

The Durable Goods Report

May 2011 Report

Manufacturing Data Release of 5/3/2011 (March Preliminary)

Employment Data Release of 5/6/2011 (April Preliminary)

Retail Data Release of 4/13/2011 (March Advanced)

Industrial Production Data Release of 4/17/2011 (March Advanced)

Source Data: US Census Bureau, US Bureau of Labor Statistics, US Department of Commerce, Federal Reserve Board, Baker Hughes

John E. Layden, TCSC

The Durable Goods Report – A Service of Time Compression Strategies

By the Numbers

Durable Goods Key Measures			
March	Current Mo	Prior Mo	Prior Yr
New Orders -Durable	209,530	203,651	188,530
12 month moving average	197,556		176,497
% Change from Prior Year	11.9%		
Unshipped Orders - Durable	843,978	836,979	797,869
% Change from Prior Year	5.8%		
Value of Shipments - Durable	208,065	203,698	193,305
12 month moving average	199,831		185,410
% Change from Prior Year	7.8%		
Inventory - Durables	334,262	329,774	299,463
% Change from Prior Year	11.6%		
Inv to shipments ratio - Durable	1.61	1.62	1.55
Growth Index - Durable New Ord	1.036	1.020	1.066
Growth Index - Durable Shipmts	1.025	1.022	1.033
US Economy Key Measures			
	This period	Last period	Change
GDP Q1	15,006.4	14,871.4	0.9%
Industrial Production (Mar)	2,532.3	2,515.2	0.7%
Capacity Utilization % (Mar)	77.4	76.9	0.5
Manufacturing %	75.8	75.3	0.5
Durable Goods %	73.9	73.3	0.6
Primary Metals %	71.9	71.9	0.0
Autos and Parts %	67.3	65.5	1.8
Machinery %	79.0	78.7	0.3
Durable Goods (\$Mil SA) Mar Data			
New orders	209,530	203,651	2.9%
Shipments	208,065	203,698	2.1%
Inventory	334,262	329,774	1.4%
Unshipped Orders	843,978	836,979	0.8%
Retail ex Food Srv (\$Mil SA) Mar	348,028	346,944	0.3%
Autos and Parts	68,676	69,849	-1.7%
Gasoline	41,754	40,681	2.6%
Core retail (ex auto, gas)	237,598	236,414	0.5%
Groceries	96,305	96,121	0.2%
Employment (000's SA) Apr Data			
Non-Farm	131,028	130,784	244
Private	108,862	108,594	268
Goods Producing	17,997	17,953	44
Manufacturing	11,706	11,677	29
Construction	5,524	5,519	5
Durable Goods Mfg	7,251	7,232	19
Housing (000s of Units SA) Mar Data			
Single family starts	422	392	7.7%
Single family sales (new)	300	270	11.1%
Single family for sale (new)	183	186	-1.6%

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US Economy:

First report of Q1 GDP showed growth at a 1.8% annual rate, a significant reduction from Q4 growth of 3.1%. It remains far short of the 5-6% typical of prior recoveries and necessary to produce real employment growth. With the amount of inflation imbedded in the numbers, the real growth is even slower.

Industrial Production

Industrial production showed tepid growth in March. Capacity utilization in autos showed significant improvement.

Industrial production in Japan declined by 15%. Multiple US supply chains are being restructured to deal with supply disruptions from Japan. March numbers do not yet show a significant impact.

Employment:

Despite reports of employment gains of 244,000 based on the “Establishment Survey”, total employment determined by the “Household Survey” showed a loss of 190,000 jobs. The household survey is more accurate. The establishment survey is biased to large organizations (like McDonalds) whereas the household survey is a better cross section of the economy. The increase in the unemployment rate to 9.0% hints at a weaker economy, but still understates the problem. Total population not-in-the-workforce, regardless of intent, stands at a record high 85.7 million.

Durable Goods:

The only bright spot in the economy reported a robust increase in new orders for March, the third consecutive months of increase. But the effects of Japanese supply chain disruptions are not yet measurable in the March numbers. Most over-water supply chains have a 3-6 week pipeline. The April numbers will be the first time the full effect will be detectable.

Housing

Housing activity remains at unusually low levels. The prior month’s decline has been reversed, but there is still no sign of a serious recovery, current or pending.

It has been a mystery for several years as to how the anemic level of home construction could keep up with normal levels of household formations. New numbers from the Census Bureau show actual declines in US households for the first time since WWII. Check the charts at “Housing.” Mystery solved, but not a positive outcome.

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Random Thoughts:

- The Cash-for Clunkers program did exactly what was predicted: Created a shortage of cheap used cars. Used car prices have now surged. Who does this hurt? The low income people who can't afford a new car.
- The commitment to ethanol continues to have a devastating effect on the world's poor by raising food prices.
- Free markets provide the lowest cost of everything, sometimes below cost. Any and all Interventions (private or government) in free markets raise the price. Those who argue for using the power of government to intervene in free markets "for the general welfare", must first justify the damage to the poor from raising prices.
- Wal-Mart CEO says "...our customers are running out of money because of gas prices."
- Last month Wal-Mart quietly dropped its green initiatives. This month GE CEO Jeff Immelt did the same, saying he wanted to refocus on earnings. He was under threat of potential shareholder lawsuits. Shareholders seemed to believe they hired him to generate earnings. How quaint.
- Now we have a commission to study price gouging on gas. Can someone define the term for me? What margin is acceptable? Exxon reported 11 billion in net earnings for the first quarter. Their gasoline business makes the equivalent of \$0.02 on a \$4.00 gallon of gas. In addition, their exploration investment routinely exceeds the \$11 billion per quarter.
- If government adds \$0.28 per gallon (plus the hidden cost of regulation), who's doing the gouging?
- The president insists that big-oil should be stripped of the \$4 billion in tax breaks included in the tax code. That card was already played in 1976. Only the small wildcatters still get the special tax break. What they're talking about is the standard accounting practice of depreciating assets that depreciate. If the oil company accounts failed to report accurate depreciation, they'd be jailed for fraud. Why is it ok to misrepresent the actual assets of the company simply because congress approves?
- The retail price of gasoline is set based on the retailer's best estimate of the cost to replace the inventory, not the cost of the existing inventory. Any other strategy results in the failure of the business. That's why retail prices change quickly.
- Conservation is not an energy strategy. Reduced consumption is a one-time gain. Growth demands increased supply.
- The president says we can't drill our way out of high gas prices. But no one has shown another way other than shrinking the economy.
- Economic growth requires growth in energy supplies.

