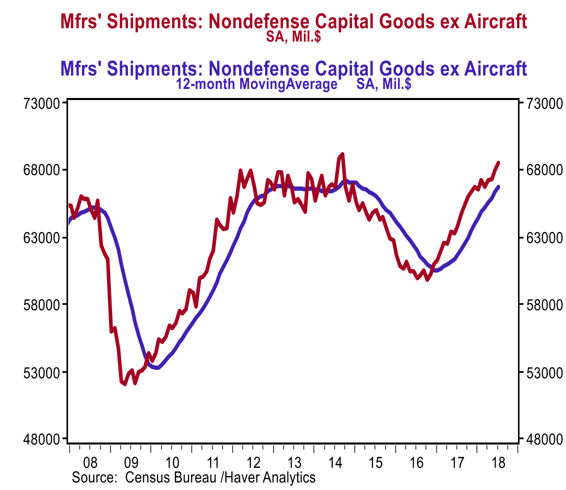
- New orders for durable goods declined 1.7% in July (-1.8% including revisions to prior months), lagging the consensus expected decline of 1.0%. Orders excluding transportation rose 0.2% in June (+0.1% including revisions to prior months), versus a consensus expected rise of 0.5%. Orders are up 9.2% from a year ago while orders excluding transportation are up 8.0%.
- The decline in orders in July was led by commercial and defense aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.9% in July. If unchanged in August and September, these shipments will be up at a 6.5% annualized rate in Q3 versus the Q2 average.
- Unfilled orders were unchanged in July but are up 3.9% in the past year.

Implications: A dip in airline orders masked otherwise widespread gains in durable goods orders in July, pushing total orders down 1.7%. Strip out the typically volatile transportation sector, and durable goods rose 0.2%. A look at the details shows rising orders for computers & electronic products, machinery, and primary metals offset a 0.2% decline in orders for electrical equipment. What is most important is that the trend in orders continues to show a healthy pace of activity, with total orders up 9.2% in the past year (though this was amplified by an abnormally large decline in the July 2017 report), and orders excluding transportation up 8.0%. All this data begs the question, what about those pesky trade concerns the media keeps talking about? As far as the data show, companies (and consumers) don't seem nearly as worried as the pouting pundits. We expect this trend to continue as the tax rate cuts, full expensing of equipment for tax purposes, and easing of backorders boost business activity through the remainder of 2018 and into 2019. Possibly the best news in today's report was a 0.9% increase in shipments of non-defense capital goods excluding aircraft, a key input in the calculation of GDP growth. If unchanged in August and September, these shipments will be up at a 6.5% annualized rate in Q3 versus the Q2 average. Paired with other recent data, it looks like real GDP is growing at a 4.5% annual rate in Q3. How do you reconcile GDP growth on track for the best year since 2005 – and continued data refusing to show a slowdown - with calls that a recession is looming? We aren't quite sure how the fearmongers are doing it either. The Kevlar economy has the fundamentals behind it, and plenty of room to run.





Durable Goods All Data Seasonally Adjusted	Jul-18	Jun-18	May-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-1.7%	0.7%	-0.3%	-5.1%	9.9%	9.2%
Ex Defense	-1.0%	1.2%	-1.4%	-4.7%	7.5%	9.7%
Ex Transportation	0.2%	0.1%	0.3%	2.4%	8.8%	8.0%
Primary Metals	0.3%	-0.6%	0.0%	-1.5%	22.6%	17.9%
Industrial Machinery	0.6%	0.0%	1.6%	9.4%	8.3%	5.8%
Computers and Electronic Products	1.1%	0.8%	0.6%	10.5%	9.9%	8.2%
Transportation Equipment	-5.3%	1.8%	-1.3%	-18.0%	12.0%	11.8%
Capital Goods Orders	-5.0%	-0.2%	0.2%	-18.9%	6.4%	6.7%
Capital Goods Shipments	-3.8%	1.8%	2.3%	0.9%	-0.3%	3.0%
Defense Shipments	-0.7%	-0.7%	-4.3%	-20.9%	-1.7%	11.8%
Non-Defense, Ex Aircraft	0.9%	0.9%	0.1%	8.2%	6.2%	7.5%
Unfilled Orders for Durable Goods	0.0%	0.3%	0.5%	3.5%	5.7%	3.9%

Source: Bureau of the Census