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May Durable Goods

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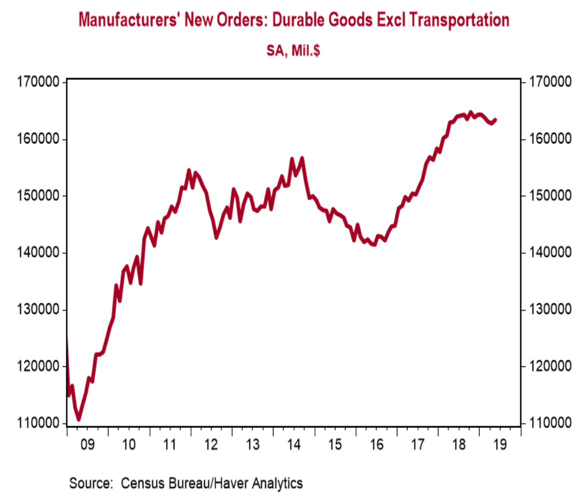
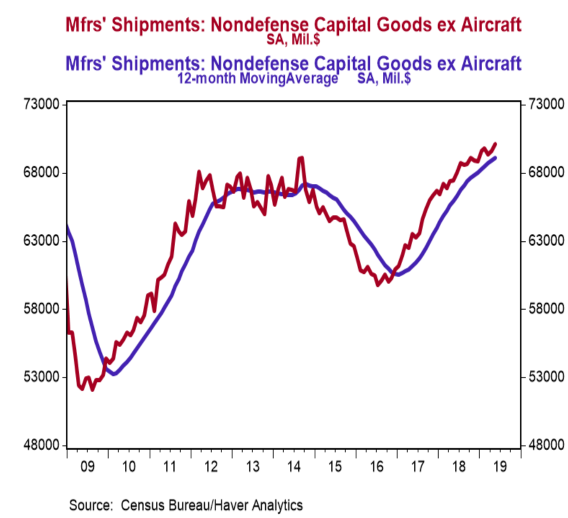
- New orders for durable goods declined 1.3% in May (-2.1% including revisions to prior months), coming in below the consensus expected -0.3%. Orders excluding transportation rose 0.3% in May (+0.2% including revisions to prior months), narrowly beating the consensus expected rise of 0.1%. Orders are down 2.8% from a year ago while orders excluding transportation are up 0.2%.
- The decline in orders in May was led by aircraft and fabricated metal products.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure rose 0.7% in May. If unchanged in June, these orders will be up at a 1.9% annualized rate in Q2 versus the Q1 average.
- Unfilled orders declined 0.5% in May, but are up 0.9% in the past year.

Implications: A drop in aircraft orders headlined an otherwise healthy report on durable goods in May. Strip out the 4.6% decline from the typically volatile transportation sector and orders excluding transportation rose 0.3%. A pickup in orders for machinery, computers and electronic products, and primary metals more than offset declining orders for fabricated metal products and electrical equipment. That said, orders excluding transportation are still down at a -1.3% annualized rate in the past three months after weakness in March and April. The trade scuffle with China is likely holding back orders, 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 will likely see a slowdown from the 3%+ pace seen in Q1, but a focus on quarterly changes rather than the trend misses the forest for the trees. 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 rose 0.7% in May. If unchanged in June, these shipments will be up at a 1.9% annualized rate in Q2 vs the Q1 average. If that holds, it represents a continuation of the trend seen in 2018, which posted the fastest full-year growth rate in "core" shipments in six years. Durables goods, like so many other data points, are volatile from month-to-month. We don't get overly concerned when a single month shows a decline, or ecstatic when monthly orders move higher. What we care about is the trend, and while soft of late, it does not suggest that this is an economy in need of lower interest rates, just a little trade progress out of Washington.





Durable Goods *All Data Seasonally Adjusted*	May-19	Apr-19	Mar-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	**-1.3%**	-2.8%	1.7%	-9.6%	-6.7%	-2.8%
Ex Defense	**-0.6%**	-3.3%	0.1%	-14.2%	-6.3%	-2.7%
Ex Transportation	**0.3%**	-0.1%	-0.5%	-1.3%	-0.6%	0.2%
Primary Metals	**0.4%**	-2.4%	-2.0%	-15.2%	-8.9%	-5.8%
Industrial Machinery	**0.7%**	0.2%	-2.0%	-4.7%	0.0%	0.4%
Computers and Electronic Products	**0.8%**	-0.6%	2.1%	9.4%	-1.2%	4.6%
Transportation Equipment	**-4.6%**	-7.6%	6.0%	-24.0%	-17.5%	-8.4%
Capital Goods Orders	**-3.3%**	-4.8%	6.3%	-8.2%	-11.0%	-8.2%
Capital Goods Shipments	**0.5%**	-2.3%	-0.6%	-9.7%	-5.4%	3.2%
Defense Shipments	**0.5%**	3.4%	0.9%	20.9%	15.1%	7.3%
Non-Defense, Ex Aircraft	**0.7%**	0.4%	-0.6%	1.5%	3.5%	3.3%
Unfilled Orders for Durable Goods	**-0.5%**	-0.2%	0.1%	-2.7%	-1.8%	0.9%

Source: Bureau of the Census