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- There are three ways of getting into trouble with the federal government over pricing (defined in the law):
 - o Price gouging (price too high)
 - o Predatory pricing (price too low)
 - o Conscious parallelism (price the same)
- If high speed rail is such a great idea, why are massive government subsidies required in China (1/4 trillion per year!), Japan, France and Taiwan? The reason is clear. Rail transport is energy efficient, but highly inflexible. Flexibility trumps efficiency.
- Passenger rail was a viable option until airlines (long distance) and autos (short distance) came along. Passenger rail has always been subsidized by freight traffic, and freight traffic was subsidized by government land giveaways (“Hear That Lonesome Whistle Blow” Dee Brown).
- Rail requires large infrastructure investment along an entire fixed route. If economic shifts make the route obsolete the investment is lost. Airlines, ships, trucks and cars can be rerouted in minutes in response to economic shifts or supply chain disruptions.
- Amtrak carried 28.7 million passengers nationwide in 2010 and lost billions. The Phoenix airport handled 38 million in 2009 and made a profit.
- Note to government bureaucrats: You do not and cannot know what’s best for me. Only I know what’s best for me, and it changes daily.
- 30 people have now been exposed to 100 milliSieverts of radiation in Japan. They have all been taken off the team for their protection. A level 3 to 5 times higher is now viewed as therapeutic in some circles (i.e. It reduces cancer risk).
- George Soros is reported to be dumping gold and silver investments.
- Oil dropped about 10% on May 5th. See the “Energy” section for one possible explanation.
- I’d pay extra to hear the National Anthem performed by someone who would sing only the notes on the page.
- China’s population bomb is the worst of any nation. The “one child” policy is producing a rapidly ageing population and a critical drop in the workforce. Population under 14 = 16.6% (down 6.3% since 2000); Population over 60 = 13.3% (up 3.3% since 2000). Tipping point may come as early as 2013.

Update on Japan:

The crisis at the nuclear facilities has now subsided. There were two deaths, both from drowning. At the moment there is no indication of a serious radiation injury.

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The state of Japanese supply chains is another story. March durable goods numbers show no hint of trouble. But the 3-6 week over water supply chain would not be expected to respond immediately. April will be another story, and the US facilities of Japanese auto makers are working far below capacity (30% by one report). Engines sourced from Japan are the biggest issue. Electronics are sourced in the US.

Tooling supplies are being accommodated by rapid resourcing for inserts, taps and dies. European suppliers appear to be the greatest beneficiaries.

Semiconductor supplies are a greater concern. There isn't a lot of slack capacity in the industry. Ultimately the Toyota electronics supplied by Delphi (Kokomo, IN) will trace back to the chip suppliers in Japan for some components.

Wafer fabs and chip fabs seem to be back up and running in NE Japan. The level of production isn't clear. Most of the production stoppages were due to loss of electrical supply or transport, rather than serious internal damage. Hitachi remains a question in their power systems division. Worst hit was Freescale who will not re-open their damaged 6" wafer fab. It had been scheduled for shutdown in December due to lack of demand. This relatively small wafer size has been on its way out for several years.

With demand shifting to other regions, Taiwan now reports a shortage of the high purity water used in wafer production.

Paint, batteries and chemicals are also showing supply problems. One of the ironies is that you can no longer get a black Ford. The sole supplier of their black paint is in NE Japan and is still down.

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Energy:

Oil accounts for 35% of total US energy. Transport uses 72% of oil with another 22% going to industrial purposes. The remainder of the energy economy is unaffected by oil prices (at least not directly). However every major price spike in oil has resulted in a recession in the US. (search on oil price + recession– many charts available).

Price Drivers: Demand and supply relationships control the price of any commodity. The textbook examples are pretty simple. But the added complexity of money supply inflation and future expectations makes it less than simple in the real world. That doesn't change the basics.

