The Durable Goods Report

November 2009 Data

Source Data: US Census Bureau

Preliminary Data Release of 1/5/2010

John E. Layden, Prevel Technology

Highlights:

- **Industrial Production:** UP to $2.747 trillion from $2.733 trillion (+0.5%) from prior month.
- **Capacity Utilization:**
  - Manufacturing: FLAT at 68.8%.
  - Durable goods manufacturing: FLAT at 61.8%.
  - Motor Vehicles and Parts: FLAT at 52.1%.
  - Machinery: UP to 59.1% from 57.6%
- **Durable Goods:**
  - New orders: UP to $ 166.9 billion from $166.5 billion from prior month (+0.2%). Twelve month moving average 22.7% BELOW prior year.
  - Shipments: UP to $175.7 billion from $175.3 prior month (+0.2%). Twelve month moving average 17% BELOW prior year.
  - Unfilled Orders DOWN to $724.5 billion from $729.3 billion (-0.7%).
  - Inventory: DOWN to $303.1 billion from $304.0 billion (-0.4%).
- **Retail :**
  - Total retail (excl. food service): DOWN to $315.0 billion from $315.8 billion (-0.2%).
    - Autos and Parts: UP to $59.4 billion from $59.9 billion (-0.8%).
    - Gasoline: UP to $34.5 from 34.2 billion prior month.
  - Core retail (Excl. food service, gas, autos and parts): DOWN to $221.1 billion from $221.7 billion (-0.3%). UP 2.2% from prior year.
- **Housing:**
  - New Single Family Homes (seasonally adjusted annual rate):
    - Starts: UP to 482,000 from 476,000 (+1.2%)
    - Sold DOWN to 355,000 from 430,000 (-7.5%)
    - For Sale: DOWN to 235,000 from 239,000 units (-2%).
  - Median Price (3MMA): UP to $214,800 from $211,500. Off 3% vs. last year.

By the Numbers:

Prevel Technology - Durable Goods & Retail Summary			
	Nov-09	Oct-09	Nov-08
New Orders-Durable	166,868	166,489	181,047
12 month moving average	164,121	165,302	209,433
% Change from Prior Year	-21.6%		
Unshipped Orders - Durable	724,534	729,336	812,879
% Change from Prior Year	-10.9%		
Value of Shipments - Durable	175,747	175,345	192,772
12 month moving average	175,283	176,702	209,529
% Change from Prior Year	-16.3%		
Inventory - Durables	303,120	304,023	342,259
% Change from Prior Year	-11.4%		
Retail Sales	315,041	315,789	298,949
12 month moving average	306,679		329,306
% Change from Prior Year	-6.9%		
Inv to shipments ratio - Durable	1.72	1.73	1.78
Growth Index - Durable New Ord	1.017	1.004	0.916
Growth Index - Durable Shipmts	0.999	0.982	0.958
Growth Index - Retail (Dec)	1.022	1.007	0.937
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

US GDP growth in Q3 was revised downward again to 2.1% (annual rate). Indications from individual sectors suggest that there is near zero growth outside of the effects of government stimulus. Since this spending must be taxed or borrowed from the productive sectors of the economy, the net effect will be negative and it is unlikely to produce the "pump priming" that was the justification in the first place.

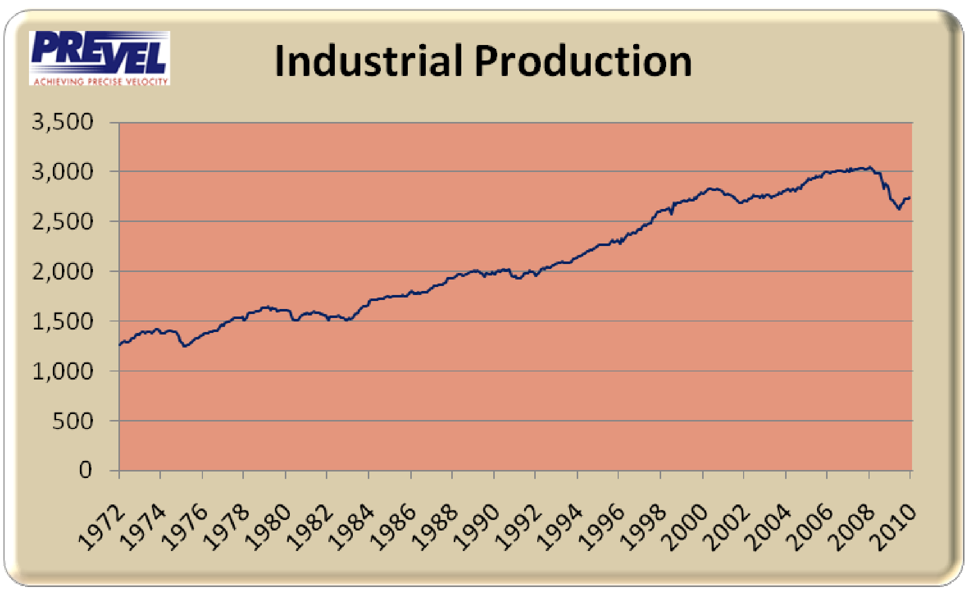
Year	Qtr	GDP $b (SAAR)	Chg from Prior Pd	Chg from Prior Year
2007	4	14,031.2	0.6%	4.9%
2008	1	14,373.9	2.4%	6.4%
2008	2	14,497.8	0.9%	5.5%
2008	3	14,546.7	0.3%	4.3%
2008	4	14,347.3	-1.4%	2.3%
2009	1	14,178.0	-1.2%	-1.4%
2009	2	14,151.2	-0.2%	-2.4%
2009	3	14,242.1	0.6%	-2.1%

An Associated Press survey indicated that even the temporary construction jobs targeted by the stimulus money had resulted in no effect. Construction unemployment is at 22% and growing. Since these projects are expanding infrastructure that is not currently required by the economy, secondary economic benefits are unlikely.

