

June 25, 2026 02:53 PM GMT

U.S. Data Pulse | North America

Solid GDP with less consumption, still strong capex. PCE prices.

Key Takeaways

- Core PCE was below our expectations, at 0.32% (vs. 0.36%*m/m*) – with softer non-profits explaining the surprise.
- As expected, core goods prices swung from rising to falling, while core services remained firm, driven by strong airfares, shelter, and financial services.
- Real consumption rose 0.3% in May with April revised -0.1 to 0.0%. We track 2Q consumption +1.8% (rev from 2.9%). 1Q consumption revised down on services.
- 1Q GDP revised up ½pt to 2.1% because of slower imports. 2Q GDP tracking revised down ½pt to 2.4% (on consumption), for about the same 1H GDP growth.
- 1Q capex strength continues into 2Q: May durable goods orders fell on aircraft and defense, but underlying capital goods shipments remained strong.

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May PCE inflation: Upside driven by airfares, shelter, and financial services

Core PCE inflation rose 0.32% m/m in May, below our expectation (consensus 0.3%, MS estimate 0.36%). Headline came in at 0.45% (0.48% MS estimate, 0.5% consensus). In terms of revisions, April was revised up but only +1bp.

Revisions and the May reading imply core PCE inflation running at a 3-month annualized pace of 3.52% (3.83% in April), a 6-month pace of 4.14% (3.85% in April), and a 12-month rate of 3.41% in May (vs. 3.32% in April).

We expect gradual disinflation path ahead. Including historical revisions we forecast core PCE inflation at 3.0% q4/q4 in 2026, assuming the oil price drop proves persistent. We forecast softer airfares inflation ahead, continued normalization in core goods inflation as the tariff pass-through fades, and decelerating housing inflation.

As we noted in our weekly, the Fed expects core PCE inflation at 3.3%q4/q4 for 2026, above our forecast. But we suspect the last SEP did not incorporate the effect of a potential de-escalation in the US-Iran war and, consequently, assumed stickier oil prices than our forecasts. The average monthly pace for core PCE inflation consistent with the SEP forecast is 0.21% m/m the rest of the year – vs our forecast of 0.17% m/m. Based on our lower inflation numbers, we expect the Fed to remain on hold the rest of the year.

Core goods came back to negative territory in May, signalling that tariff pass-through is close to or perhaps at completion. Our estimation of the total tariff pass-through to PCE prices is about 62bp so far, close to our forecast of a total push to prices of about 70bp. The deceleration was fairly broad-based, with both durables and non-durables inflation stepping down.

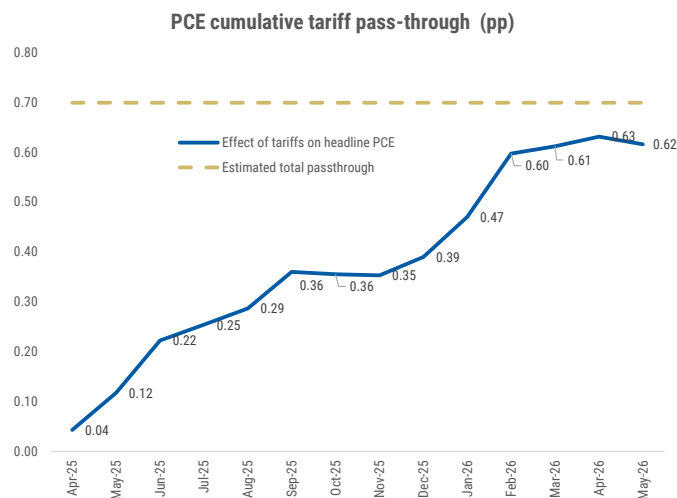
Another key component of the core goods disinflation outlook is software. As expected—and in line with seasonal patterns observed in recent years—software inflation decelerated in May (0% m/m vs. 5% in April). The key question is whether this slowdown will persist. Another strong print in June would suggest that the usual seasonal deceleration may not materialize this year and could prompt us to revise our core goods PCE inflation forecast.

Core services m/m inflation came in strong, mainly driven by financial services, healthcare, and airfares (the categories that come from PPI). Strong equity returns in April lifted financial services in May, and will likely push them in June too. Healthcare inflation rebounded after a weak April, and airfares (domestic and foreign travel) continued to reflect the still narrow effect of oil prices on core.

As expected, shelter inflation came in above our estimate of its underlying trend, likely reflecting residual shutdown-related noise. Recall that May rent inflation is derived from the implied monthly pace of the six-month change between November 2025 and May 2026; since BLS data collection resumed late in November following the shutdown, the underlying data may still be somewhat distorted.