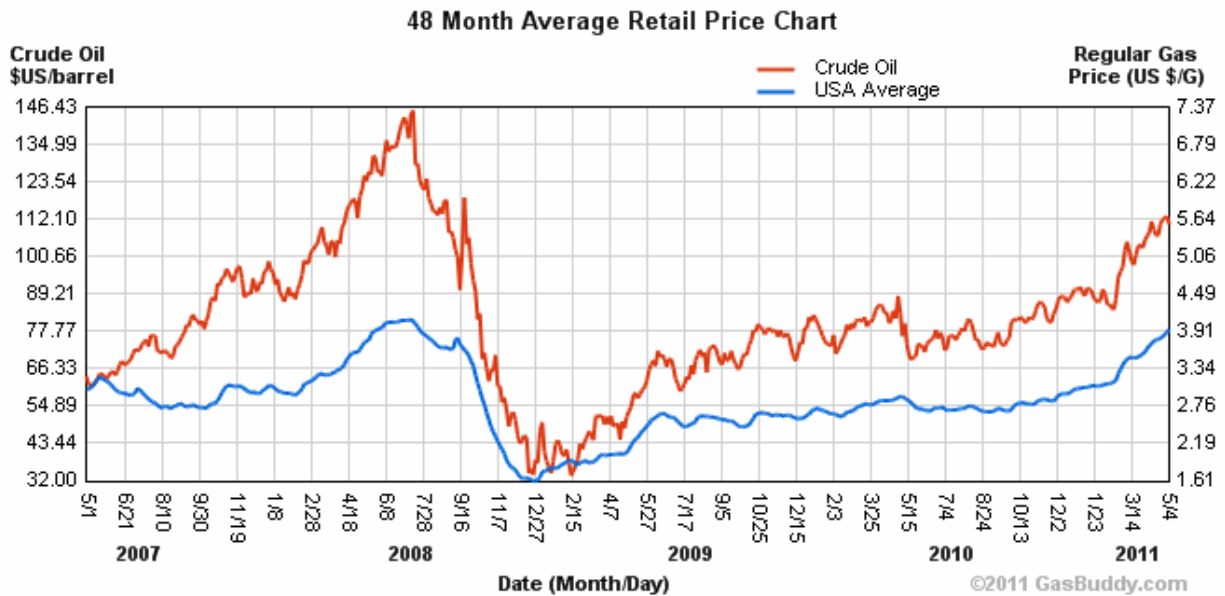
The price gouging squawks are usually based on retailers raising prices before the higher priced oil works its way through the supply chain. So the thinking goes that prices should have something to do with the cost of the existing inventory. Not only wrong, but fatally wrong.

Gas retailers must set price based on their expectation of the cost to replace the inventory, not the cost of the existing inventory. A simplistic example (ignoring profit and overhead) will help: If a retailer buys 1,000 gallons of gas for \$2.00 per gallon, sells it for \$2.00, they could then buy another 1,000 gallons. But what if the wholesale price went to \$4.00 while the current inventory was being sold? The income from existing inventory could only buy 500 gallons. This business is headed for extinction.

Timing is also important. If the wholesale price goes from \$2 to \$4 on the day after the inventory purchase, the \$2 inventory must be sold for \$4. By standard accounting, the margin is outrageous. If the price increase happens half way through the sale period, the store must charge \$6 per gallon for the second half of the inventory to allow replacement of the 1,000 gallons. If the price increase happens on the last day of sales, there is no chance of recovery.

What looks like price gouging is actually survival. It works more slowly on the way down, but sometimes it can happen very quickly. There is often a speculative component to global oil prices. But the portion based on pure financial speculation usually lasts only 90 days, the term of the dominant futures contract. At that point the speculator must take delivery or sell the contract. Since the pure financial speculator has no real use for the commodity, they dump the contract. The chart below shows the 2007-2008 run-up lasting about 180 days. It peaked at \$146.43 on 7/14/2008. On that day President Bush signed the executive order lifting the ban on offshore drilling. Since prices are based on future expectations, the price of oil collapsed. The decline after about 10/1 was based on the financial crisis and the anticipated effect on the economy. So an *expected* supply increase and an *expected* demand reduction caused a drop of about \$113 per barrel in five months.

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Recently President Obama proclaimed that we can't drill our way out of high gas prices. So the laws of supply and demand have been suspended or repealed?

The only way out of high gas prices is to drill more or reduce economic growth. We should vote for drilling. Supply must exceed demand (any legitimate substitute counts as supply). Oil prices in a free market should stabilize at about \$50-80 per barrel. The marginal cost of extraction remains at below \$50 per barrel. The rest is caused by government intervention.

Economic substitutes for oil count as supply, but to date there are none. Solar and wind are net consumers of energy. Without some new technology breakthrough they will never be more than a hobby for rich people with money to waste. Even with massive subsidies (\$24 per MW), wind and solar energy is still priced far above conventional supply. So the rich hobbyist in this case is the government. The money being wasted is mine!

The folly of the electric car offers another example. These vehicles essentially replace the gas tank with a battery. But the storage density of batteries is terrible. Engineers knew this 100 years ago when they rejected the electric car after a few years of experiments. Why don't engineers know that today? The chart below offers a comparison (special attention to MJ/L):

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	MJ/Kg	MJ/L
Coal, anthracite	32	72
Diesel	46	37
Body fat metabolism	38	35
Gasoline	46	34
100LL Avgas	44	32
Gasahol e85	33	26
Carb Metabolism	17	26
Ethanol	30	24
Battery, Lithium-ion	0.72	2.20
Battery, NiCd	0.14	1.08
Battery, NiMH (auto)	0.25	0.50
Battery, Lead Acid	0.14	0.36
Methane	56	0.04
Hydrogen	143	0.01
MJ/Kg = mega-Joule per kilogram		
MJ/L = mega-Joule per liter		

The lithium battery is a huge breakthrough, for a battery. Double the NiCd battery. But it's still almost 20 times worse than diesel fuel. And more dangerous to boot. What utter folly!

Economic Impact: The current price of oil is depressing economic growth. It may prove to be a major contributor to a second recession. If the administration achieves its stated goal, hydrocarbon energy prices will be inflated to allow alternate energy to be competitive. The core question is how this will affect manufacturers.

Manufacturers across the globe will be equally affected by oil prices. Be careful before you celebrate. The fact that the US economy is so much larger makes us more vulnerable.

We can measure the total impact of energy prices in the economy, but it is impossible to track all the paths to consumers.