The spending seems to have largely gone to prevent layoffs in the government sector (federal, state, local). These jobs are not part of the productive economy, so no benefit here. It is possible that it will make the problem worse. By delaying the downsizing decisions, the adjustments will be even more drastic when they are finally required. The plunging tax revenue numbers suggest this will occur within a few months.

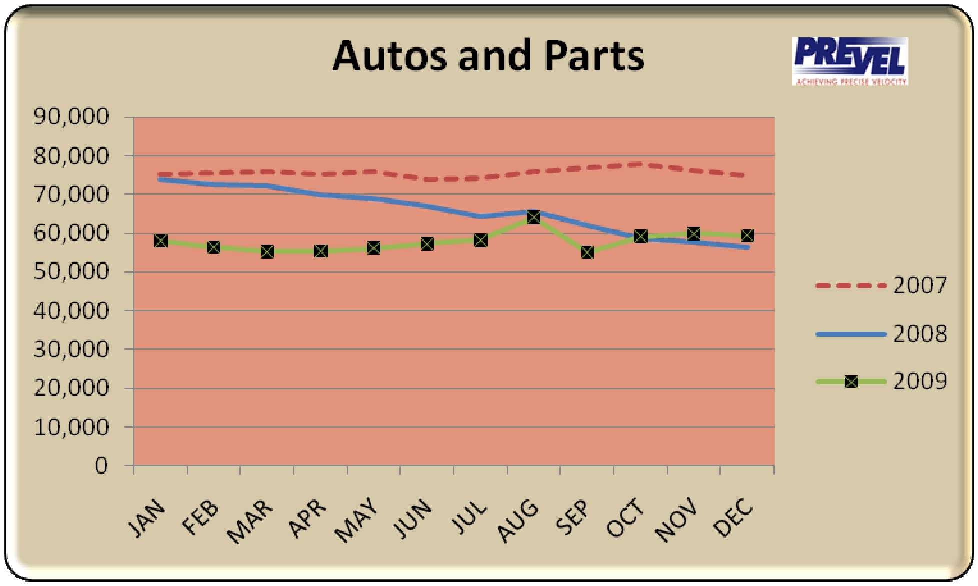
Industrial Production increased by 0.5% to $2.747 trillion in December and now stands 2.8% below last year.

Year	Mo	Ind Prod - Value of Prod	Chg from Prior Pd	Chg from Prior Year
2008	10	2,880.7	1.5%	-4.6%
2008	11	2,854.2	-0.9%	-5.8%
2008	12	2,825.0	-1.0%	-7.0%
2009	1	2,733.6	-3.2%	-10.3%
2009	2	2,723.3	-0.4%	-10.4%
2009	3	2,695.0	-1.0%	-10.6%
2009	4	2,678.5	-0.6%	-10.5%
2009	5	2,640.9	-1.4%	-11.4%
2009	6	2,632.3	-0.3%	-11.7%
2009	7	2,668.2	1.4%	-10.5%
2009	8	2,696.7	1.1%	-7.9%
2009	9	2,724.9	1.0%	-4.0%
2009	10	2,731.4	0.2%	-5.2%
2009	11	2,733.7	0.1%	-4.2%
2009	12	2,747.2	0.5%	-2.8%

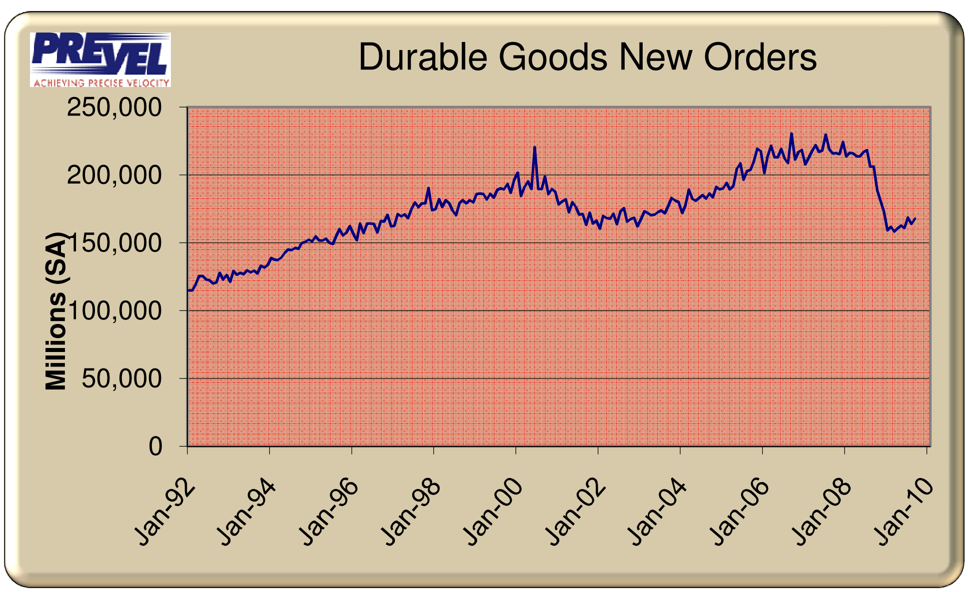


Industrial production has now returned to a level last seen at the bottom of the 2000-2003 manufacturing recession.

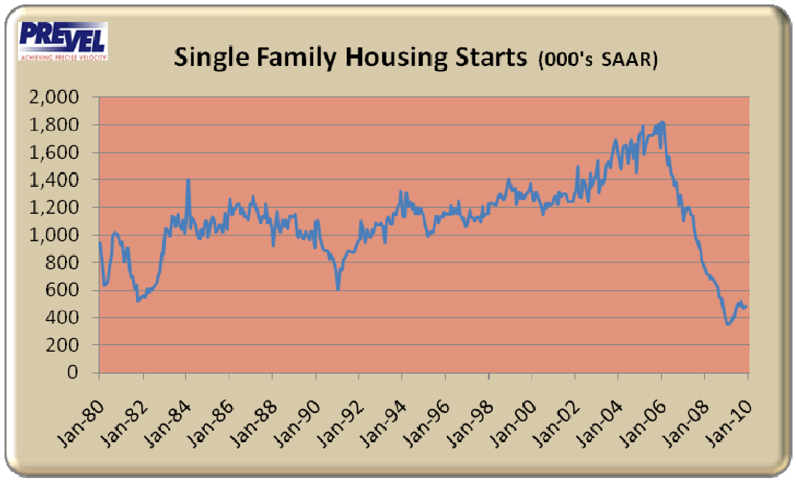
Auto Industry sales now show the net effect of the Cash for Clunkers program to be zero. Last year's decline in auto sales seems to have defined a "new normal."