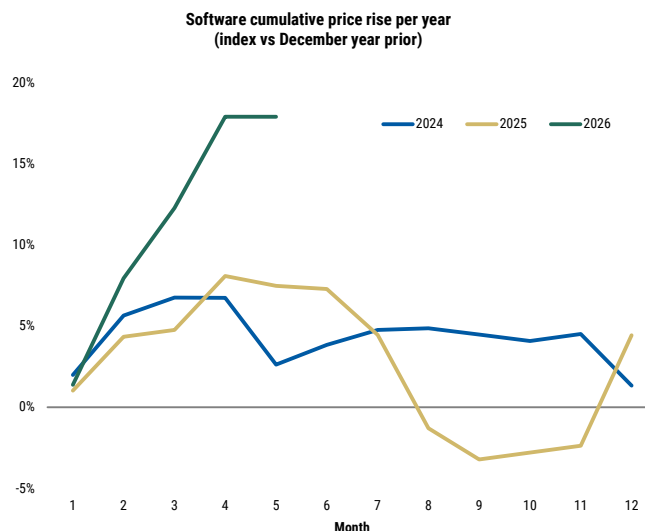
The main downside surprise in this print came from nonprofit institutions serving households. This component typically softens when hospital inflation picks up. While we had anticipated some deceleration, the weakness was more pronounced than expected.

Exhibit 1: The tariff push is close or perhaps at completion



Source: BLS, BEA, Morgan Stanley Research.

Exhibit 2: Software decelerated in May, like in prior years



Source: BEA, Morgan Stanley Research forecasts.

Exhibit 3:
PCE inflation summary

PCE m/m (%)	Feb-26 m/m	Mar-26 m/m	Apr-26 m/m	May-26 m/m	y/y
Headline	0.40	0.67	0.41	0.45	4.07
Food at Home	0.27	-0.14	0.49	0.06	
Energy	0.79	11.58	3.93	4.03	
Core	0.39	0.30	0.25	0.32	3.41
Core Goods	0.84	0.21	0.30	-0.10	2.44
Core Services	0.25	0.32	0.23	0.46	3.73
Housing	0.20	0.26	0.53	0.31	
Transportation Services	0.89	1.29	0.36	0.80	
Healthcare Services	0.20	0.35	0.03	0.38	
Recreation Services	-0.49	0.27	0.33	0.21	
Food Services and Accomodations	0.35	0.24	0.53	0.30	
Financial Services and Insurance	0.31	0.58	-0.35	1.22	
Communication Services	-0.28	0.02	-0.20	1.55	
Education Services	0.14	0.24	0.13	0.03	
Professional and Other Services	-0.86	-0.27	0.37	0.79	
Personal Care and Clothing Services	2.06	-0.19	-1.16	0.70	
Social Services and Religious Activity	0.26	0.27	0.41	0.07	
Household Maintenance	2.71	1.68	1.35	-1.50	
Foreign Travel by U.S. Residents	0.85	0.37	0.16	2.79	
Less: Expenditures in the U.S. by Nonresidents	0.50	1.20	1.24	1.02	
Nonprofit Institutions Serving Households	0.10	-0.39	1.20	-0.86	
Core Services ex Housing	0.27	0.34	0.14	0.50	3.88

Source: BEA, Morgan Stanley Research.

May personal income and spending: Solid May spending but with downward revisions to previous months

Real personal spending rose 0.3% m/m in May (MSe 0.3%, consensus 0.2%). Real spending for April was revised down by a tenth due to downward revisions to goods. We are now tracking 2Q real consumption up 1.8% (q/q saar).

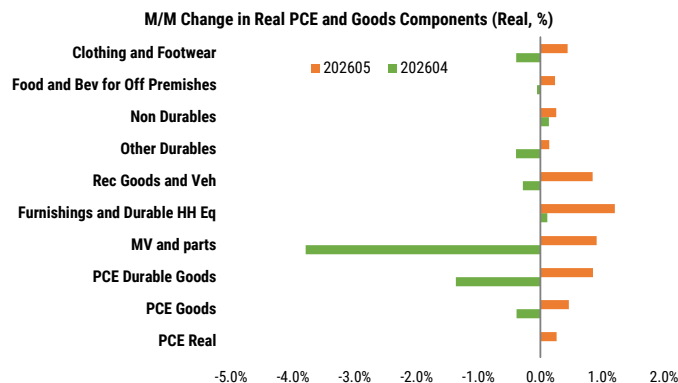
In May, real goods spending (+0.5% m/m) was positive across most categories, with the biggest increase in furnishings and durable household equipment (+1.2% m/m). In non-durables, there was a decline in real spending on gas and other energy goods (-2.4% m/m). In services (+0.2% m/m), the weaker categories were food services and transport services.

1Q real consumption was revised down significantly, from 1.4% (q/q saar) to 0.5%, entirely due to downward revision to services. The main downward revisions were in financial services, motor vehicle services, and consumption of nonprofits serving households. In 1Q, both goods and services were up 0.5%.

We are now tracking 2Q real consumption at 1.8% (q/q saar) with goods at 2.1% and services at 1.7%. We had previously been tracking 2Q real consumption at 2.9%, which we had thought was too strong. With the May data and downward revisions to April and 1Q, consumption for the year is now slightly softer than we initially expected.

