ACHIEVING PRECISE VELOCITY

The Durable Goods Report

July 2009 Data

Source Data: US Census Bureau

Preliminary Data Release of 9/2/2009

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Highlights:

- Industrial Production: UP to $2.646 trillion from $2.624 trillion (+0.6%) from prior month.
- Capacity Utilization:
    - Manufacturing: UP to 65.5% from 64.8% prior month.
    - Durable goods manufacturing: UP to 59.1% from 57.7% prior month.
    - Iron and steel: UP to 41.7% from 39.9% prior month
    - Auto and light truck: UP to 41.0% from 28.2% prior month.
    - Machinery: DOWN to 56.4% from 56.6% (record low)
- Durable Goods:
    - New orders: UP to $ 169.0 billion from $160.8 billion from prior month (+5.1%). Twelve month moving average 20% BELOW prior year.
    - Shipments UP to $173.3 billion from $169.8 billion (+2%) from prior month. Twelve month moving average 13.4% BELOW prior year.
    - Unfilled Orders DOWN to $740.6 billion from $740.7 billion (+0.01%).
    - Inventory: DOWN to $313.7 from $316.7 billion (-1%).
    - Inventory to Shipments ratio: DOWN to 1.81 from 1.86.
- Retail :
    - Total retail (excl. food service): DOWN to $304 billion from $304.3 billion (-0.1%).
        - Autos and Parts: UP to $58.7 billion from $57.3 billion (+2.4%).
        - Gasoline: DOWN to $29.5 billion from $30.1 billion (-2.1%)
    - Core retail (Excl. food service, gas, autos and parts): DOWN to $215.8 billion from $216.9 billion (-0.5%). DOWN 5.5% from prior year.
- Housing:
    - Inventory- new single family: DOWN to 272,000 from 281,000 units (-3.2%). 26th consecutive monthly decline.
        - Median Sales Price: DOWN to $214,000 from $217,000. 8% below prior year (3MMA). Median price of homes under $400,000 remains 4% below prior year
        - Housing Starts: Total starts DOWN to 581,000 from 587,000; Single family starts UP to 490,000 from 482,000.

By the Numbers:

Prevel Technology - Durable Goods & Retail Summary				Best Last 12 Mos.	
	Jul-09	Jun-09	Jul-08	Value	Month
New Orders-Durable	168,973	160,821	216,650	206,084	Aug-08
12 month moving average	173,891	177,991	217,368		
% Change from Prior Year	-20.0%				
Unshipped Orders - Durable	740,628	740,685	818,023		
% Change from Prior Year	-9.5%				
Value of Shipments - Durable	173,256	169,836	212,947	208,339	Aug-08
12 month moving average	184,735	188,426	213,330		
% Change from Prior Year	-13.4%				
Inventory - Durables	313,748	316,667	333,127		
% Change from Prior Year	-5.8%				
Retail Sales	303,950	304,304	335,947	334,273	Aug-08
12 month moving average	309,039		337,383		
% Change from Prior Year	-8.4%				
Inv to shipments ratio - Durable	1.81	1.86	1.55		
Growth Index - Durable New Ord	0.944	0.906	0.999		
Growth Index - Durable Shipmts	0.923	0.905	1.003		
Growth Index - Retail	0.981	0.969	1.001		
1. Preliminary release data (~5 wks after the end of the period).					
2. Seasonally Adjusted, millions					
3. Prevel Growth Index = 3MMA / 12MMA			John Layden	317-842-6417	

Summary and Analysis

Overview of the US Economy

The economy showed signs of reaching a bottom in July. Industrial production increased for the first time since October of 2008, and only the third time in 18 months. Durable goods industries followed a similar pattern. The restart of the auto assembly plants after the bankruptcy related shutdowns led the improvements. New orders for capital goods increased by 9.7% (14% over the past four months). The effects of stimulus spending remain largely invisible. The Cash for Clunkers program effects will show in next month's (August) data release.

Durable goods new orders increased by 5.1% and shipments increased by 2%. The excess of shipments over orders contracted to $4.3 billion and suggests declining pressure for production and inventory cuts in the near term.

Durable goods inventory declined for the seventh month. The inventory to shipments ratio declined to 1.81 from its peak of 1.91 in May. The improvement is driven more by increased shipments than decreased inventory. Inventory control should continue to get serious attention due to tight cash flow positions.

Export shipments of goods increased by $1.9 billion to $83.9 billion in June. Export shipments have improved by 5% in the past two months. The negative balance of trade for all goods and services grew by $1 billion to -$27 billion as imports grew more than exports.

Retail sales declined a modest 0.1% in July. Core retail (excluding autos and gas) declined by 0.5% and now stands 5.2% below last year. Auto sales rebounded slightly and accounted for most of the difference.