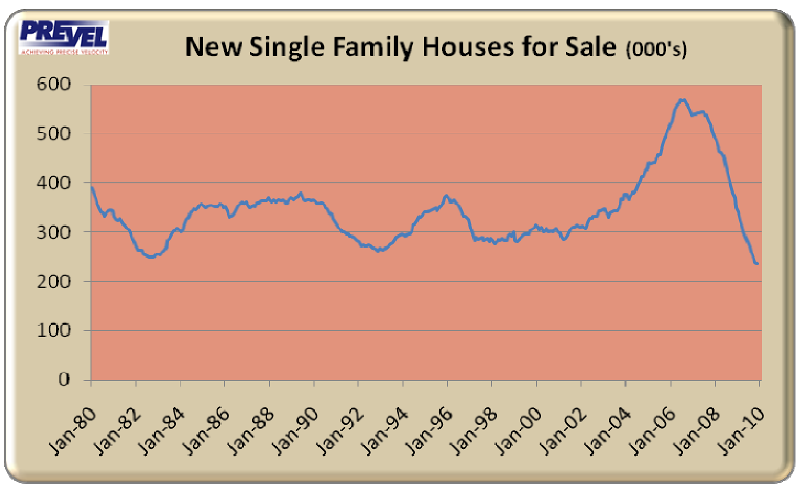


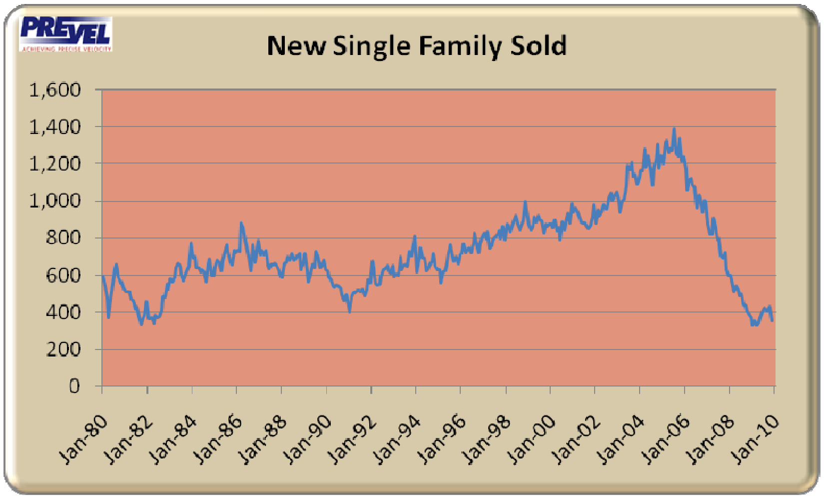
Durable goods new orders: There was some celebration when the latest numbers for manufacturing new orders were released. In durable goods it was pretty weak tea as you can see from the chart. In the context of the longer term pattern, the November increase was in the noise level.

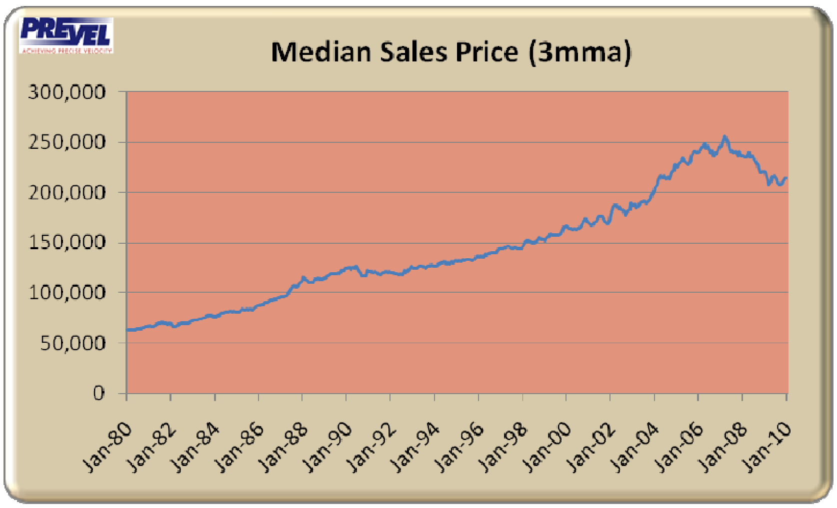


Housing industry numbers showed some modest signs of improvement. Starts improved slightly and the inventory of new single-family homes for sale declined for the 30th consecutive month. The current supply represents less than 8 months at current sales rate. Median home price increased for the third month. The market is in a position to grow but remains at very low levels by historical standards. Housing remains the most likely sector to lead the recovery whenever it finally gets started. The only missing element seems to be the confidence and inclination to make a major purchase.