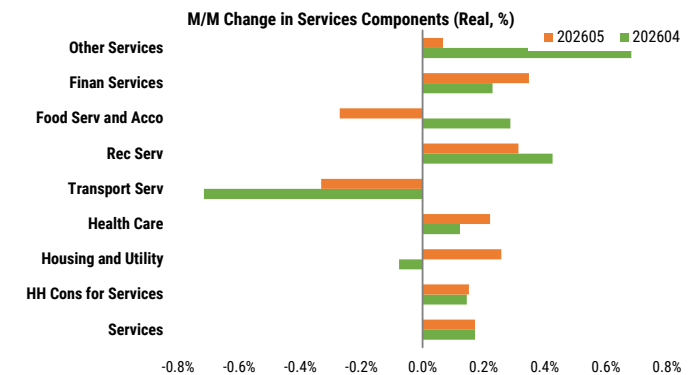
The composition of spending has also been different; services consumption growth has slowed meaningfully, while we expected more softness in goods. Much of the 2Q services data will be revised with QSS data later on, so we will see if this is still the case. With the data we have in hand now, the year-to-date slowing in services has been widespread across many categories: net foreign travel, motor vehicle services, professional & other services, gambling, health care, food services, and others.

Exhibit 4: Most good categories showed m/m increases in May



Source: BEA, Haver Analytics, Morgan Stanley Research

Exhibit 5: Within services, the biggest m/m declines were in food services and transport services



Source: BEA, Haver Analytics, Morgan Stanley Research

Nominal personal income rose 0.7% m/m in May (MSe 0.4%, Consensus 0.4%). Real disposable personal income rose 0.3% m/m. Nominal labor compensation rose 0.4% m/m as expected. Proprietors' income drove the strength, up 4.0% m/m due to payments

from the American Relief Act of 2025 which was intended to provide assistance for disaster recovery. Asset income, and specifically dividends, was a drag. The saving rate was revised up to 3.0% in April and remained there in May.

Exhibit 6: Personal Income and Spending Dashboard

	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26
Real Personal Consumption Expenditures	0.1%	0.2%	0.1%	0.1%	-0.2%	0.2%	0.3%	0.0%	0.3%
Durable Goods	-0.5%	0.0%	0.7%	-0.6%	-1.5%	2.0%	1.4%	-1.4%	0.9%
Nondurable Goods	-0.4%	0.1%	0.1%	-0.2%	-0.1%	0.2%	0.6%	0.1%	0.3%
Services	0.3%	0.3%	0.0%	0.3%	0.0%	0.0%	0.0%	0.2%	0.2%
Nominal Personal Consumption Expenditures	0.4%	0.4%	0.3%	0.4%	0.2%	0.6%	0.9%	0.4%	0.7%
Durable Goods	-0.5%	0.1%	0.8%	0.0%	-1.1%	3.1%	1.8%	-0.8%	0.8%
Nondurable Goods	0.4%	0.0%	0.3%	0.1%	-0.2%	0.8%	2.6%	0.9%	0.9%
Services	0.5%	0.6%	0.2%	0.6%	0.5%	0.2%	0.3%	0.4%	0.6%
Real Personal Income	0.1%	-0.3%	0.0%	-0.1%	0.1%	-0.4%	-0.1%	-0.4%	0.2%
Disposable Personal Income	0.1%	-0.3%	0.0%	-0.1%	0.6%	-0.5%	-0.1%	-0.5%	0.3%
Nominal Personal Income	0.4%	-0.1%	0.2%	0.2%	0.5%	0.0%	0.5%	0.0%	0.7%
Disposable Personal Income	0.4%	-0.1%	0.2%	0.2%	1.0%	-0.1%	0.5%	-0.1%	0.7%
Compensation of Employees	0.4%	0.1%	0.3%	0.0%	0.5%	0.1%	0.4%	0.3%	0.4%
Personal Saving Rate	4.3	3.9	3.8	3.6	4.4	3.8	3.5	3.0	3.0