For durable goods manufacturers the biggest impact will be in raw material costs, rather than direct energy and transportation costs. Even this is hard to predict. Not all energy intensive processes are affected. The primary metals production uses various forms of energy: coal (primary mills), electricity (aluminum, mini-mills), natural gas or oil.

Transportation companies will be directly hit, although most contracts today include surcharge provisions based on fuel costs. Distribution and retail operations, where transportation density is relatively low, will be proportionally hit the hardest. Two coils of steel gets a flatbed up to the highway load limit. Filling an oversized trailer with water

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heaters barely gets to ¼ of the load limit. And a load of empty beer cans isn't worth weighing.

Manufacturers using oil as a feed stock will also be directly affected. Fertilizer, plastics and some pharmaceuticals are directly dependent on petrochemical feed stocks.

One factor is universal. As consumers are hit with higher prices for gasoline and other products, the demand for other goods will decline. In the short term this is a zero sum game. This reduced volume will drive up unit costs for manufacturers, further aggravating the problem. Longer term there will be shifts in demand that reallocate the spending patterns in completely unpredictable ways.

There is no short-term substitute for oil. Natural gas and nuclear will probably displace coal and oil for stationary use in the mid to long term, but as yet there is no realistic substitute for liquid hydrocarbons used in transportation. Compressed natural gas remains too complex (read expensive) to become significant for transport.

The immediate challenge is how to achieve oil independence. North America could become autonomous in oil in a few years. The most immediate issue is the role of government regulation and the huge toll it takes on oil supply.

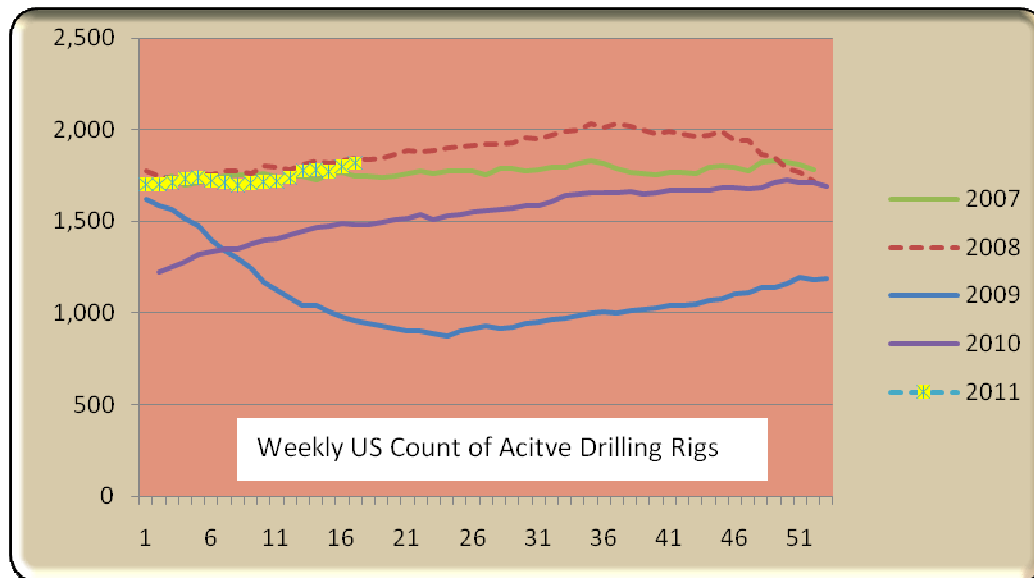
A second important issue is that oil is a global market. Ultimately there must be a global excess of supply. If we increase production, would the output be consumed by growth in China before prices decline? Maybe not. In the past the threat of more US drilling has been enough to force the rest of the world to increase production to maintain market share.

So the policy options are narrow:

1. The US must realize that minerals are not a limited resource in any real sense.
2. As the consumer of 25% of the world's oil (and producer of 28% of its GDP) the US plays a major role in world market dynamics. This includes prices and competition for market share by other producers.
3. The US must give up the quaint notion that CO₂ is a toxin, pollutant, or anything other than a beneficial gas necessary for all life on Earth.

The calculus of the rest of the world is based on how much they can get away with before the US wakes up. With the US government in collusion, they can get away with a lot. We have willingly played the role of "useful idiots" (V. Lenin).

Despite the regulations, drillers are finding a way. The incentive of \$100 oil is too great.



Employment:

The employment picture continues to deteriorate. Confusion over the measurements doesn't help. The Establishment Survey (ES) reported an increase of 244,000 jobs in April. The Household Survey (HS) showed civilian employment declined by 190,000 jobs in April. The unemployment rate (based on the HS) increased from 8.8% to 9%.