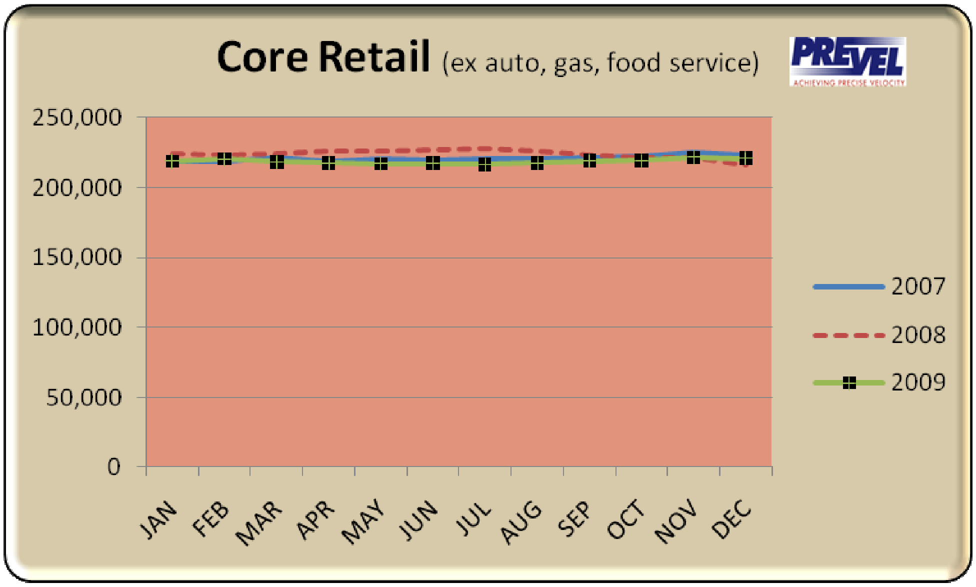








Core Retail performance (excluding food service, autos, gasoline) finished above December 2008 and almost matched December 2007. This sector has remained remarkably stable despite the dramatic swings in autos and gasoline prices. Our measure of “Core Retail” excludes these volatile sectors to avoid the distortions and misinterpretations seen in the daily press commentary.

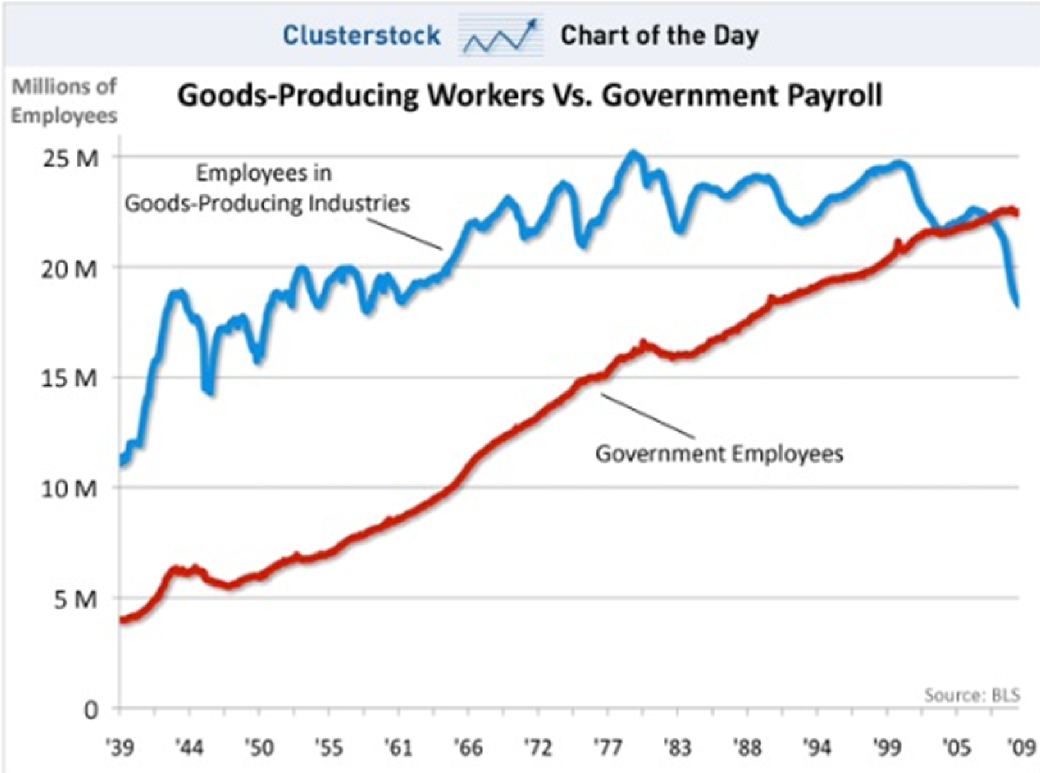


Key to the current economy is the reduced activity in the big ticket items – homes and autos. Lack of confidence in the direction of the economic policy from Washington is the most likely suspect. An alternative demographic argument (retiring baby boomers reducing spending) could also be a driver.

Employment continues to erode, especially in the critical durable goods industries. December non-farm employment numbers reported 85,000 jobs lost. Durable goods lost 16,000 jobs. Durable goods employment is now at 7.1 million, 21% below the recent peak of 9 million in June of 2006.

The most ominous signal from the employment front is that government employment now exceeds goods-producing employment. The number of people employed to regulate and distribute the wealth of the nation now exceeds the total number of people producing that wealth. In the end all wealth generation originates in the goods producing sector. The utopian vision of a "post industrial society" where we all work in service industries like green jobs and health care is a dangerous myth. It leaves unanswered a serious question – in service to whom?

This trend has been happening for a long time, reversed only briefly during the Reagan administration. This problem will eventually lead to the decline of the economy of the US and eventually the world.



Health Care Legislation: The backlash against health care legislation is a serious and growing movement that threatens the Democrats control of Congress. Even some Republicans are getting heat for earlier positions that expanded the role of government. As the content of the legislation has become available and widely reported, the dissatisfaction has grown, even within Congress. As of this moment, there is no certainty that that there will be a conference bill that can pass both houses.

There seem to be two major drivers for the public discontent. First is the complexity of the bill and the convoluted provisions viewed as offensive by most consumers of health care and health insurance. The monster legislation leaves the critical problems unsolved and pretends to reduce cost. Second is the back room methods used to craft the deal. The sweetheart deals and trading of special favors is viewed as business-as-usual inside the beltway. The voters aren't buying it. Those involved are paying a heavy political price.

Cap and Trade and the Environment: The corruption exposed by the "Climategate" emails has begun to spread. There is now evidence that both NOAA and NASA have been involved in the manipulation of data to support the global warming agenda.