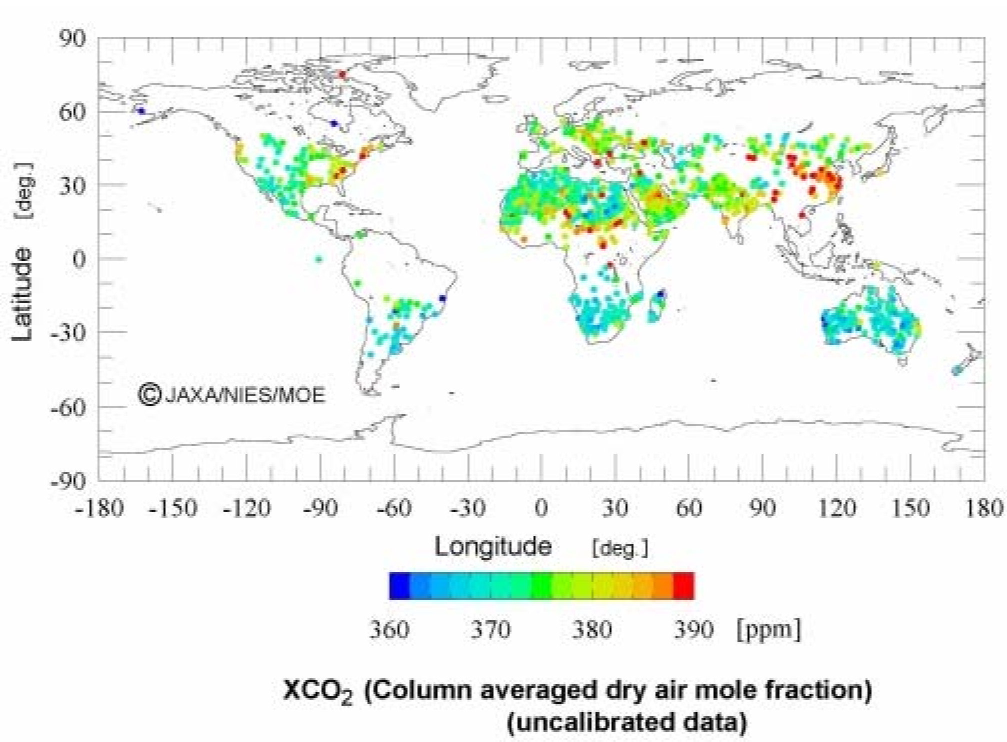
The trend of consumers to increase savings and pay down debt continues. Consumer debt declined by 20 billion against predictions of 6 billion. The pace of paying down debt is clearly accelerating (the federal government is obviously exempted from this trend).

Single family housing starts improved for the sixth consecutive month. Housing is poised to lead the recovery with record low inventories, attractive mortgage rates, and steady household formations. Vacancy rates of existing homes at 2.3% and down for three straight months are approaching normal levels. But the rate of new construction is roughly half the household formation rate. Housing cannot remain at current low levels for much longer.

The health care debate rages on. The idea that the crisis is rooted in "excessive" health care spending, and that the solution is to spend another $1 to 2 trillion over the next 10 years, and that this will be deficit-neutral isn't selling well with the general public. The math doesn't add up. It also appears that the general public has taken the time to study the house bill. A critical point of objection (among many) is that a government bureaucracy will decide what reasonable care will be, and only that will be reimbursed. These decisions are exempted from review by the courts (administrative law judge rulings are final). George Orwell would offer a wry smile. The critical issue will probably turn out to be the $500 billion that will be cut from the Medicare program. This sounds like a move to ration reimbursements for seniors.

The cap and trade debate has been obscured by the health care noise. But it is interesting that support has started to slip, even though the bill is still alive. The major issue with the public is the growing awareness that this will have a huge economic impact. Almost totally lost in the debate is the overwhelming accumulation of science that shows the core premise to be false. The current bill punishes the center of the nation for using coal to produce electricity and producing too much CO2. It proposes a huge wealth transfer from the center to the coasts to compensate.

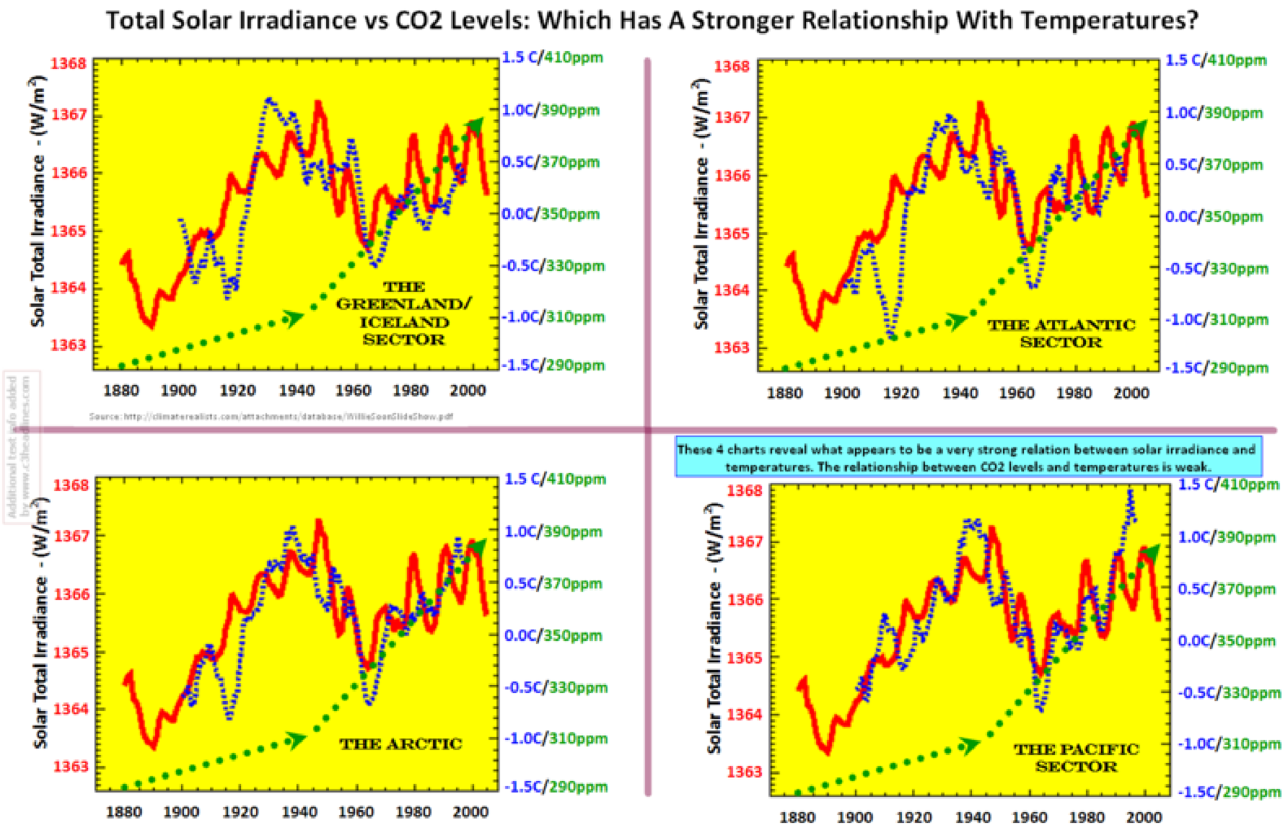
A new satellite with CO2 sensors has just delivered the first ever map of CO2 "hot spots." Guess what. The hot spots are over the large cities of the East Coast. Someone forgot to tell the Senate that the middle of the nation grows things and that these growing plants consume CO2. The Midwest is a net consumer of CO2. If we had more CO2 our crops would be more successful. By the way, there are clusters of hot spots in Europe and Asia as well.



