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August Durable Goods

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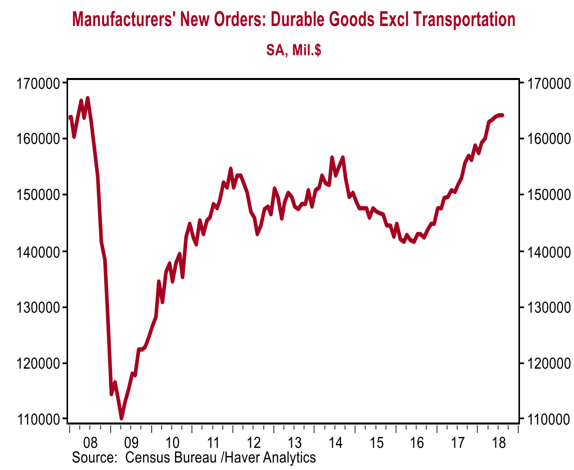
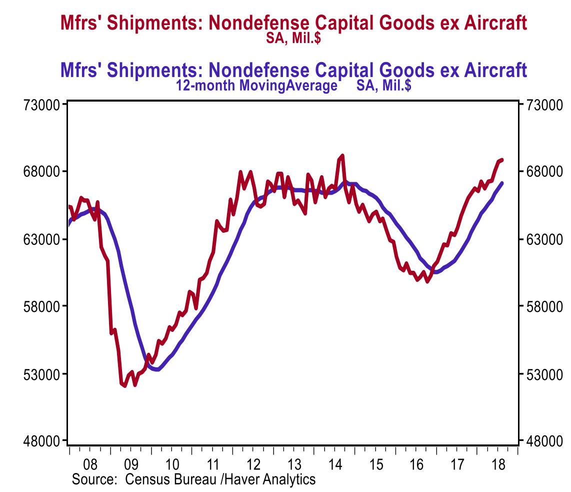
- New orders for durable goods rose 4.5% in August (+5.0% including revisions to prior months), easily beating the consensus expected rise of 2.0%. Orders excluding transportation rose 0.1% in August, versus a consensus expected rise of 0.4%. Orders are up 11.8% from a year ago while orders excluding transportation are up 7.3%.
- The rise in orders in August was led by aircraft.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.1% in August. If unchanged in September, these shipments will be up at a 7.9% annualized rate in Q3 versus the Q2 average.
- Unfilled orders rose 0.9% in August and are up 4.9% in the past year.





Implications: A bounce back in airline orders led an otherwise tepid report on durable goods orders in August. Strip out the typically volatile transportation sector – which rose 13% in August after a 3.7% decline in July - and durable goods rose 0.1%. A look at the details shows rising orders for primary metals, electrical equipment & appliances, and machinery more than offset a 0.5% decline in orders for computers and electronic products. But what is most important is that the trend in orders continues to show a healthy pace of activity, with total orders up 11.8% in the past year, and orders excluding transportation up 7.3%. 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 0.1% increase in shipments of non-defense capital goods excluding aircraft (along with an upward revision to the July data), a key input in the calculation of GDP growth. If unchanged in September, these shipments will be up at a 7.9% annualized rate in Q3 versus the Q2 average. Paired with other recent data, it looks like real GDP is growing at a 4.0% 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 or fear that the Fed is close to getting tight with the Fed Funds rate now at 2.25%? We aren't quite sure how the fear-mongers are doing it, either. The Kevlar economy has the fundamentals behind it, and plenty of room to run.

Durable Goods *All Data Seasonally Adjusted*	Aug-18	Jul-18	Jun-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**4.5%**	-1.2%	0.9%	17.4%	11.3%	11.8%
Ex Defense	**2.6%**	-0.6%	1.4%	14.1%	9.5%	9.9%
Ex Transportation	**0.1%**	0.2%	0.3%	1.9%	6.3%	7.3%
Primary Metals	**0.9%**	0.0%	-0.2%	2.5%	16.4%	15.9%
Industrial Machinery	**0.1%**	0.4%	0.3%	3.3%	1.9%	6.6%
Computers and Electronic Products	**-0.5%**	0.8%	0.8%	4.5%	10.7%	6.7%
Transportation Equipment	**13.0%**	-3.7%	2.0%	51.8%	20.8%	20.5%
Capital Goods Orders	**12.3%**	-4.1%	0.0%	34.6%	14.3%	18.0%
Capital Goods Shipments	**2.7%**	-3.5%	1.9%	4.0%	5.7%	7.1%
Defense Shipments	**1.2%**	0.2%	-0.7%	2.8%	14.2%	11.1%
Non-Defense, Ex Aircraft	**0.1%**	1.1%	1.0%	9.3%	5.0%	6.5%
Unfilled Orders for Durable Goods	**0.9%**	0.1%	0.4%	5.5%	6.8%	4.9%

Source: Bureau of the Census