



Economics Group

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Durable Orders Take Flight in July

An outsized contribution from aircraft orders lifted durable goods in July, resulting in the largest one-month increase on record. Ex-transportation, orders slipped, but that drop is from a revised-higher June number.

Big Old Jet Airliner, Don't Carry Me Too Far Away

In the first six months of 2014, Boeing received just one order for its 787 Dreamliner and three orders for its 777 (the world's largest twinjet with 450+ seating capacity). In July, Boeing officially recorded 324 total aircraft orders. To say that it was a good month for Boeing is an understatement. What is remarkable is not only the number of orders, but also the composition of the orders in terms of the type of aircraft. Only 60 were for the smaller 737s; the rest of the orders were for the much larger aircrafts, including 26 orders for 787s and a jaw-dropping 238 orders for various models from the triple-seven family of aircraft.

Core Capital Goods Orders Remain Steady

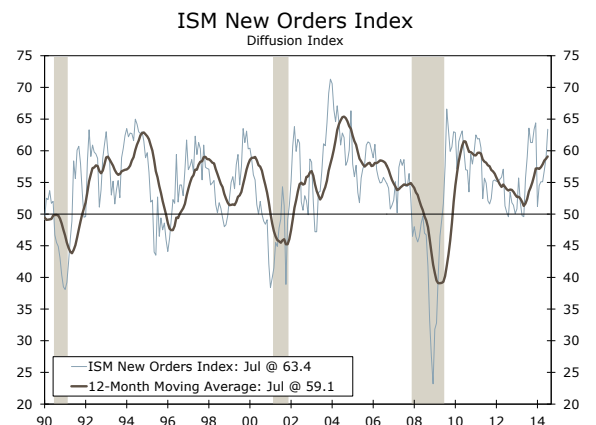
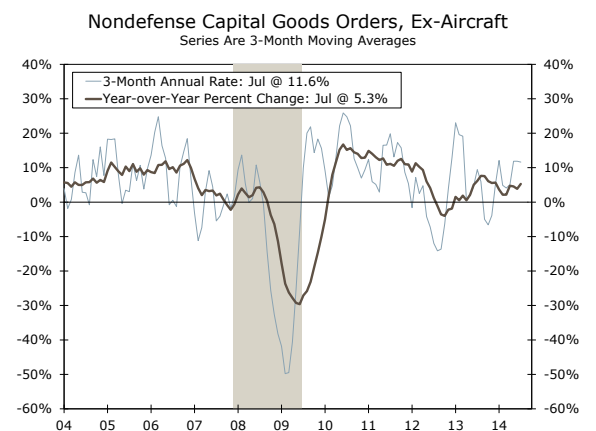
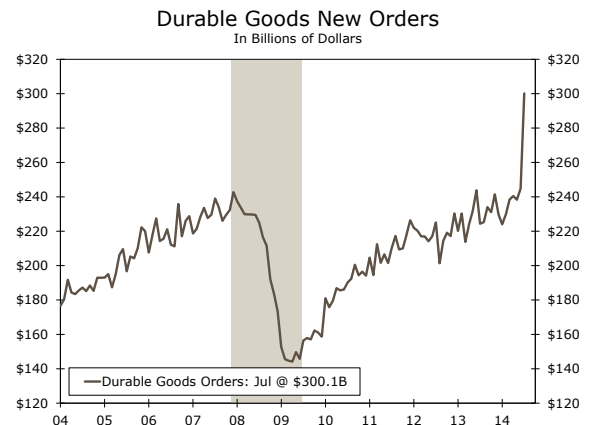
Once you get past the excitement with aircraft orders, there is still quite a bit to unpack to get a sense of what is happening with capital goods orders this summer. The decline in ex-transportation orders almost invites a dismissal of today's report on the notion that "it's all aircraft," but that would miss the point in our view.

While it is true that ex-transportation orders fell eight tenths of a percent in July, the decline comes from a higher base in the prior month. The initially-reported June increase of 0.8 percent was revised higher to 3.0 percent.

Non-defense capital goods orders ex-aircraft or, more simply, core capital goods orders, has long been our preferred gauge of the underlying strength in business spending. A modest 0.5 percent decline in July here might indicate some vulnerability for business spending, but we would point out that this decline also comes off a much higher base. The 5.4 percent June increase in core capital goods orders was the biggest one-month gain of the year. The three-month average annualized measure of core capital goods, at 11.6 percent, suggests a continuation in the recent momentum we have seen in equipment outlays and is consistent with our forecast for continued contribution from business spending to overall GDP growth in the second half of the year. Core capital goods shipments, a proxy for equipment spending in the GDP report, are growing at a 7.0 percent three-month average annualized rate in July.

Outlook for Moderate Growth Intact

Today's 22.6 percent surge in durable goods orders opens the door to all kinds of superlatives with its unprecedented boom in aircraft orders. We think that the key takeaway is that U.S. businesses are still spending on core capital goods at a healthy pace. The modest declines in July ex-transportation figures are not concerning, as they represent declines from a higher level in June. The orders component of the ISM, at 63.4, suggests that there is plenty of gas in the tank for continued growth in business spending.



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