GOSAT Worldwide CO2 - Carbon dioxide (column averaged dry air mole fraction) initial analysis (April 20-28 observation data) - click for larger image Source: JAXA

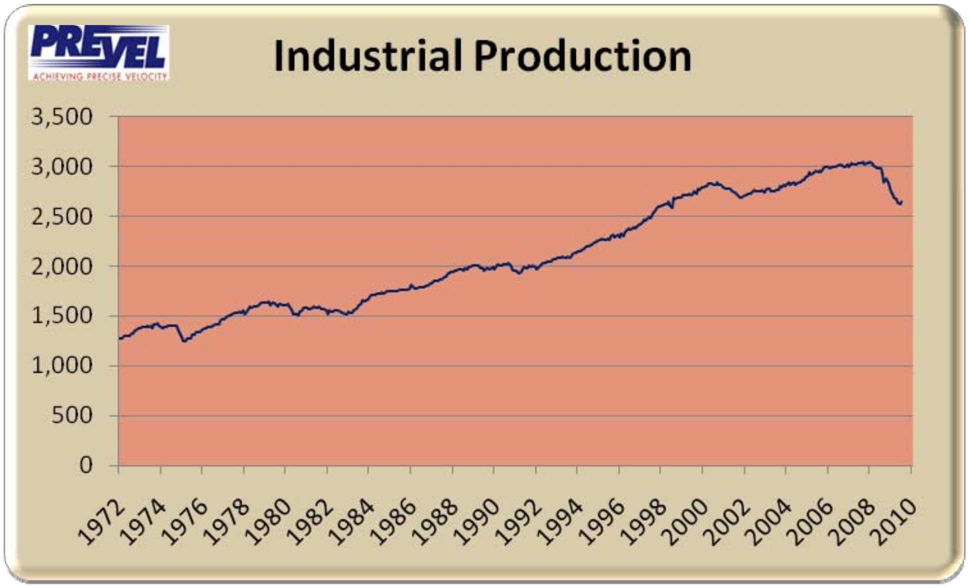
A second analysis goes one step further. It shows the relationship between global temperature, CO2 and solar output. The pattern of these charts is a stunning repudiation of the entire CO2 hypothesis. It shows that the temperature of the Earth (blue dots) responds to the energy level of the Sun (red), not to atmospheric CO2 (green). (Source: Willie Moon presentation on CO2).

Several studies have shown a lagging relationship of CO2 to temperature. Thus it is possible that the recent increase in CO2 is a result of the warming that occurred from 1890 to 1950 at the end of the Little Ice Age.

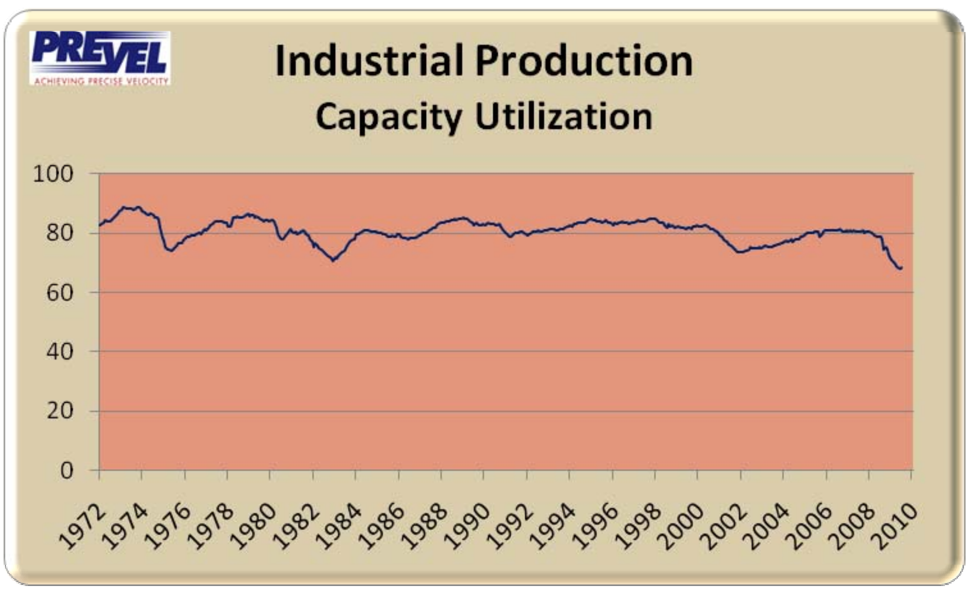


The threat of the cap and trade legislation for manufacturing is so dramatic that it becomes urgent for executives to make their voices heard in congress. This attempt to achieve unnecessary and ill advised environmental goals has the potential to dramatically damage the US economy by making us uncompetitive in World markets.