Source: BEA, Haver Analytics, Morgan Stanley Research

Exhibit 7: Personal spending heat map

	May-26	Apr-26	Mar-26	Feb-26	Jan-26	Dec-25	Nov-25	Oct-25	Sep-25	Aug-25	Jul-25	Jun-25
Category of Personal Spending							m/m % change					
Real spending	0.3	0.0	0.3	0.2	-0.2	0.1	0.1	0.2	0.1	0.3	0.5	0.3
Real goods	0.5	-0.4	0.9	0.8	-0.6	-0.3	0.3	0.1	-0.4	0.4	0.6	0.4
Real durable goods	0.9	-1.4	1.4	2.0	-1.5	-0.6	0.7	0.0	-0.5	0.1	1.3	-0.2
Real nondurable goods	0.3	0.1	0.6	0.2	-0.1	-0.2	0.1	0.2	-0.4	0.5	0.3	0.7
Real services	0.2	0.2	0.0	0.0	0.0	0.3	0.0	0.3	0.3	0.2	0.4	0.2
Motor vehicles and parts	0.9	3.8	3.5	6.8	-3.1	0.2	1.2	2.6	0.2	-1.5	2.0	0.4
Furnishings and durable household equipment	1.2	0.1	1.7	0.6	0.4	-1.1	0.4	1.0	-1.3	0.1	-0.1	-0.5
Recreational goods and services	0.8	-0.3	-0.5	-0.7	-0.6	-1.5	1.1	1.8	-0.9	2.8	1.7	0.1
Other durable goods	0.1	-0.4	-0.1	-0.1	1.8	0.6	-0.7	0.6	0.4	-1.6	1.2	0.4
Food and bev purchased for off-premises consumption	0.2	-0.1	0.9	-0.7	0.2	-0.2	-0.1	0.2	-0.6	0.0	0.5	0.4
Clothing and footwear	0.4	-0.4	-0.3	1.3	-0.5	-1.0	0.9	1.6	-1.6	0.8	0.6	0.7
Gasoline and other energy goods	-2.4	0.0	-1.3	0.2	-0.9	1.8	0.8	-2.8	1.0	0.7	-1.0	1.9
Other nondurable goods	1.0	0.5	1.1	0.6	0.0	-0.4	-0.1	0.3	0.0	0.8	0.3	0.7
Housing and utilities	0.3	-0.1	-0.1	-0.1	0.2	0.3	0.0	0.2	0.3	-0.2	0.0	0.2
Health care	0.2	0.1	-0.1	-0.3	-0.1	0.4	0.2	-0.1	0.5	0.7	0.6	0.3
Transportation services	-0.3	-0.7	-0.6	1.1	-0.5	0.5	-0.8	0.5	0.3	0.8	0.1	-0.2
Recreation services	0.3	0.4	0.1	-0.3	-0.4	0.2	0.0	0.7	-0.3	1.3	0.6	-0.1
Food services	-0.4	0.4	-0.1	0.3	-0.5	-0.9	0.2	-0.4	0.2	-0.3	-0.2	0.5
Accommodations	0.4	-0.6	0.0	0.0	0.2	-0.3	0.7	1.4	-1.6	-1.9	1.3	1.1
Financial services and insurance	0.3	0.2	0.0	-0.1	0.1	0.5	0.0	0.7	0.5	-0.3	0.3	0.6
Other services	0.1	0.7	0.3	-0.5	-0.6	0.5	-0.3	0.2	0.7	0.0	1.2	0.1
Nominal spending	0.7	0.4	0.9	0.6	0.2	0.4	0.3	0.4	0.4	0.6	0.7	0.5
Nominal goods	0.9	0.3	2.3	1.6	-0.5	0.0	0.5	0.0	0.1	0.5	0.5	0.8
Nominal durable goods	0.8	-0.8	1.8	3.1	-1.1	0.0	0.8	0.1	-0.5	0.1	1.2	0.3
Nominal nondurable goods	0.9	0.9	2.8	0.8	-0.2	0.1	0.3	0.0	0.4	0.8	0.2	1.1
Nominal services	0.6	0.4	0.3	0.2	0.5	0.6	0.2	0.6	0.5	0.6	0.7	0.4
	Contribution to change (pp)											
Motor vehicles and parts	0.0	-0.1	0.1	0.2	-0.2	0.0	0.0	-0.1	0.0	-0.1	0.1	0.0
Furnishings and durable household equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recreational goods and services	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.1	0.0	0.1	0.1	0.0
Other durable goods	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Food and bev purchased for off-premises consumption	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Clothing and footwear	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gasoline and other energy goods	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Other nondurable goods	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Housing and utilities	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Health care	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Transportation services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recreation services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Food services	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Accommodations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial services and insurance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Other services	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0

Source: BEA, Haver Analytics, Morgan Stanley Research

Large GDP revisions: slower consumption, faster GDP

We were surprised at the scale of revision to 1Q GDP revisions. Consumption growth was cut by 0.9 pct pt to a 0.5%q/q annual rate, its downward revisions reflecting (about evenly) financial services, car insurance, and nonprofit output. However, 1Q imports were also revised down sharply, and on net 1Q GDP was revised up ½ point to a 2.1% q/q annual rate.

The net of this is a slower path in both 1Q and 2Q consumption, but continued momentum in business investment and GDP. The combination of the two sharpens the shift away from consumption and toward capex that we've been expecting.

Our 2Q GDP tracking was cut to 2.4% from 3.0% because of softer April goods spending and a weaker trend in services. The 0.6 pct pt downward revision to 2Q GDP tracking about matches the upward revision to 1Q tracking----for a similar trend in output growth.

A note on the consumption path: There has been some pattern of weakness in consumption in 1Q because of residual seasonality in prices. This year's headwinds were exacerbated by the impact of tariffs. Still, on net, between the almost 1 pct pt cut to 1Q consumption and a similar trimming of our 2Q tracking estimate, the 1H path for consumption no longer looks nearly as strong as it did.