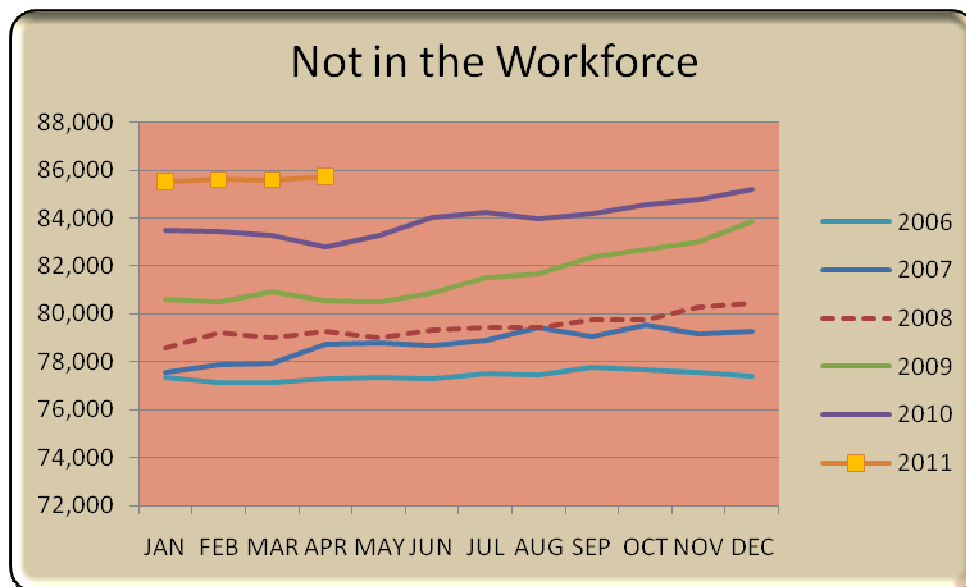
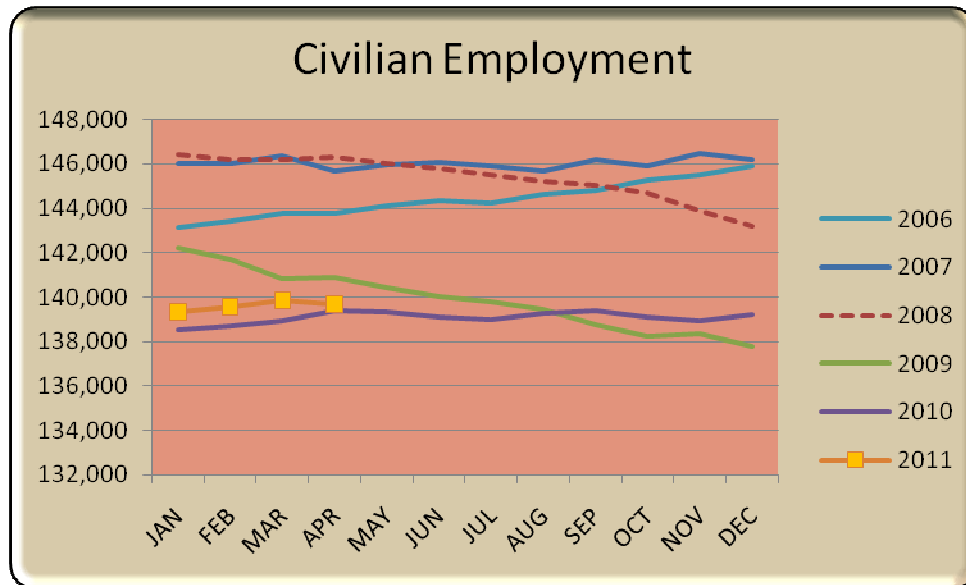
The household survey provides the best cross section of the US economy. The establishment survey covers large institutions and misses the contribution of small business. The household survey unemployment rate is based whether the person interviewed is looking for work. It's a somewhat subjective process. To get rid of the subjective bias in the HS, we publish the total employment, and its complement, the total number not in the workforce, regardless of intent. We also track these numbers as a % of the non-institutional population.

The problem in the economy is that small business isn't adding jobs, and the ES misses this part of the economy.

