U.S. Flash

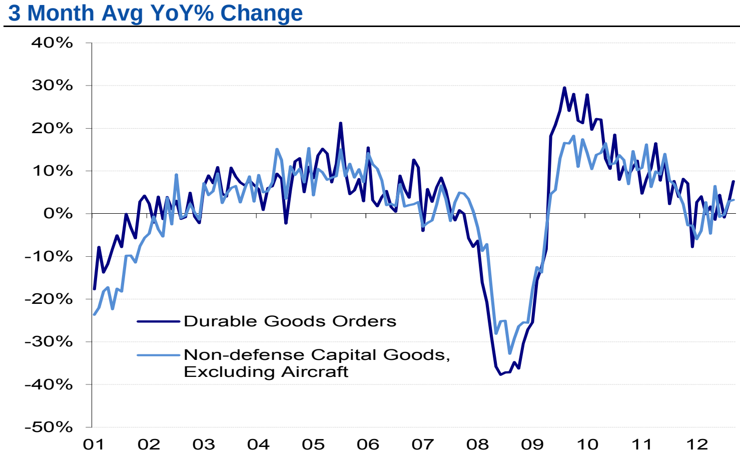
Durable Goods Growth Suggests Better Than Expected 2Q13

- **New orders for durable goods rose 3.6% on large order for Boeing aircrafts**
- **Excluding transportation, new orders rose only a modest 0.7%**
- **Consecutive months of nondefense capital goods growth may hint at better 2Q13**

As per usual, the durable goods headline figure was heavily influenced by transportation, and more specifically, the recent order made for Boeing aircrafts sent the nondefense aircraft and parts subcomponent up 51% in May. This subsequently boosted the headline figure to 3.6% for the second consecutive month, the most stable back-to-back trend in almost a year. Excluding transportation, the situation in new orders seems relatively positive despite the anticipated weakenss in manufacturing that was expected. Up 0.7%, the figure was supported by comprehensive growth in the subcomponents, save fabricated metals which declined. Machinary, computer & electronics, electrical equipment and transport all saw moderate growth as demand remains alive for the second straight month. On a side note, we had seen weaker data for manufacturing in the ISM figure for May as well as softer Federal Reserve surveys which led most to believe that durable goods orders would follow suit. Nevertheless, this growth in the second quarter bodes well for the sector and for businesses who seem to be more resilient than expected and are continuging to place orders for larger capital goods. Direct evidence of this comes in the form of nondefense capital goods orders and shipments, excluding aircraft, which grew by 1.0% and 1.7%, respectively.

Given the perpetual volatility of the series it is unlikely that June will look very much like May. However, given the recent airshow in Paris and the slew of orders Boeing is likely to have garnered, it is very likely the headline figure will heavily favor expansion in the transportation sector. Despite calls for manufacturing weakness, durable goods may remain the outliar in terms of bucking the sector's pessimism as businesses are still seeking opportunities to expand and require capital goods to do so. It is also important to point out that the hindrance in demand from the sequester may have run its course as defense spending on capital goods rose in May and new orders for defense goods rose 5.45%. Overall, we expect that June may continue to show some better than expected growth which will represent a boost to GDP that was unaccounted for in prior estimates.

Chart 1
Durable Goods Order
3 Month Avg YoY% Change



Source: U.S. Census Bureau & BBVA Research

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