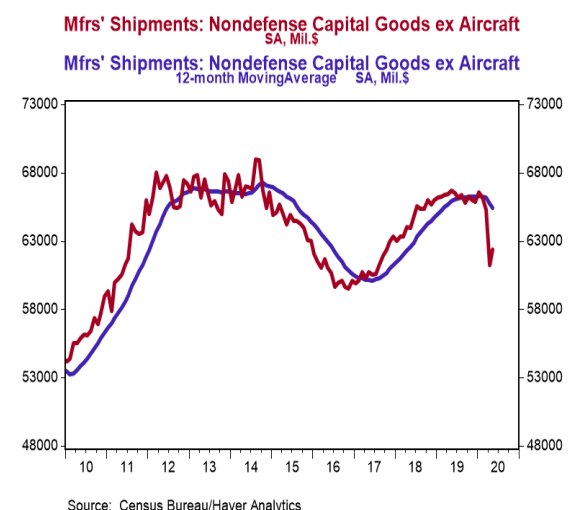


May Durable Goods

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- New orders for durable goods increased 15.8% in May, easily beating the consensus expected gain of 10.5%. Orders excluding transportation rose 4.0% in May, also beating the consensus expected gain of 2.1%. Orders are down 17.9% from a year ago, while orders excluding transportation are down 6.3%.
- The increase in orders in May was led by motor vehicles, aircraft, and primary metals.
- The government calculates business investment for GDP purposes by using shipments of non-defense capital goods excluding aircraft. That measure increased 1.8% in May. If unchanged in June, these shipments will be down at a 22.2% annualized rate in Q2 versus the Q1 average.
- Unfilled orders rose 0.1% in May but are down 4.1% in the past year.

Implications: Before we dive into the durables report, this morning we got the latest reading on initial unemployment claims, which came in at 1.48 million last week, maintaining the spate of extremely high readings since March. However, initial claims have now dropped twelve weeks in a row after peaking at 6.87 million in late March. We are also closely following regular continuing claims, data for which lag initial claims by one week. Continuing claims fell 767,000 to 19.52 million in the week ending June 12 and have fallen consistently since the peak of 24.91 million at the beginning of May. The reason that's important is that, typically, the economy has hit bottom when continuing claims peak or slightly before. In other words, the economy looks to have hit bottom in either April or May, returning to growth on a monthly basis in May or June, although not on a quarterly basis until the third quarter. Now back to durables, where new orders posted a strong rebound, as Coronavirus shutdowns nationwide began to ease. And it wasn't just the headline that was impressive; the details of the report showing broad-based gains. The volatile transportation sector was the biggest source of strength in May, surging 80.7% to post the largest monthly gain on record, driven by a concurrent jump in motor vehicles and a slowdown in the pace of cancelled orders for aircraft. Excluding transportation, activity was better than expected as well, with new orders rising 4.0% in May. Within this category, primary metals and fabricated metal products led the gain, up 9.1% and 7.4%, respectively. Notably, the computer and electronic products category has been remarkably stable throughout the Coronavirus Contraction, with orders actually up a modest 0.1% since February (pre-pandemic), probably reflecting extra equipment needed to help people work from home. One of the most important pieces of data from today's report, shipments of "core" non-defense capital goods ex-aircraft (a key input for business investment in the calculation of GDP growth), rose 1.8% in May and, if unchanged in May and June, will be down 22.2% at an annualized rate in Q2 vs the Q1 average. At present, we're estimating that real GDP will decline at around a 35% rate in the second quarter. While that will represent the single worst quarter for GDP in post-war US history, duration matters just as much as depth when it comes to recessions, and on the duration front the current recession is likely to be the shortest on record with growth already reviving. In other recent news, the FHFA index, which measures prices for homes financed by conforming mortgages, increased 0.2% in April and is up 5.5% from a year ago, the same gain as in the twelve months ending in April 2019.



Source: Census Bureau/Haver Analytics

Durable Goods <i>All Data Seasonally Adjusted</i>	May-20	Apr-20	Mar-20	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
New Orders for Durable Goods	15.8%	-18.1%	-16.7%	-61.1%	-31.7%	-17.9%
<i>Ex Defense</i>	15.5%	-17.1%	-17.5%	-61.2%	-37.1%	-18.8%
<i>Ex Transportation</i>	4.0%	-8.2%	-1.8%	-22.8%	-12.5%	-6.3%
<i>Primary Metals</i>	9.1%	-14.3%	-4.8%	-37.2%	-24.7%	-13.2%
<i>Industrial Machinery</i>	1.1%	-8.0%	-1.7%	-30.0%	-18.0%	-9.2%
<i>Computers and Electronic Products</i>	0.7%	0.0%	-0.5%	0.5%	2.6%	1.0%
<i>Transportation Equipment</i>	80.7%	-48.6%	-43.2%	-92.2%	-63.4%	-40.9%
Capital Goods Orders	25.8%	-2.4%	-29.8%	-44.7%	-1.4%	-5.9%
Capital Goods Shipments	0.4%	-10.9%	0.3%	-35.4%	-18.4%	-11.9%
<i>Defense Shipments</i>	-0.1%	3.7%	-3.1%	1.9%	6.0%	0.3%
<i>Non-Defense, Ex Aircraft</i>	1.8%	-6.2%	-1.3%	-21.0%	-10.6%	-7.8%
Unfilled Orders for Durable Goods	0.1%	-1.5%	-2.1%	-13.4%	-6.0%	-4.1%

Source: Bureau of the Census