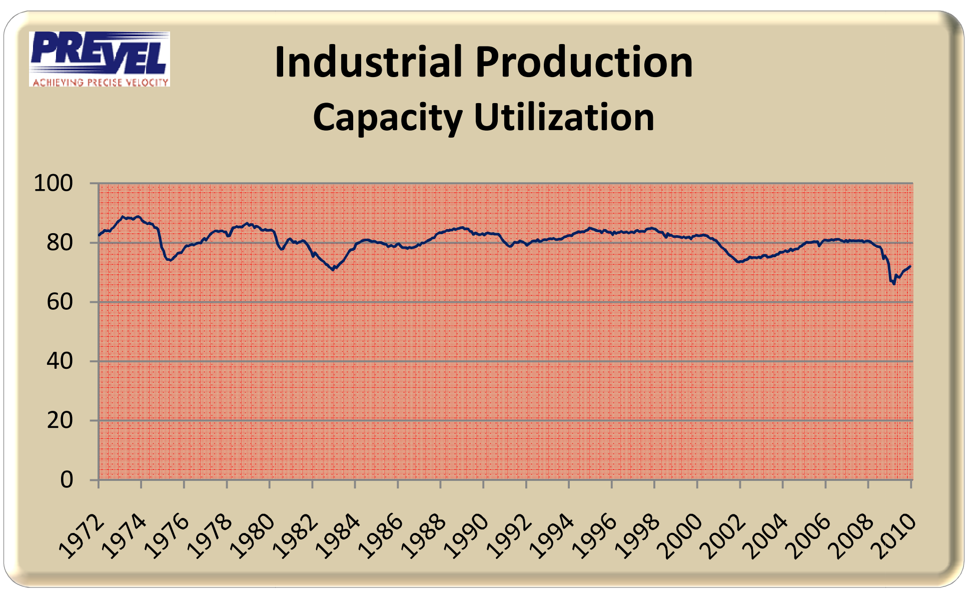
Evidence available for a decade showed that the published numbers were in error. The claims of "hottest year on record" were easily refuted by anyone willing to look at the source data. But the claims being currently presented are more serious. A multi-decade conspiracy is now being proposed and seems to have some credibility, despite the improbability of any conspiracy theory. The corrupting influence of government money available to study a proposed man-made disaster is just too tempting.

It seems extremely unlikely that there will be a cap-and-trade bill coming out of Congress. The entire foundation for the argument has collapsed. In addition exposure of the fraudulent trading on the EU cap-and-trade system (up to 90% of the total transactions) has damaged the reputation of the entire enterprise.

The EPA remains a threat, and there are several lawsuits (one filed- others pending) aimed at stopping the regulation of CO_2 as a pollutant. The success of these efforts to thwart government invasion of private business will prove to be a high stakes game.

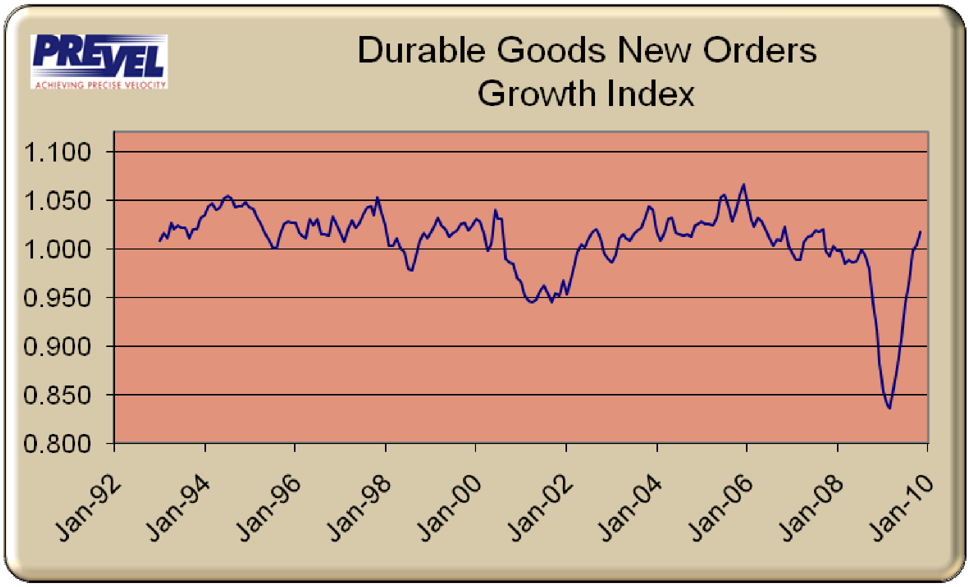
We reported recently about an aluminum plant closed because they couldn't get power. California environmental regulations prevented the fulfillment of a valid private contract for supply of electric power. This month Alcoa announced a deal with the Saudi government to build a plant there. It's not enough that we chase energy production offshore with unreasonable regulation. The next step is to chase all the customers for the energy offshore as well.

Industrial Production and Capacity Utilization

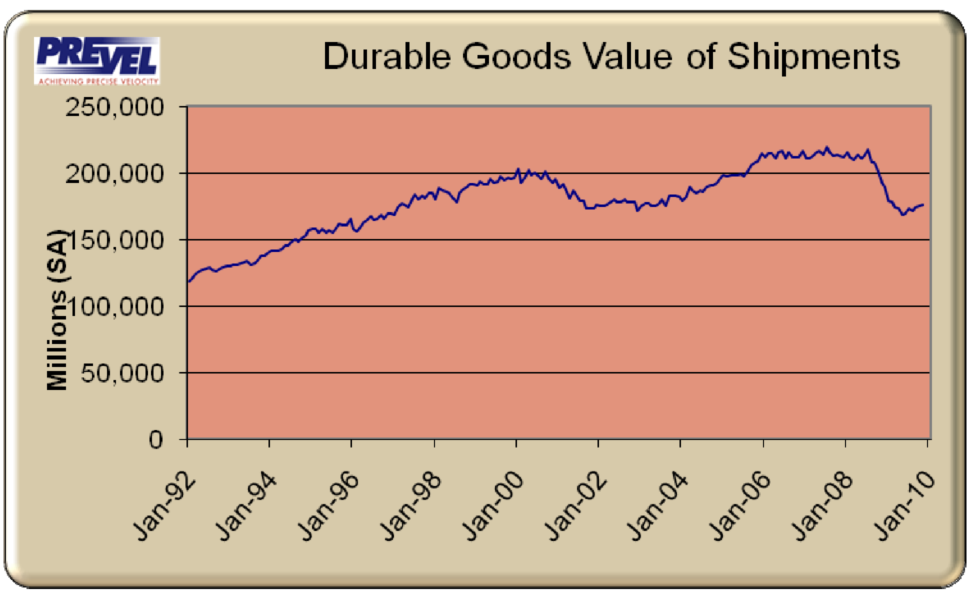


Capacity utilization for industrial production increased to 72% in December, well below traditional levels. Durable goods (61.8%), autos and light trucks (52.1%) and machinery (59.1%) all remained well below traditional levels.