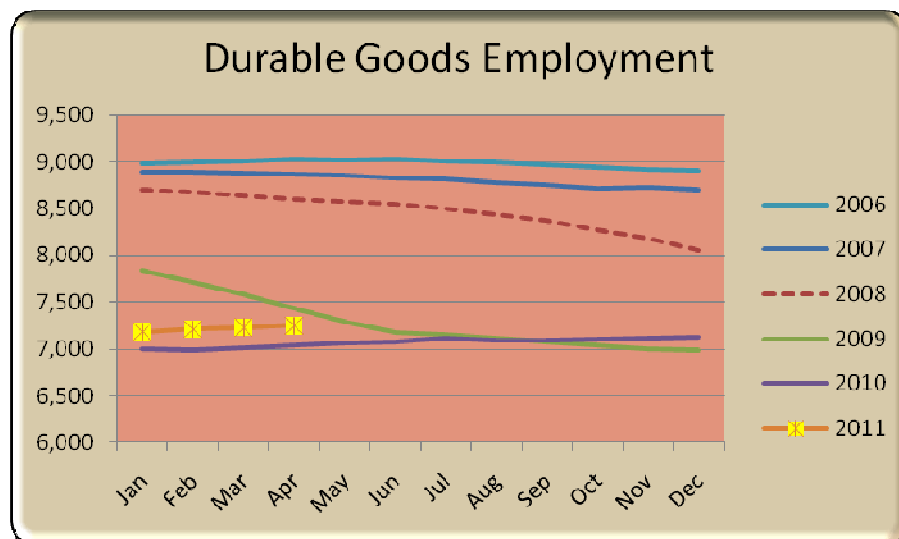
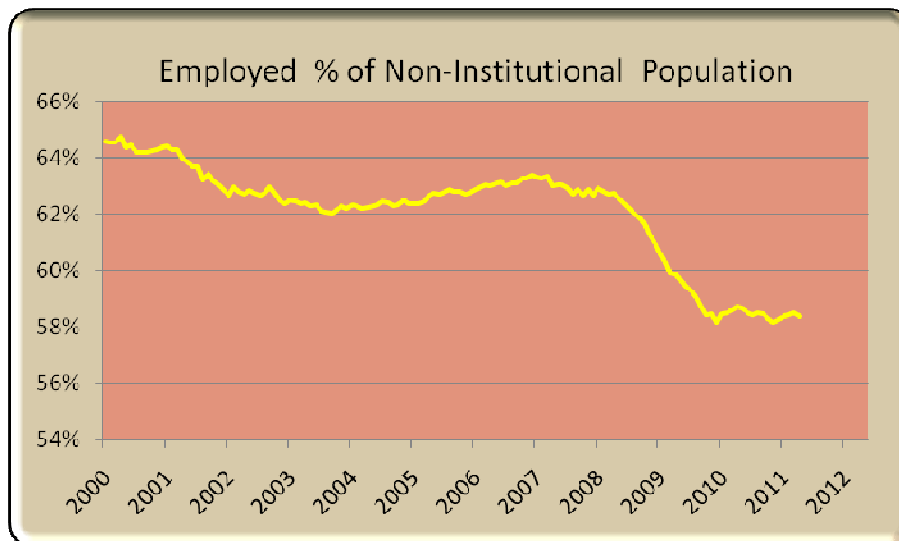
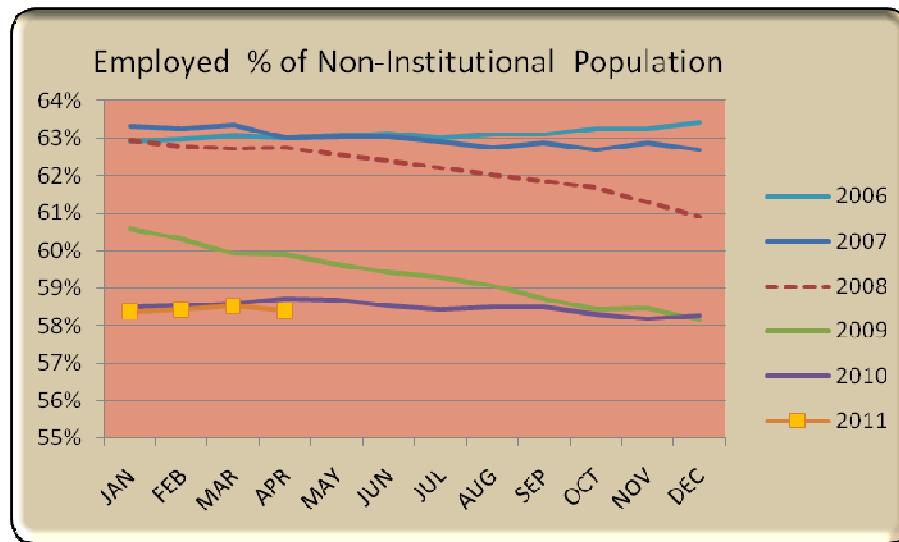
Based on the HS, total civilian employment declined by 190,000 to 139.7 million in April. This left 85.7 million people "not-in-the-workforce" (NIW). In the past year the total civilian employment has increased by 292,000, while the portion of the working aged population not in the workforce increased by 2,916,000. The US employment picture is headed in the wrong direction by a 10:1 ratio. It's not even close.

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The employment as a % of population declined from 58.5% to 58.4%. For the first three months of the year this measure tracked 0.1% below 2010, the worst year on record. In April it dropped to 0.3% below 2010. Another way to look at it is that 41.6% of the US potential working population is unemployed.



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The durable goods sector added 19,000 jobs in April, a slower rate of growth than the prior 4 months. There is some modest reason for optimism, given the growth in order backlogs, with a caveat related to the Japanese supply chain issues. Toyota and Honda's US plants are running at 30% of assembly capacity.

Once again the sector cannot carry the economy. Capital investment continues to offset the need for increasingly expensive labor. In the past 12 months durable goods manufacturers have increased shipments by 7.6% with a 3% increase in employment.

Summary and Sector Analysis

GDP: US GDP 2011Q1 growth rate was reported at 1.8% SAAR (0.9% Q/Q; 3.9% Y/Y), down from 3.1% in Q4.

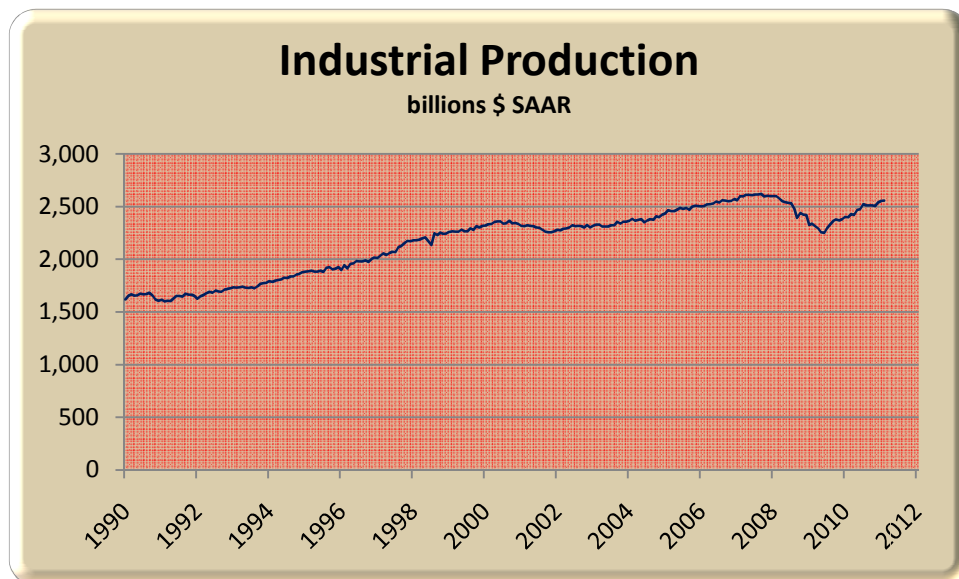
The real performance of the economy is probably worse than indicated, due to the inflation in food and energy. This puts a damper on the first-ever 15 trillion indicator of the economic activity (keep in mind that this is an extrapolation of the Q1 run-rate, not an actual yearly number). Under more normal circumstances the inflation-adjusted numbers would be used to gain some insights on real performance. However the reliability of the statistical adjustment methods is questionable given the unusual state of the current economy.