Exhibit 8: GDP revisions

	4Q/4Q % change		Quarterly % change, annual rate (unless otherwise noted)						Prior	Revision
	2024	2025	1Q25	2Q25	3Q25	4Q25	1Q26			
Real GDP	2.4	2.0	-0.6	3.8	4.4	0.5	2.1	1.6	0.5	
Final Sales ¹	2.6	2.2	-3.2	7.5	4.5	0.3	1.9	1.5	0.4	
Final Domestic Demand²	3.0	1.8	1.4	2.4	2.8	0.6	2.2	2.7	-0.5	
Final Private Domestic Demand ³	2.9	2.4	1.9	2.9	2.9	1.8	1.7	2.4	-0.7	
Personal Consumption Expenditures	3.4	2.1	0.6	2.5	3.5	1.9	0.5	1.4	-0.9	
– Goods	4.2	1.4	0.2	2.2	3.0	0.3	0.5	0.4	0.1	
– Services	3.0	2.4	0.8	2.6	3.6	2.7	0.5	1.8	-1.3	
Nonresidential Fixed Investment	0.9	5.6	9.5	7.3	3.2	2.4	10.6	10.1	0.5	
– Structures	-4.8	-5.5	-3.1	-7.5	-5.0	-6.5	-4.7	-5.4	0.7	
– Equipment	3.2	9.6	21.4	8.5	5.2	4.3	15.8	17.2	-1.4	
– IPP	2.3	8.0	6.5	15.0	5.6	5.4	13.8	11.6	2.2	
Residential Investment	1.3	-3.8	-1.0	-5.1	-7.1	-1.7	-7.8	-6.2	-1.6	
Exports	3.3	1.1	0.2	-1.8	9.6	-3.2	10.9	13.1	-2.2	
Imports	6.2	-1.9	38.0	-29.3	-4.4	-1.0	11.8	21.1	-9.3	
Government	3.6	-1.2	-1.0	-0.1	2.2	-5.6	4.4	4.4	0.0	
Inventory contribution (pct pts, a.r.)	-0.2	-0.2	2.6	-3.4	-0.1	0.1	0.2	0.1	0.2	
Trade contribution (pct pts, a.r.)	-0.5	0.4	-4.7	4.8	1.6	-0.2	-0.4	-1.3	0.9	
Real GDI	2.6	2.2	1.0	2.6	3.5	1.6	1.2	0.9	0.3	
Nominal GDP (Current \$)	4.9	5.4	2.9	6.0	8.3	4.2	5.8	5.1	0.7	
Nominal Consumption	6.0	5.0	4.1	4.7	6.3	4.9	5.2	6.0	-0.8	
Inflation (quarterly % change, a.r.)										
PCE Price Index			3.4	2.1	2.8	2.9	4.6	4.6	0.1	
PCE ex Food & Energy			3.3	2.6	2.9	2.7	4.4	4.4	0.1	
Inflation (4-quarter % change)										
PCE Price Index	2.6	2.8	2.6	2.4	2.7	2.8	3.1	3.1	0.0	
PCE ex Food & Energy	3.0	2.9	2.8	2.7	2.9	2.9	3.1	3.1	0.0	

Source: BEA, Morgan Stanley Research

Exhibit 9: GDP tracking

Details of Q2 2026 US GDP tracking (% q/q saar unless indicated)														
Date	Data release		Final								NX (level)	CIPI (level)		
			GDP	sales	PCE	Res	Equip	Struct	IPP	Gov			X	M
12-May	Baseline		2.3	2.3	1.7	1.0	8.0	-3.0	8.0	1.4	0.0	-0.1	-1067	-5
14-May	Retail sales	Apr	2.4	2.4	1.8	1.0	8.0	-3.0	8.0	1.4	0.0	-0.1	-1067	-5
	Adjustments		2.6	2.8	2.5	1.0	8.0	-3.0	8.0	1.4	0.0	-0.1	-1067	-19
21-May	Quarterly Services Survey	1Q	2.4	2.6	2.2	1.0	8.0	-3.0	8.0	1.4	0.0	-0.1	-1067	-19
28-May	Post GDP revision	1Q	2.4	2.6	2.2	1.0	8.0	-3.0	8.0	1.4	0.0	-0.1	-1063	-38
29-May	Trade & trade effects on business investment	Apr	2.7	3.0	2.2	1.0	8.0	-3.0	8.0	1.4	13.0	7.5	-1048	-46
4-June	Motor vehicle sales, PCE price estimates	May	2.7	3.0	2.2	1.0	8.0	-3.0	8.0	1.4	13.0	7.5	-1048	-46
9-June	Trade & trade effects on business investment	Apr	2.8	3.1	2.2	1.0	8.0	-3.0	8.0	1.4	13.0	6.5	-1039	-46
16-June	Housing starts and permits	May	2.8	3.1	2.2	0.5	8.0	-3.0	8.0	1.4	13.0	6.5	-1039	-46
17-June	Retail sales	May	3.0	3.4	2.9	0.5	8.0	-3.0	8.0	1.4	13.0	7.5	-1048	-52
24-June	New home sales	May	3.0	3.4	2.9	-0.2	8.0	-3.0	8.0	1.4	13.0	7.5	-1048	-52
25-June	GDP, income, prices, durables		2.4	2.8	1.8	-0.2	8.0	-3.0	8.0	1.4	13.0	6.5	-976	-43
	GDP tracking		2.4	2.8	1.8	-0.2	8.0	-3.0	8.0	1.4	13.0	6.5	-976	-43
	<i>Contribution to GDP growth (pp)</i>			2.8	1.2	0.0	0.4	-0.1	0.5	0.2	1.4	-0.9	0.5	-0.4
	Morgan Stanley official forecast		2.3	2.3	1.7	1.0	8.0	-3.0	8.0	1.4	0.0	-0.1	-1067	-5

Note: Our GDP tracking estimate is distinct from our official published GDP forecast. It reflects the mechanical aggregation of monthly activity data that feed directly into the BEA's calculation. Where data releases have implications for the tracking components, cells have been bolded. Source: Morgan Stanley Research

May Durable Orders: Headline Weakness Masked Underlying Strength

May durable goods orders fell less than expected despite a drag from aircraft and defense capital goods. At the same time, core capital goods orders rose, and shipments continued to point to strength in underlying business investment momentum. Overall, underlying business investment remained on a firm footing.