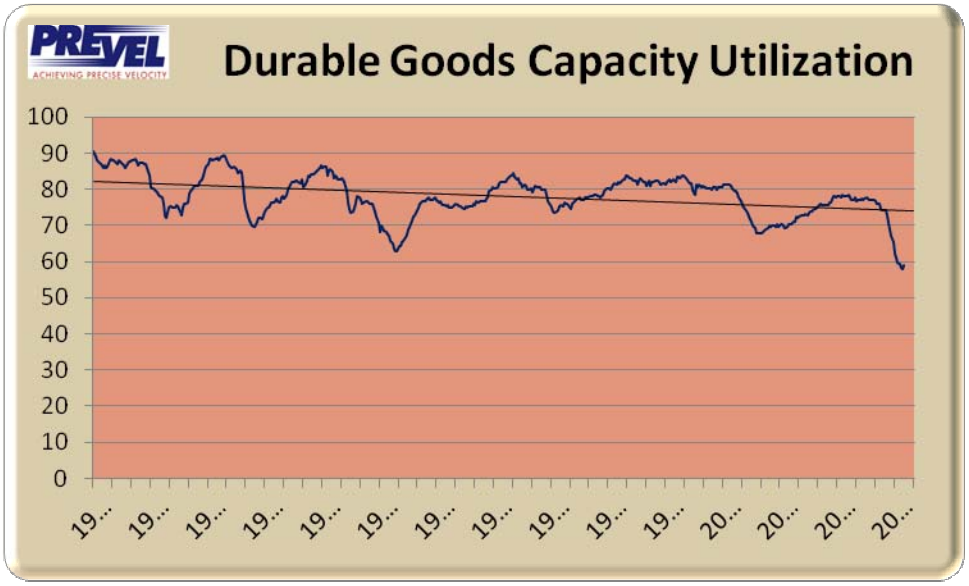
Industrial Production and Capacity Utilization



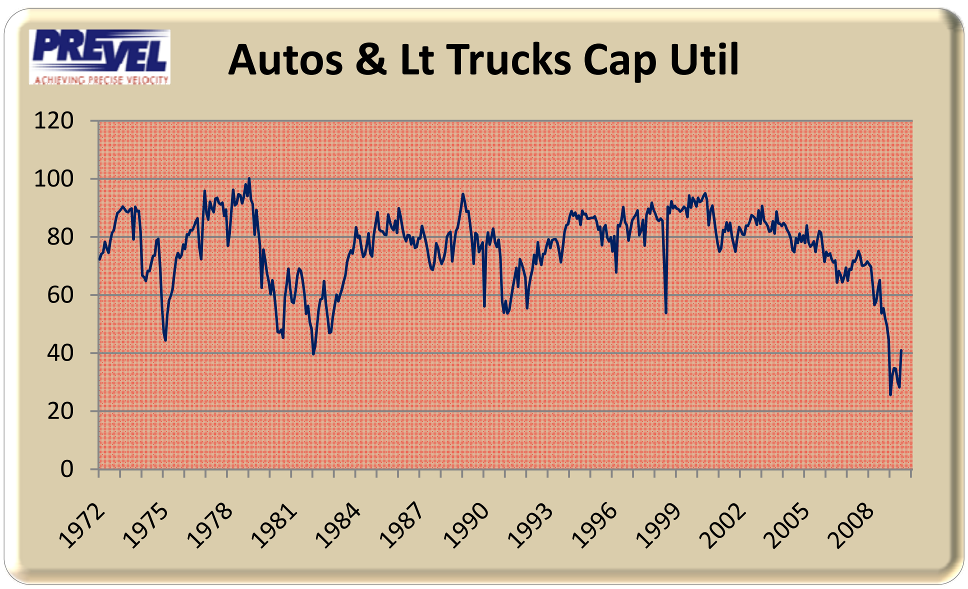
Industrial production rose 0.6% or $22 billion due in large part to the restart of the idled auto manufacturing plants.



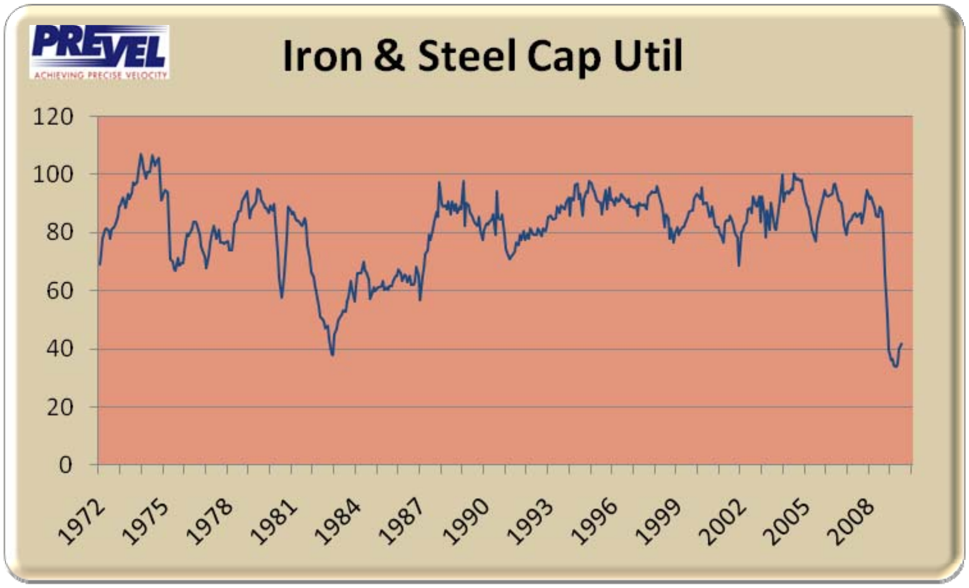
Industrial capacity utilization increased 0.4 points to 68.5% in July.