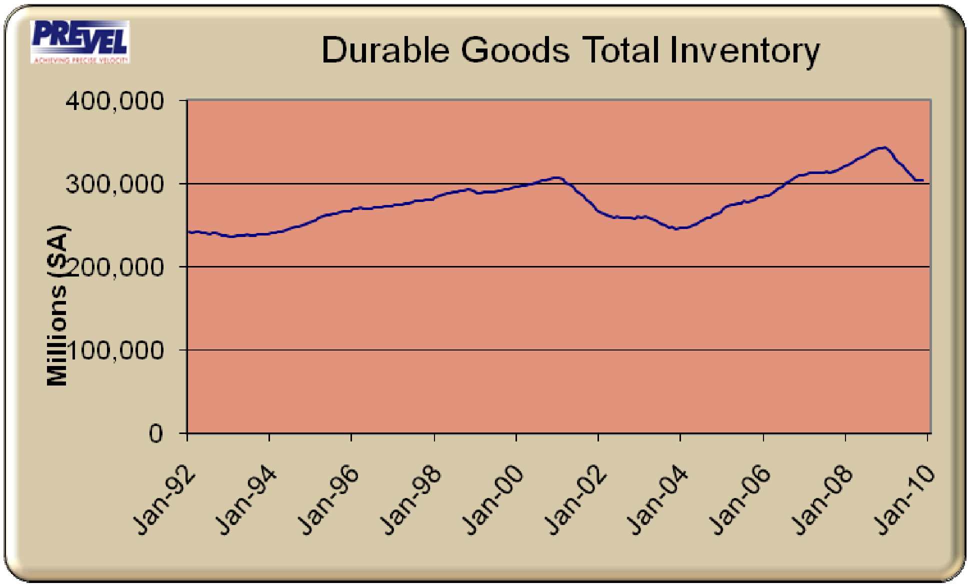
Durable Goods



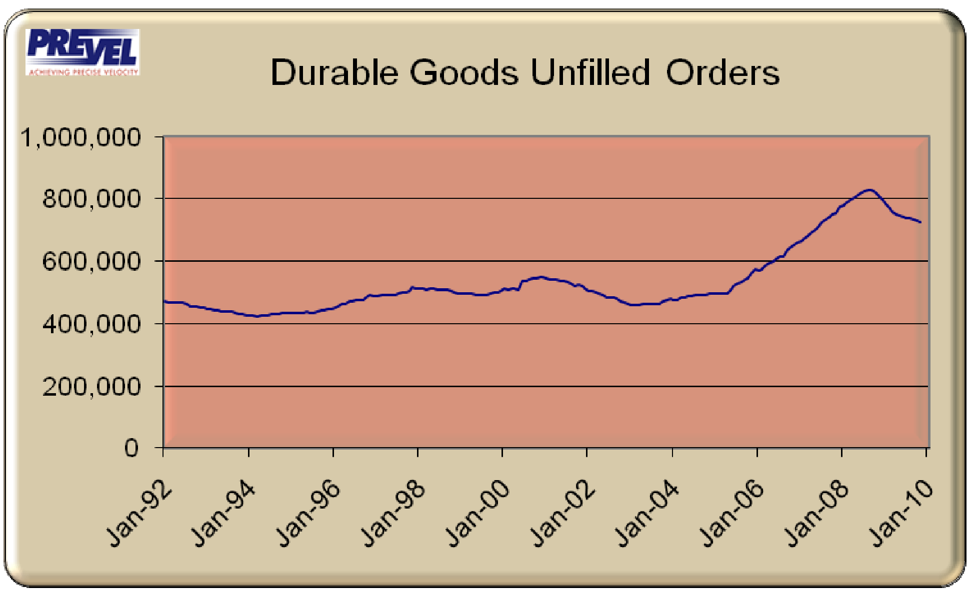
The Prevel growth index, a measure of acceleration, continued to improve in November, increasing to 1.017. First time at this level since September 2007.



Shipments continued a gradual improvement in November. Unless there is a positive change in the fundamentals, a long slow recovery is likely.

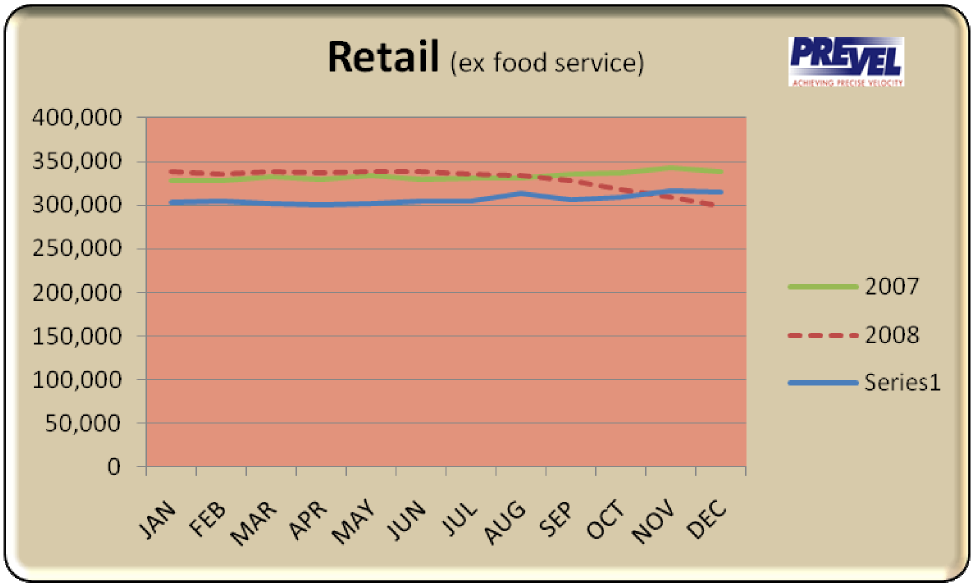


Inventory declines have slowed. The major inventory reduction prompted by the decline appears to be over.

