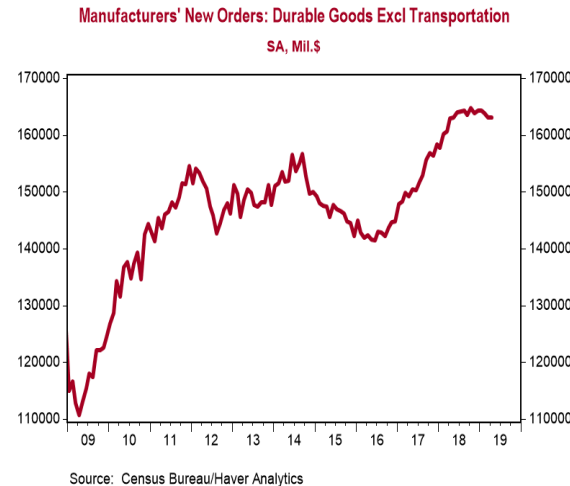


April Durable Goods

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- New orders for durable goods declined 2.1% in April (-3.7% including revisions to prior months), coming in below the consensus expected -2.0%. Orders excluding transportation were unchanged in April (-0.7% including revisions to prior months), versus a consensus expected rise of 0.1%. Orders are unchanged from a year ago while orders excluding transportation are up 0.1%.
- The decline in orders in April was led by civilian aircraft and autos.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure was unchanged in April. If also unchanged in May and June, these orders will be down at a 1.2% annualized rate in Q2 versus the Q1 average.
- Unfilled orders declined 0.1% in April, but are up 2.1% in the past year.

Implications: A soft report on durable goods orders to end the week, as a drop in orders for civilian aircraft and autos led declines across most major categories. Reason for concern? Not really. A dip was expected following the 1.7% rise in March, and orders outside the transportation sector eked out a very small rise (though small enough to round to zero). The trade scuffle with China may be playing a role, as companies wait for resolution on tariffs. If so, that’s a temporary factor, and orders delayed now will simply get shifted in time, not lost. We expect the economy to grow at around a 3% real rate (adjusted for inflation) in 2019, in line with the strong 2018 pace which represented the fastest annual growth in more than a decade. It won’t be a straight line from quarter-to-quarter (or month-to-month), and Q2 GDP growth may see a slowdown after the 3.2% pace seen in Q1, but a focus on quarterly changes rather than the trend misses the forest for the trees. A closer look at the details of the April report shows that, after stripping out the volatile transportation sector, a decline in orders for primary metals and communications equipment were offset by rising orders for fabricated metal products and machinery. Machinery and computer products – which provide a better gauge of corporate investment – continue to show growth. Among the most important data released in the durables report are “core” shipments of non-defense capital goods ex-aircraft (a key input for business investment in the calculation of GDP growth), which was unchanged in April. If unchanged in May and June, these shipments will decline at a 1.2% annualized rate in Q2 vs the Q1 average. But we expect “core” shipments will tick back higher over the coming months, continuing the trend seen in 2018, which posted the fastest full-year growth rate in “core” shipments in six years. At the end of the day, we would have loved to see a stronger report on durables, but the details of the report show it’s volatility and temporary factors, not fundamental weakness in the economy, that have orders taking a breather.



Durable Goods <i>All Data Seasonally Adjusted</i>	Apr-19	Mar-19	Feb-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	-2.1%	1.7%	-2.6%	-11.5%	-1.7%	0.0%
Ex Defense	-2.5%	0.1%	-2.1%	-16.6%	-4.1%	-1.8%
Ex Transportation	0.0%	-0.5%	-0.3%	-3.2%	-2.1%	0.1%
Primary Metals	-0.8%	-1.9%	0.4%	-9.3%	-6.6%	-4.9%
Industrial Machinery	0.1%	-2.0%	0.8%	-4.2%	-6.7%	0.0%
Computers and Electronic Products	-0.4%	2.1%	-0.5%	4.7%	-0.3%	4.8%
Transportation Equipment	-5.9%	5.9%	-6.7%	-25.1%	-0.9%	-0.3%
Capital Goods Orders	-3.5%	6.3%	-7.3%	-18.5%	0.3%	0.0%
Capital Goods Shipments	-2.2%	-0.6%	-0.6%	-13.1%	-3.3%	2.7%
Defense Shipments	2.6%	0.9%	-5.0%	-6.4%	13.5%	17.0%
Non-Defense, Ex Aircraft	0.0%	-0.6%	0.3%	-1.2%	0.9%	3.8%
Unfilled Orders for Durable Goods	-0.1%	0.1%	-0.4%	-1.6%	-0.8%	2.1%

Source: Bureau of the Census