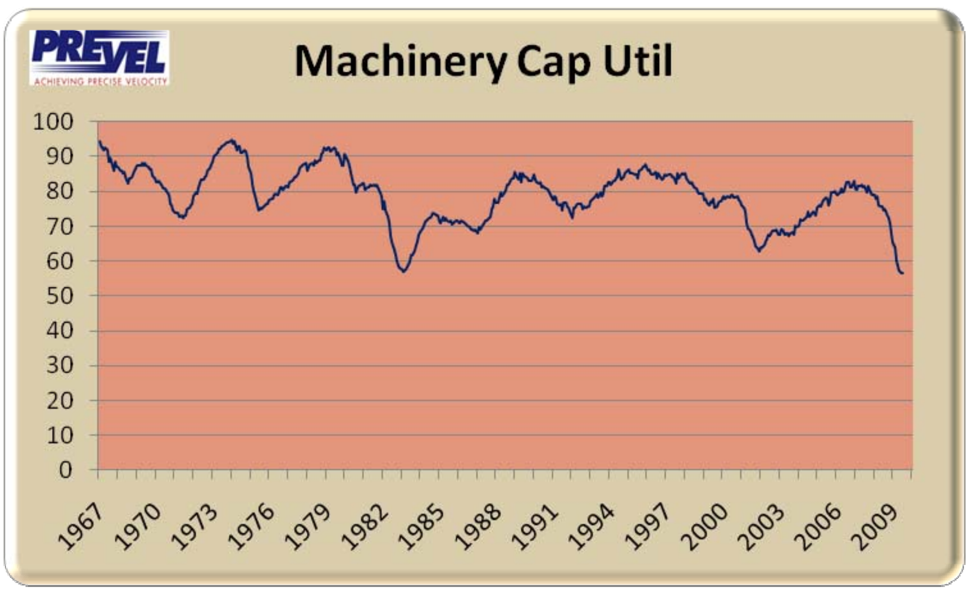
Capacity utilization in durable goods increased by 1.4 points to 59.1% in July.



Auto industry capacity utilization jumped by 13 points to 41% in July.

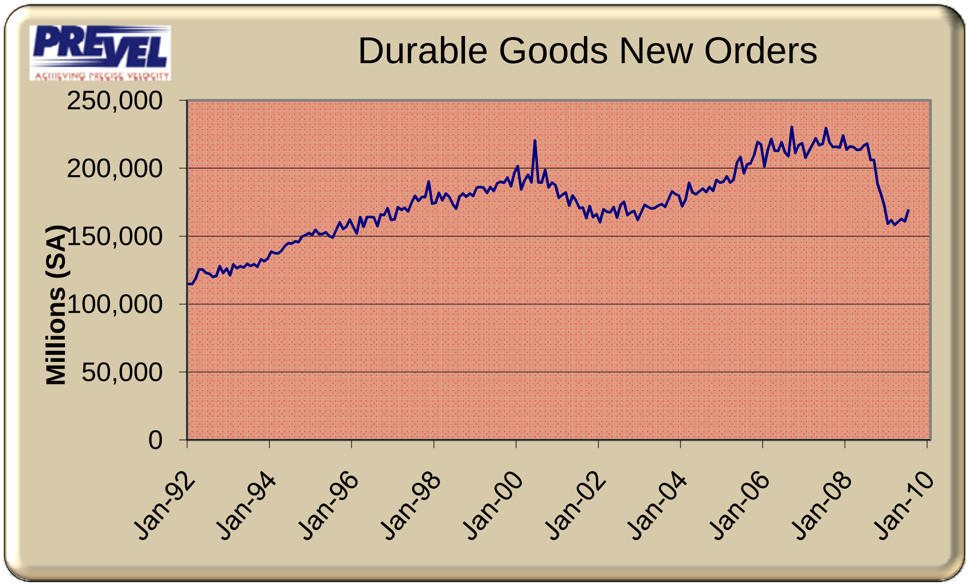


The steel industry recovered by 1.7 points to 51.7%, following the improvement in autos.

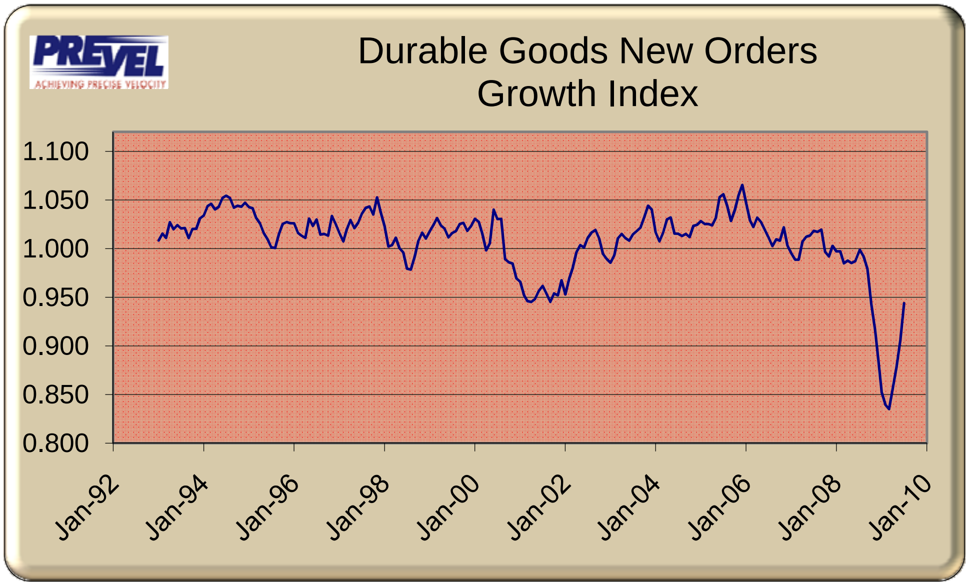


Capacity utilization for machinery manufacturers declined to 56.4%. This the worst performance in the history of the measurement.