Headline durable goods orders fell 4.5% m/m in May and were down 3.5% from a year earlier, a smaller decline than consensus expectations of -5.0% m/m and our forecast of -7.0%. April orders were revised higher to 8.5% from 7.9%. Orders excluding transportation increased 1.3%, highlighting the important role of volatile categories like nondefense aircraft in driving the headline result. Defense wasn't a boost this month: Orders excluding defense fell 4.6%, almost the same as the headline.

The details of the report pointed to continued strength in underlying capital spending. Orders for non-defense capital goods excluding aircraft — a key proxy for business investment plans — rose 1.6% in May following a 1.1% decline in April. Shipments of these core capital goods increased 0.3% after rising 0.5% in April. Taken together, the data suggest equipment investment remained on a firm footing into the middle of the second quarter.

Volatile categories accounted for a significant portion of the headline movement. Defense capital goods orders fell 3.4% m/m but were still up 14.4% y/y. This month-on-month moderation was not unexpected given the strong growth over the prior three months. Non-defense aircraft orders declined by 51.8%. Transportation equipment orders fell 14.0% overall and were down 22.1% from a year earlier, although motor vehicles and parts orders increased 1.1%. Transportation shipments increased 1.4%, marking the sixth consecutive month of growth.

Outside of transportation and defense, manufacturing activity remained firm across most industries. Machinery orders rose 1.9%, marking the fifteenth consecutive monthly increase, while shipments decreased 0.1%, leaving the level broadly unchanged. Momentum in the technology sector continued, albeit with some moderation, with orders for computers and electronic products rising 0.3%, below the six-month average pace of 1.7%, while shipments increased 0.6%, also below their six-month average of 0.9%.

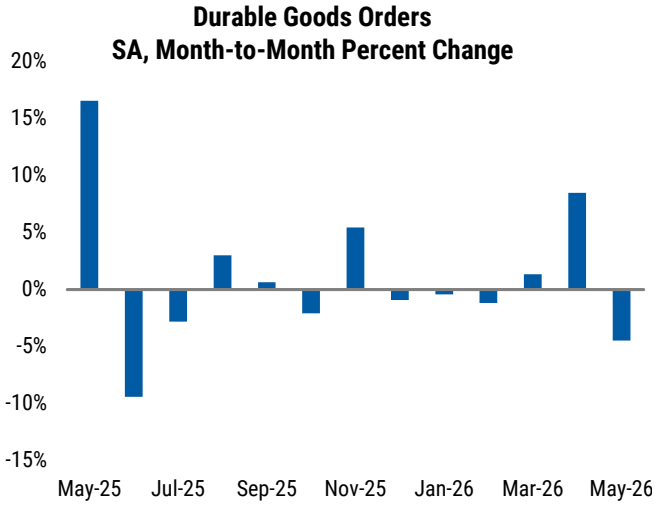
Following today's durable goods report, we expect May manufacturing orders to fall 1.3% m/m.

Exhibit 10: Monthly advance report on durable goods manufacturers' shipments, inventories and orders.