Gross Domestic Product				
Year	Qtr	GDP \$b (SAAR)	Chg from Prior Pd	Chg from Prior Year
2008	1	14,328.4	0.3%	3.9%
2008	2	14,471.8	1.0%	3.3%
2008	3	14,484.9	0.1%	2.3%
2008	4	14,191.2	-2.0%	-0.7%
2009	1	14,049.7	-1.0%	-1.9%
2009	2	14,034.5	-0.1%	-3.0%
2009	3	14,114.7	0.6%	-2.6%
2009	4	14,277.3	1.2%	0.6%
2010	1	14,446.4	1.2%	2.8%
2010	2	14,578.7	0.9%	3.9%
2010	3	14,745.1	1.1%	4.5%
2010	4	14,871.4	0.9%	4.2%
2011	1	15,006.4	0.9%	3.9%

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Industrial Production (excluding industrial supplies like energy)

Industrial Production \$b SAAR				
Year	Mo	Ind Prod - Value of Prod	Chg from Prior Pd	Chg from Prior Year
2010	1	2401.7	0.9%	3.2%
2010	2	2399.2	-0.1%	2.6%
2010	3	2429.3	1.3%	5.0%
2010	4	2420.5	-0.4%	5.6%
2010	5	2469.3	2.0%	9.4%
2010	6	2475.3	0.2%	10.1%
2010	7	2522.8	1.9%	9.8%
2010	8	2512.4	-0.4%	7.9%
2010	9	2511.1	-0.1%	6.2%
2010	10	2511.3	0.0%	5.6%
2010	11	2507.2	-0.2%	5.8%
2010	12	2540.7	1.3%	6.7%
2011	1	2554.8	0.6%	6.4%
2011	2	2556.9	0.1%	6.6%



The growth of industrial production (excluding energy) has slowed dramatically. Much higher growth rates are needed to get real employment improvement. The elevated cost of oil is putting a serious drag on the economy.

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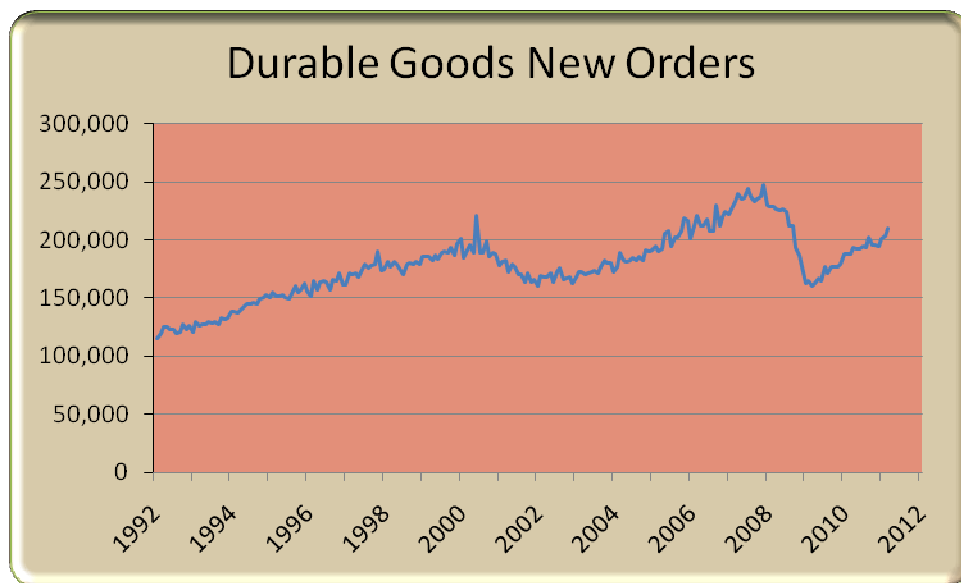
Capacity Utilization (March data):

Capacity utilization for industrial production increased (0.5 to 77.4%), manufacturing was up (+0.5 to 75.8%). durable goods (+0.6 to 73.9%), autos and light trucks (+1.8 to 67.3%), machinery increased (+0.3 to 79%). Primary metals was flat (71.9%) despite continued reports of longer lead times.

The positive move in autos is likely to be reversed next month. Retail sales declined in the period, and Japanese supply chain effects will come into play. Longer term the outlook is better for the auto industry. The ability to delay purchase of a new car is limited. Think of the “remaining miles” on a vehicle as inventory. By driving the existing car longer the owner is using up inventory. At some point a new car becomes necessary and economic (or so I told my wife).