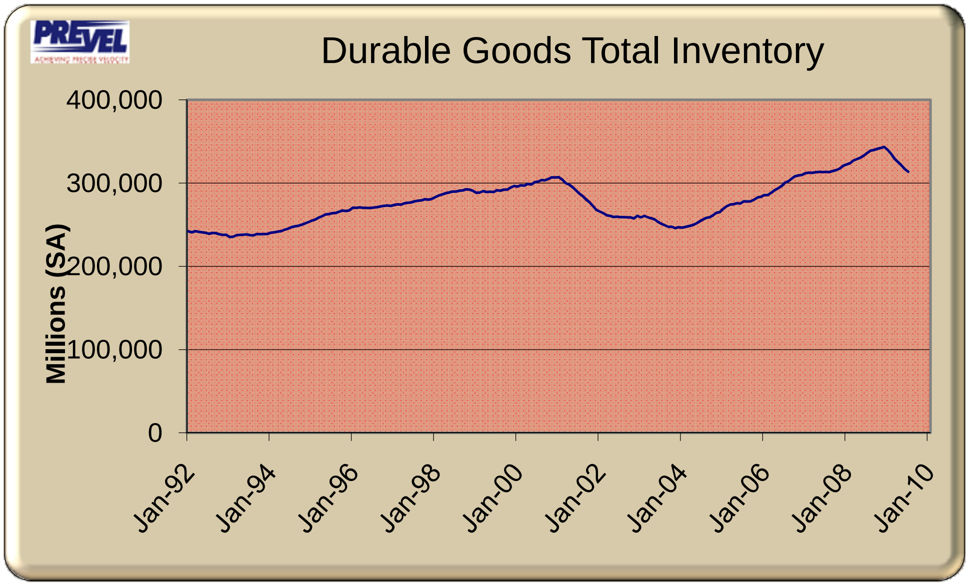
Durable Goods

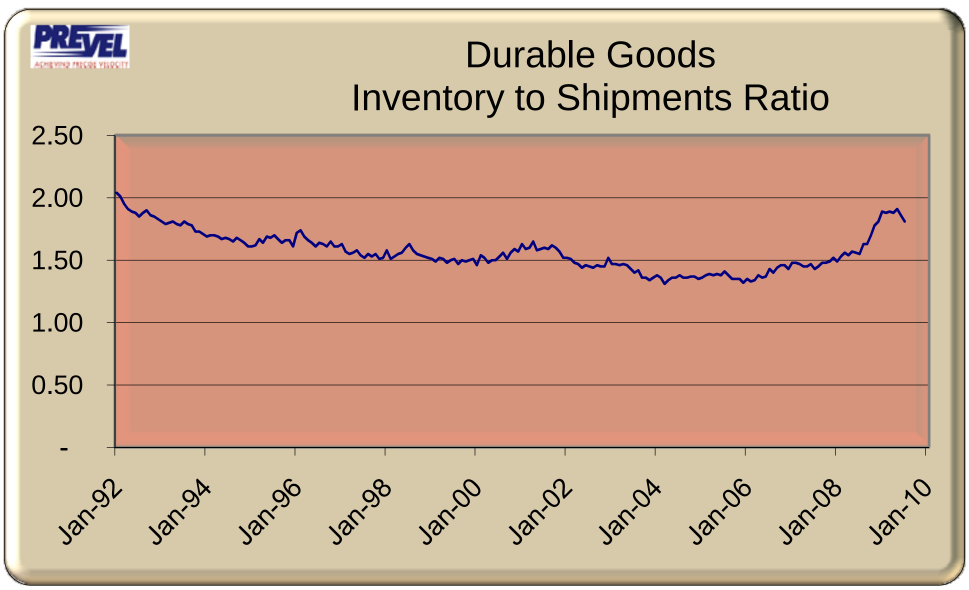


New orders for durable goods increased 5.1% or $8.2 billion.

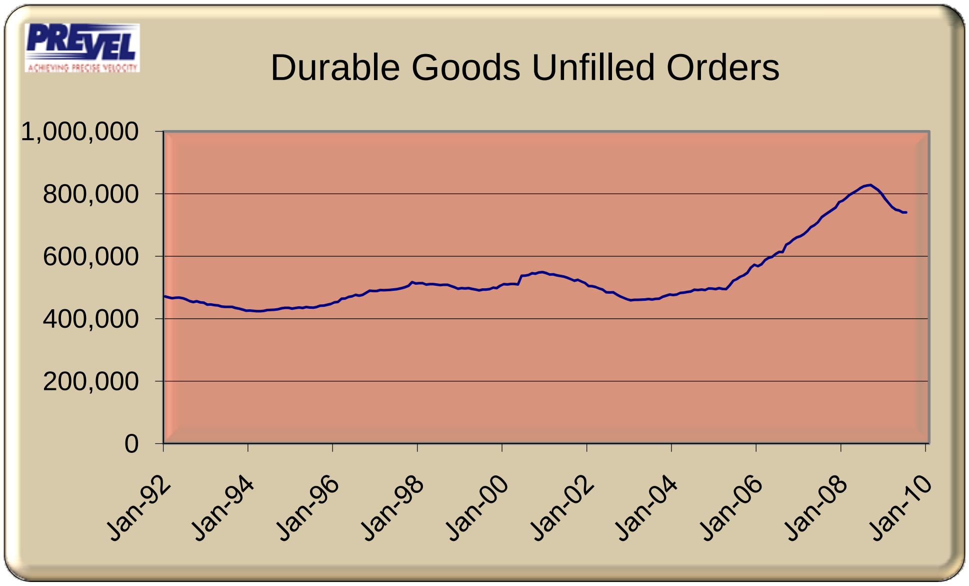


The growth index, a measure of acceleration, increased for the second month. It is now 2/3 of the way back to neutral territory. This suggests that the recovery in durable new orders may start as soon as next month at current trends.