	May-26	Apr-26	Mar-26	Feb-26	Jan-26	Dec-25	Nov-25	6-mo. Avg.	May YoY
New Orders									
Durable goods	-4.5%	8.5%	1.3%	-1.2%	-0.4%	-0.9%	5.4%	0.5%	-3.5%
Ex-transportation	1.3%	1.4%	1.1%	1.2%	0.4%	1.2%	0.5%	1.1%	10.2%
Ex-defense	-4.6%	8.4%	-0.3%	-1.2%	0.2%	-1.9%	6.6%	0.1%	-5.0%
Defense	-2.7%	9.0%	26.5%	-0.3%	-9.8%	15.9%	-10.7%	6.4%	18.6%
Capital goods	-13.6%	22.2%	2.9%	-6.5%	-3.0%	-3.2%	15.4%	-0.2%	-21.1%
Non-defense cap goods	-15.7%	24.9%	-1.2%	-7.9%	-0.9%	-6.7%	20.4%	-1.3%	-26.4%
ex-aircraft	1.6%	-0.7%	3.8%	1.6%	-0.3%	0.8%	0.9%	1.1%	10.5%
Defense cap goods	-3.4%	10.4%	26.0%	2.1%	-14.1%	21.6%	-10.7%	7.1%	14.4%
Transportation	-14.0%	22.4%	1.8%	-5.6%	-1.9%	-4.6%	15.2%	-0.3%	-22.1%
Vehicle & parts	1.1%	0.7%	1.2%	3.7%	0.8%	1.5%	-0.3%	1.5%	12.4%
Nondefense aircraft	-51.8%	167.4%	-23.0%	-33.3%	-1.7%	-22.7%	98.2%	5.8%	-70.3%
Electrical equip.	0.3%	-0.2%	1.3%	-1.0%	-0.9%	1.9%	1.1%	0.2%	5.8%
Computers & electronics	0.3%	-0.4%	4.8%	1.4%	0.8%	3.4%	0.6%	1.7%	13.3%
Machinery	1.9%	1.3%	1.2%	2.4%	0.6%	0.2%	0.7%	1.3%	14.0%
Fabricated metals	1.5%	4.1%	0.0%	1.1%	0.0%	0.9%	0.5%	1.3%	11.2%
Primary metals	3.0%	2.6%	0.8%	2.5%	1.2%	2.3%	-0.3%	2.1%	15.9%
Dur. orders + nondur. ship.	-1.3%	5.2%	1.8%	0.3%	0.0%	-0.4%	2.7%	0.9%	8.6%
Manuf. orders	n/a	5.0%	1.8%	0.3%	0.0%	-0.4%	2.7%	1.3%	n/a
Shipments									
Shipments	1.6%	1.3%	1.5%	1.7%	0.7%	0.7%	-0.2%	1.3%	8.9%
Nondurable shipments	2.2%	1.9%	2.3%	1.9%	0.5%	0.1%	-0.1%	1.5%	9.0%
Durable shipments	1.0%	0.7%	0.8%	1.6%	0.9%	1.2%	-0.3%	1.0%	8.9%
Ex-transportation	0.8%	0.5%	0.8%	1.4%	0.5%	1.0%	0.4%	0.9%	7.6%
Ex-defense	1.0%	0.6%	0.6%	1.5%	0.9%	1.1%	-0.5%	1.0%	7.8%
Defense	1.0%	1.8%	3.3%	2.7%	0.9%	2.8%	3.3%	2.1%	26.5%
Capital goods	0.9%	1.3%	1.1%	0.3%	1.2%	2.0%	-1.3%	1.1%	10.4%
Non-defense cap goods	0.9%	1.3%	0.6%	-0.2%	1.3%	1.9%	-2.1%	0.9%	7.2%
ex-air	0.3%	0.5%	1.3%	1.3%	0.0%	1.0%	0.3%	0.7%	7.6%
Defense cap goods	0.9%	1.4%	4.2%	3.1%	0.7%	2.7%	3.7%	2.2%	29.8%
Transportation	1.4%	0.9%	0.7%	1.9%	1.7%	1.6%	-1.6%	1.4%	11.5%
Vehicle & parts	1.1%	0.5%	1.2%	3.5%	0.9%	1.3%	0.2%	1.4%	12.1%
Nondefense aircraft	3.5%	3.2%	-3.1%	-5.8%	7.4%	5.2%	-11.9%	1.7%	5.4%
Electrical equip.	0.7%	0.4%	0.7%	1.2%	0.0%	0.9%	-0.4%	0.7%	6.6%
Computers & electronics	0.6%	0.6%	0.6%	1.0%	1.6%	0.8%	1.0%	0.9%	7.0%
Machinery	-0.1%	0.0%	2.5%	1.7%	-0.3%	1.2%	0.3%	0.8%	9.6%
Fabricated metals	0.3%	0.8%	0.9%	1.1%	0.7%	0.9%	0.5%	0.8%	7.7%
Primary metals	3.5%	1.1%	0.1%	2.6%	1.0%	2.8%	-0.2%	1.8%	14.4%
Inventories									
Manufacturers' inventories	0.2%	0.3%	0.7%	0.1%	0.1%	0.1%	0.2%	0.2%	1.9%
Nondurable goods	0.3%	0.3%	1.3%	0.1%	-0.3%	-0.3%	0.1%	0.3%	1.6%
Durable goods	0.2%	0.3%	0.3%	0.1%	0.2%	0.2%	0.2%	0.2%	2.1%
3-mo.change annualized \$	18.1	16.4	14.7	13.5	17.1	14.9	6.8	15.8	n/a
Non-defense cap goods	0.0%	0.4%	0.1%	0.2%	0.2%	0.4%	0.2%	0.2%	0.8%
ex-air	0.1%	0.2%	0.0%	0.0%	0.2%	0.4%	0.2%	0.2%	2.1%
Unfilled Orders									
Durable goods	0.6%	1.8%	0.2%	0.1%	0.6%	0.9%	1.4%	0.7%	8.5%
Non-defense cap goods	0.3%	2.3%	0.0%	0.1%	1.0%	1.2%	2.3%	0.8%	10.3%
ex-air	0.8%	0.5%	0.8%	0.2%	0.1%	0.2%	0.2%	0.4%	2.9%