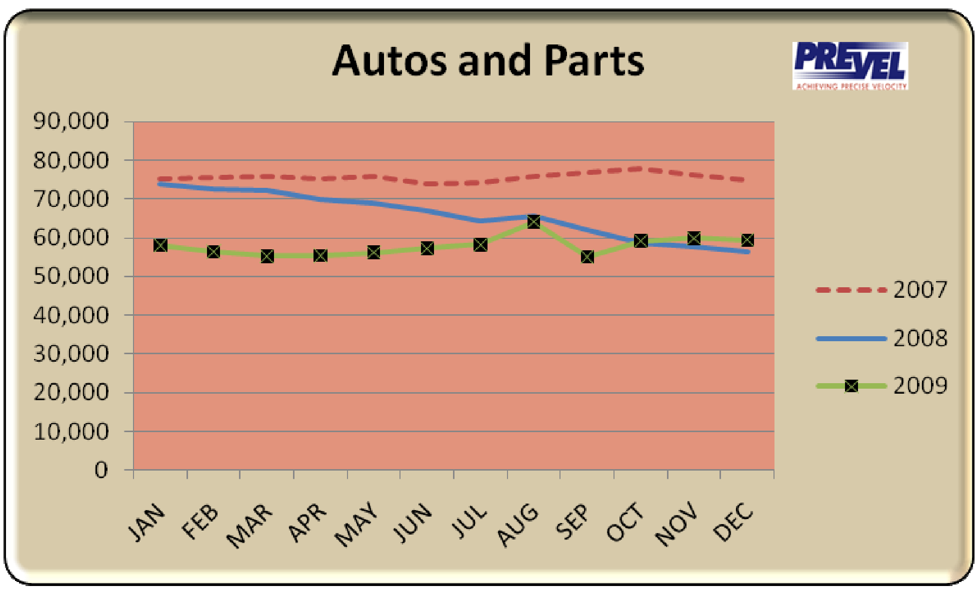


Unfilled orders declined by almost $5 billion because shipments continue ahead of new orders.

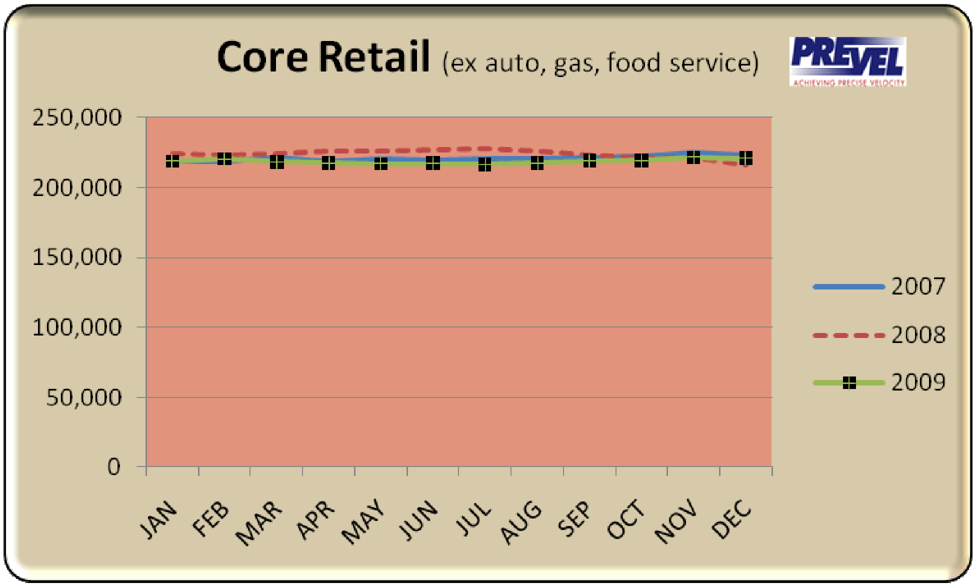
Retail (December advanced data):



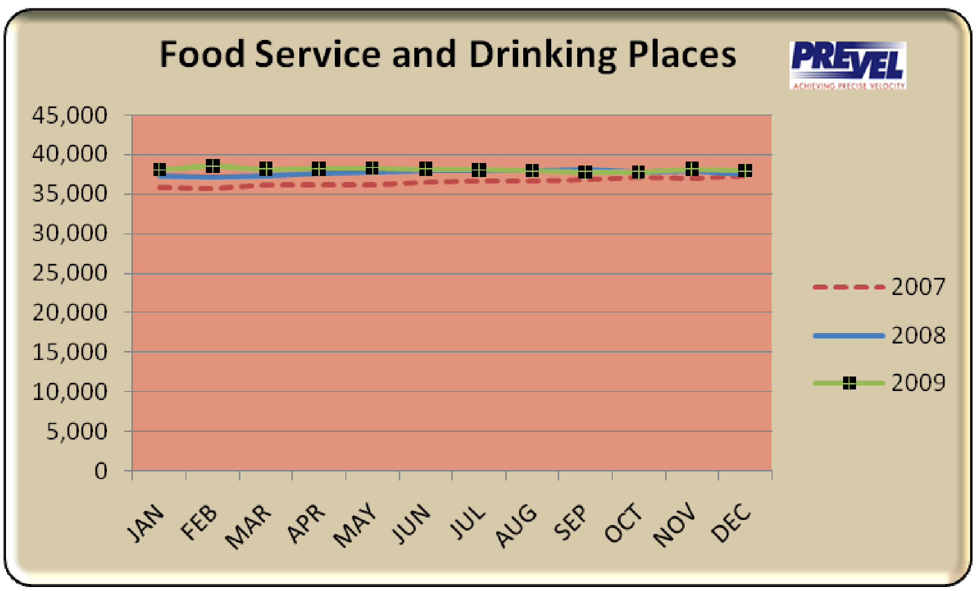
Retail sales finished the year ahead of December 2008. About $8 billion of the gain was due to higher gas prices.