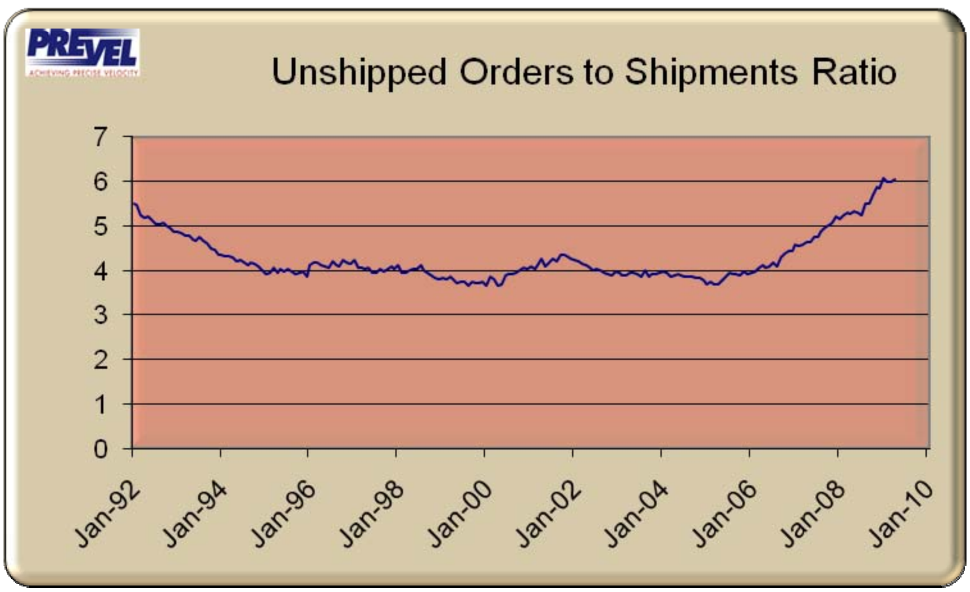




Inventory continued to decline, as did the inventory to shipments ratio. There will probably be more cuts in inventory ahead, but the pace will be much slower.



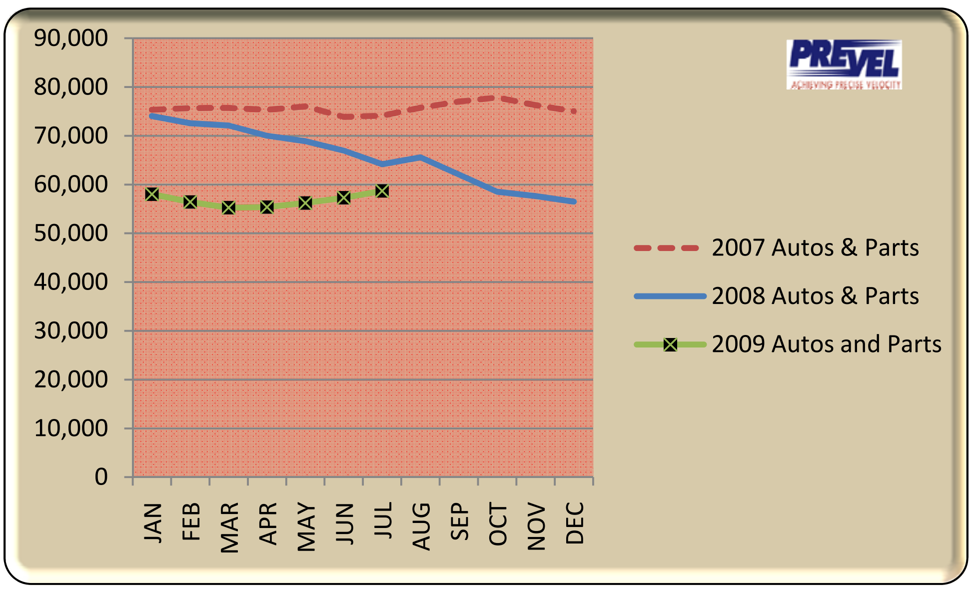
Unfilled orders continued to decline for the tenth consecutive month. The rate of decline has slowed in the past three months.



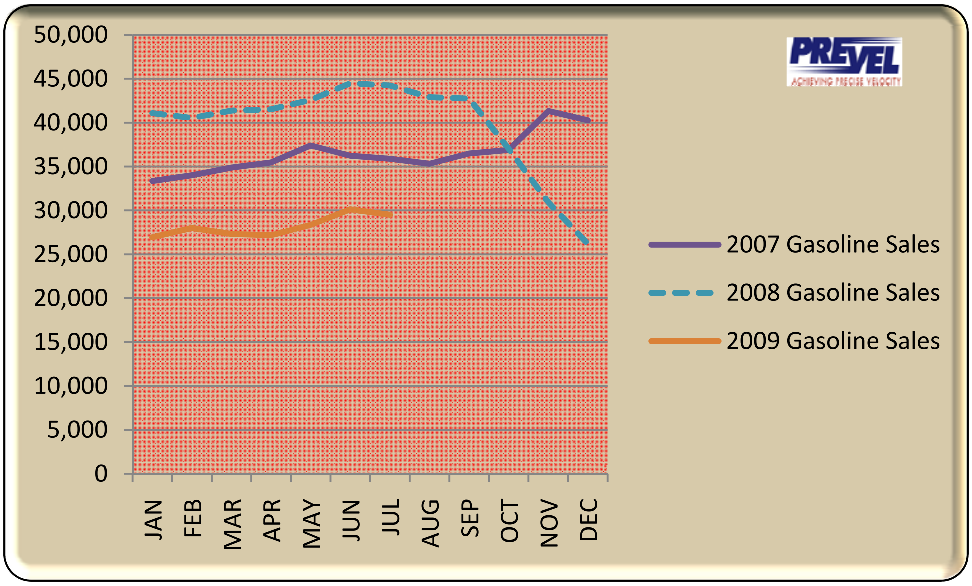
Unfilled orders to shipments ratio is a measure of order velocity. The measure remains stable and implies an average lead time of 6 months at current production rates. Order velocity has not improved during the recession because manufacturers have been quick to reduce production rates as orders declined.

Retail:

Retail sales declined slightly, in spite of an increase in auto sales.



Auto and parts sales continued to increase in July for the fourth month.



Gasoline sales declined 2% in July after a 6% jump in the prior month.