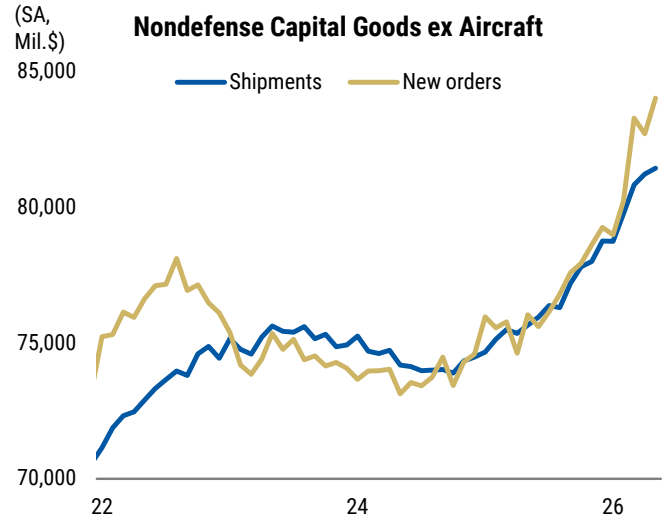
Source: U.S. Census Bureau, Haver Analytics, Morgan Stanley Research

Exhibit 11: Durable goods orders were down from a year earlier.



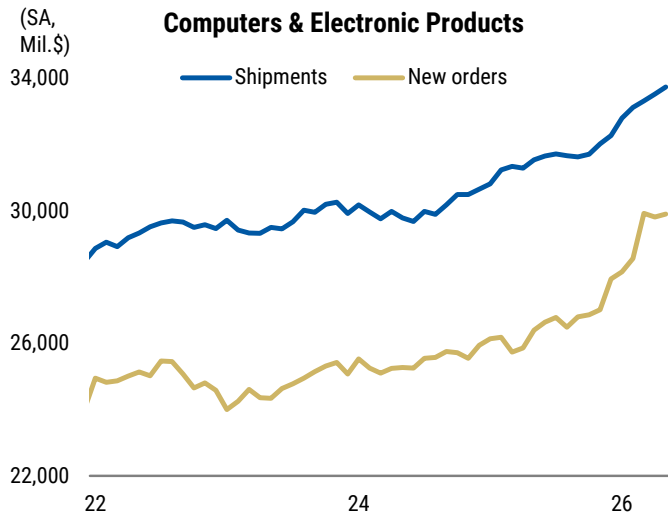
Source: U.S. Census Bureau, Haver Analytics, Morgan Stanley Research

Exhibit 12: Core capex shipments and orders have been trending up.



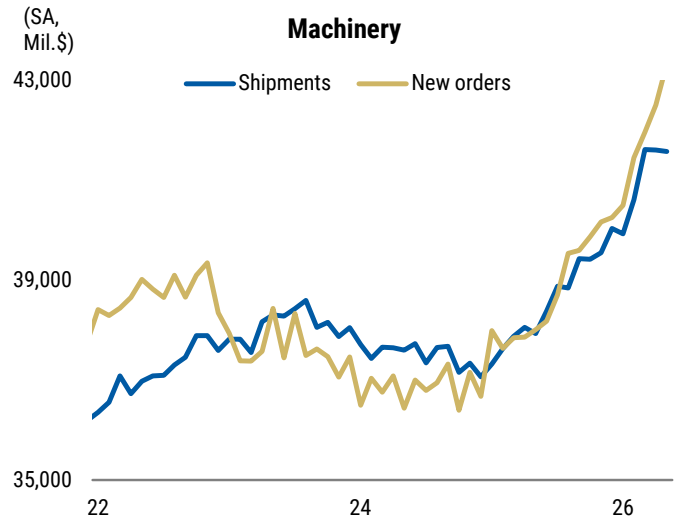
Source: U.S. Census Bureau, Haver Analytics, Morgan Stanley Research

Exhibit 13: Shipments and new orders of technology continue to grow.



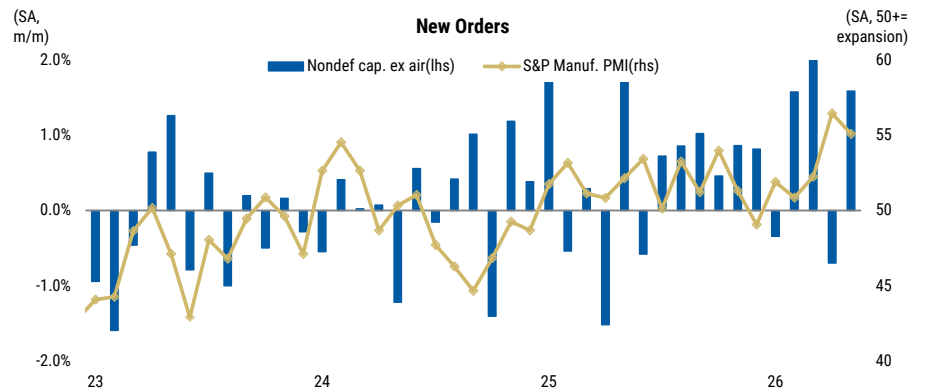
Source: U.S. Census Bureau, Haver Analytics, Morgan Stanley Research

Exhibit 14: Shipments and new orders of machinery picked up from a year ago.



Source: U.S. Census Bureau, Haver Analytics, Morgan Stanley Research

Exhibit 15: Stronger PMI new orders generally coincide with firmer core capital goods order growth, though the month-to-month alignment is imperfect.



Source: U.S. Census Bureau, S&P Global PMI, Haver Analytics, Morgan Stanley Research

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