Auto and parts sales returned to the pre-stimulus trend. Net effect of cash for clunkers was 0.

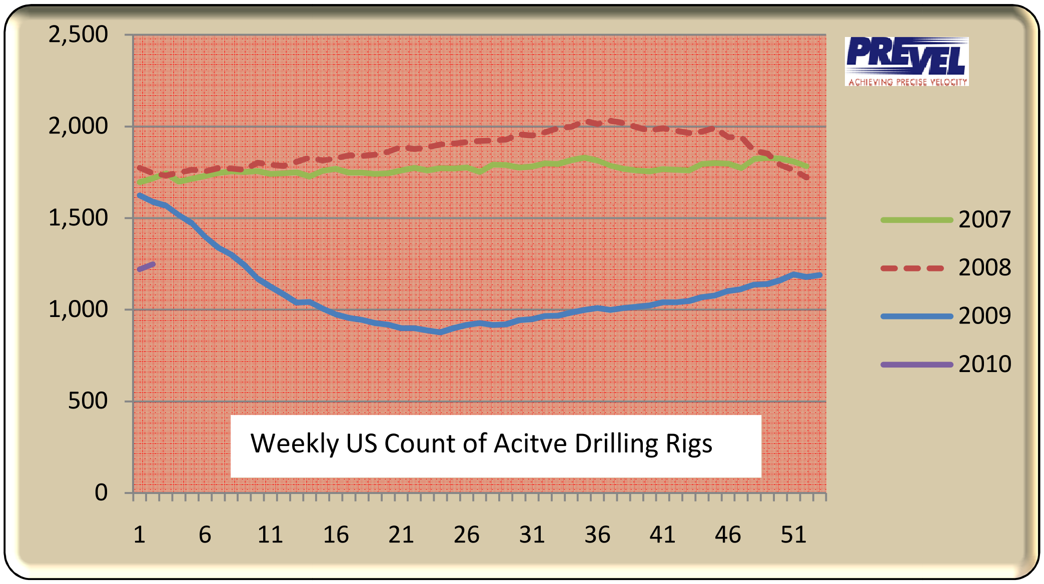


Core retail (excl. autos, gas, food service) finished December above 2008 and close to 2007. This measure has been extremely stable. The retail retrenchment has been in big ticket items like cars.



Food service set another December record..

Energy Production:



The weekly count of active drilling rigs (courtesy of Baker-Hughes) showed some acceleration in the first two weeks of January.

About Prevel and The Durable Goods Report

Prevel Consulting supports manufacturing transitions to High Velocity Manufacturing. Prevel Technology delivers software applications and custom solutions in support of data driven decisions, real-time operations and rapid response business metrics, all key components of High Velocity Manufacturing.

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 beyond what may be obvious from the current state. 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.

Prevel uses source data from the US Census Bureau, Bureau of Labor Statistics, and the Federal Reserve. Rig count data source is the Baker Hughes Corp. For data sourced from the US government, the preliminary publication is used, 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.

About the Author:

John Layden serves as Managing Partner of Prevel Technology, a management and technology consulting firm serving manufacturing, distribution, and their supporting technologies. Prevel has developed a suite of extremely high-performance real-time applications systems in support of their client industries.

Prior to launching Prevel, Layden's career included 22 years' in manufacturing and another 18 years in enterprise software. Most recently he has served as VP of Supply Chain Management for SAP and VP of Supply Chain Market Development for Frontstep, Inc. He served as President of Pritsker Corporation, an early innovator in discrete event simulation and Advanced Planning and Scheduling fields. He negotiated the Pritsker acquisition by Frontstep in 1997. He was a founder and CEO of Automated Technology Associates, Inc., a leader in the development of real-time quality control systems and factory management applications.

Layden has authored over 40 articles and papers on both the theory and practice of manufacturing and supply chain operations. He was described by one editor as one of the "founding fathers" of the Advanced Planning and Scheduling (APS) industry. He also authored the supply chain chapter in Maynard's Industrial Engineers Handbook. He speaks worldwide on the subject of world class operating strategies. He has been the keynote speaker at numerous conferences including the Automation Hall of Fame Awards.

As a software company CEO, Layden delivered to market the first real-time advanced planning and scheduling system; the first real-time SPC system; and the first real-time, fourth-normal-form database system. He is the originator of the Return on Capacity modeling process for analysis and improvement of supply chain profitability and delivery performance.

As a key partner to Motorola, Layden developed the quality control concepts that became the Six Sigma Initiative. He introduced the same concepts to GE and the Cadillac Division of General Motors. These initiatives contributed to the Malcom Baldrige awards won by Motorola and Cadillac, and to the highly publicized Six Sigma program at GE. He introduced the Six Sigma concepts to software development and delivered the only application software release to meet these exacting quality standards. Layden holds three patents and is the only American to hold a Japanese patent in quality control.

Prior to his tenure in manufacturing software, Layden spent 20 years as an engineer, operating executive and board member with three Fortune 200 manufacturing companies. The advisory services of Prevel retain the practical, no-nonsense approach familiar to world class operating executives. His operating roles included plant manager, director of business planning, and VP of Supply Chain Management in the delivery of appliances to Sears.

Layden currently serves on 3 boards, and advises several high-tech startup companies.

Mr. Layden holds a BS degree from Purdue University in Electrical Engineering and an MBA from the University of Wisconsin-Milwaukee (Executive Program). He is active with the Purdue University President's Council, and has served as a guest lecturer in the MBA programs of Villanova University, Columbia University, New York University, Ball State University, and others. He can be reached at jlayden@preveltech.com or 317-842-6417.

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