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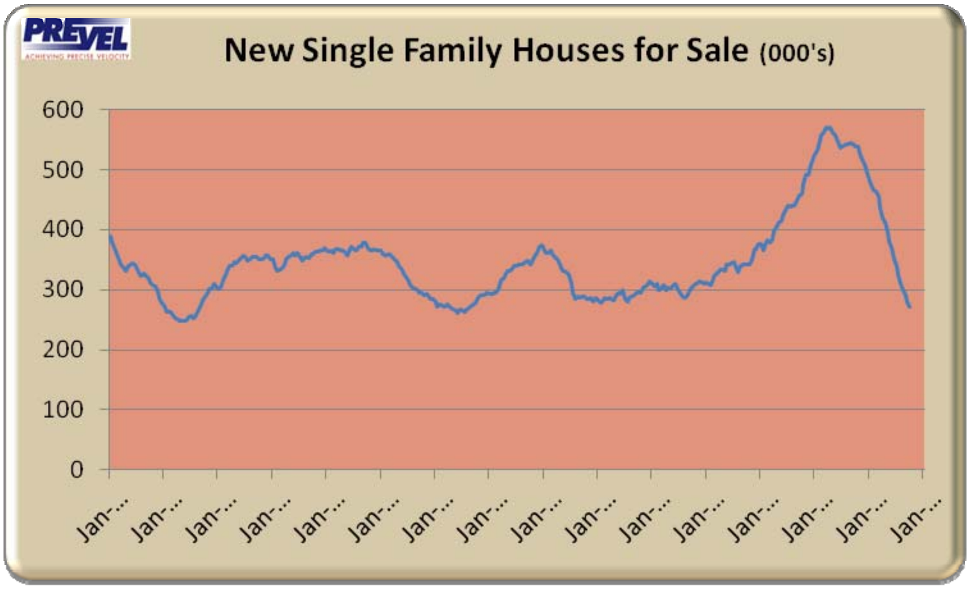
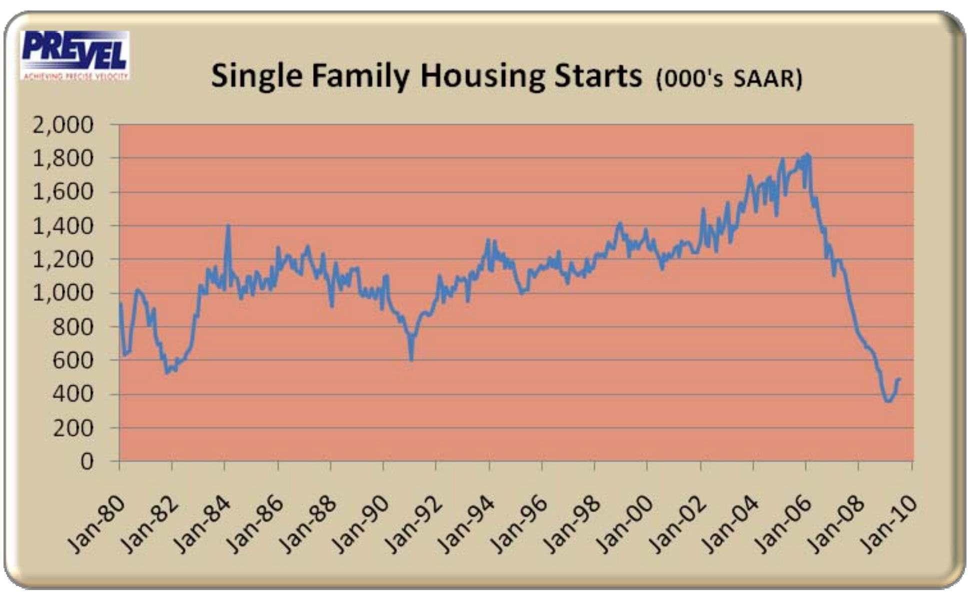
Housing:



The inventory selloff of new single family houses continued for the 26th consecutive month, ending the month at 272,000 units.



Housing starts continued to recover for a third month. Housing is positioned to lead a recovery.

Taxes, Stimulus, Debt, Inflation

Last week I made the annual trek to hear Alan Beaulieu present his update on the condition and future direction of the US economy. I often get questions on why the Durable Goods Report only provides analysis of current conditions, without including forecasts. Hearing Alan's presentations provides the answer (and a dose of humility). Forecasting requires an order of magnitude greater effort if you want to do it right. If you are looking for forecasts, check out Ecotrends.

Alan's current assessment is similar to the positions of the Durable Goods Report. In general terms he views the economy as at or near the bottom. His forecasts indicate a long and slow recovery with several important threats. Inflation and the related value of the dollar are a major issue. The flood of money into the market aimed at forestalling a crash may have worked, but it must come back out when the economy starts to grow. Alan believes that the political will is missing. The result will be inflation and a major threat to the ability of the US to sell its debt. As if on cue, China became a net seller of US treasury debt last week to the tune of $25 billion. The international community has little confidence in the value of the dollar.

Alan also predicts very dire consequences from the total of the deficit spending from Congress. He indicates that debt service will grow to 34% of the US budget by 2015. By 2029 the natural business cycle and the total US debt will combine to produce a global depression of greater magnitude than the 1930s.

He also predicts that restrictions of hydrocarbon and nuclear energy production will likely culminate in another round with $100 oil. I disagree on this point. More than 80 mega-fields (greater than a half billion barrels of oil or gas equivalent) have been discovered in the past decade. So much hydrocarbon energy is being discovered that the news of a huge new find in the Gulf of Mexico (larger than the North Slope) went almost unnoticed. We have developed huge unproven reserves over and above the record level of proven reserves. The lack of current demand has failed to spur development and production of these fields, but that will come quickly as demand improves over the next year.

About The Durable Goods Report

The goal of the Prevel DGR is to offer context for the published monthly statistics on durable goods manufacturing in the US. The analysis is historical in nature, and includes no forecasts, but the analysis of historical patterns provides a necessary framework for understanding plausible scenarios. Since a high percentage of durable goods go through retail, this analysis offers a leading indicator of future durable goods activity.

The source data for the Prevel DGR is the US Census Bureau, preliminary publication, which is available about 5 weeks after the end of the period. An earlier publication (advanced release) is available about 3 weeks after the end of the period, but is often subject to substantial revisions, and is not considered adequately reliable for growth trend analysis.

A similar analysis is available for many industry sub-sectors. Contact Prevel for details about this subscription based service.

Technical Note: The "Prevel Growth Index" is measured as the ratio of the 3 month moving average divided by the 12 month moving average. This removes some of the natural noise in the industry data, but also results in a slight response lag. An index value greater than 1.000 is a sign of recent growth.

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