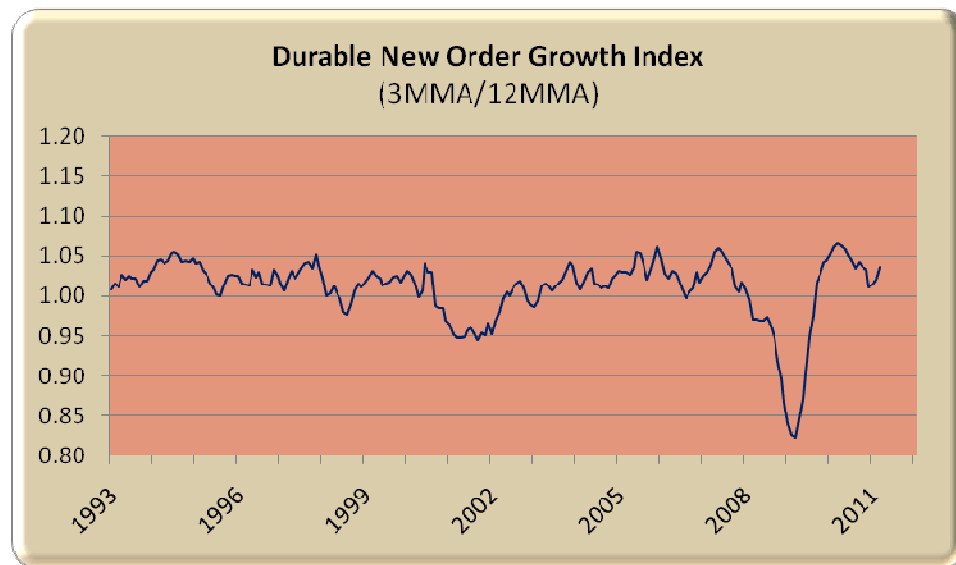
The Durable Goods Sector (March Data):

New Orders: Durable new orders increased by a robust 2.9% to \$209.5 billion. Export sales growth aided by the value of the dollar help this performance.



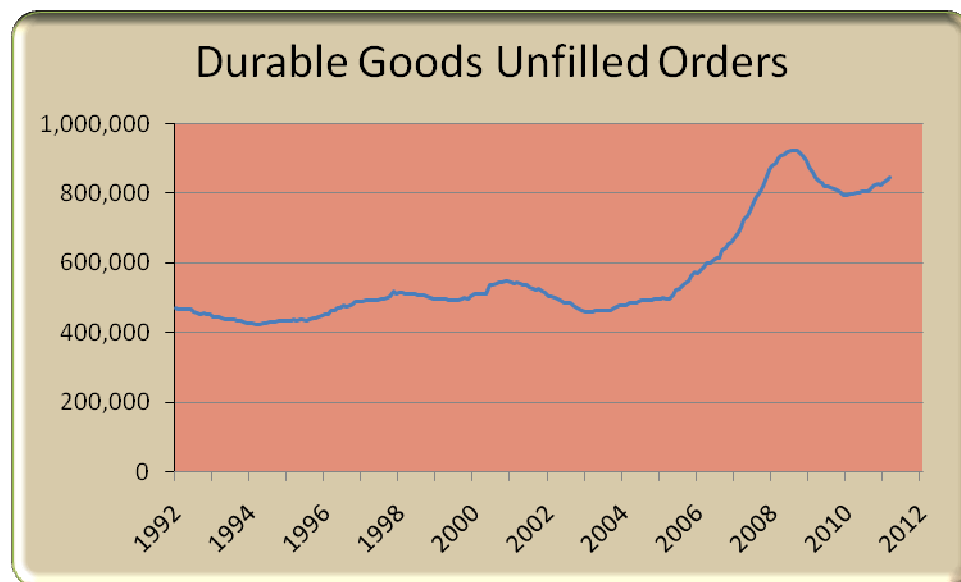
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Solid new order performance is reflected in the growth index.



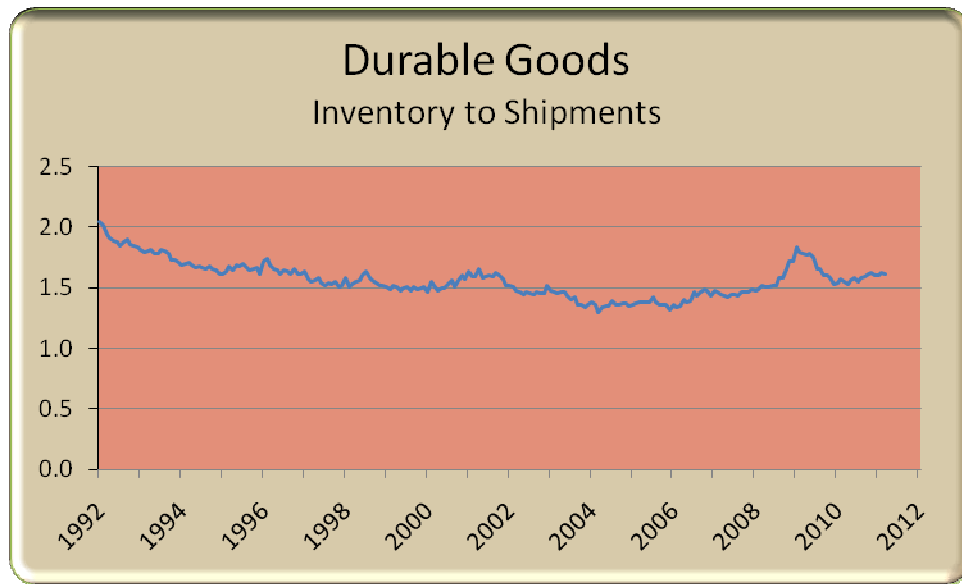
Shipments increased by 2.1% to \$208.1 billion. Orders to Shipments ratio increased to 101%, slightly above normal of 98%.

Unfilled Orders increased by 0.8% to \$844 billion. Growth rates in order backlogs are modest, and do not show the steep slope in the run up to the 2009 collapse. The ratio of unfilled-orders-to-shipments declined by 1.6% to 5.5 months. Lead times for primary metals are long by traditional standards, but are no longer deteriorating.



Inventory climbed by 1.4% to \$334.2 billion. The ratio of inventory to shipments remained unchanged at 1.6 months. Total inventory remains in good control, given the challenges of growing a complex supply chain.

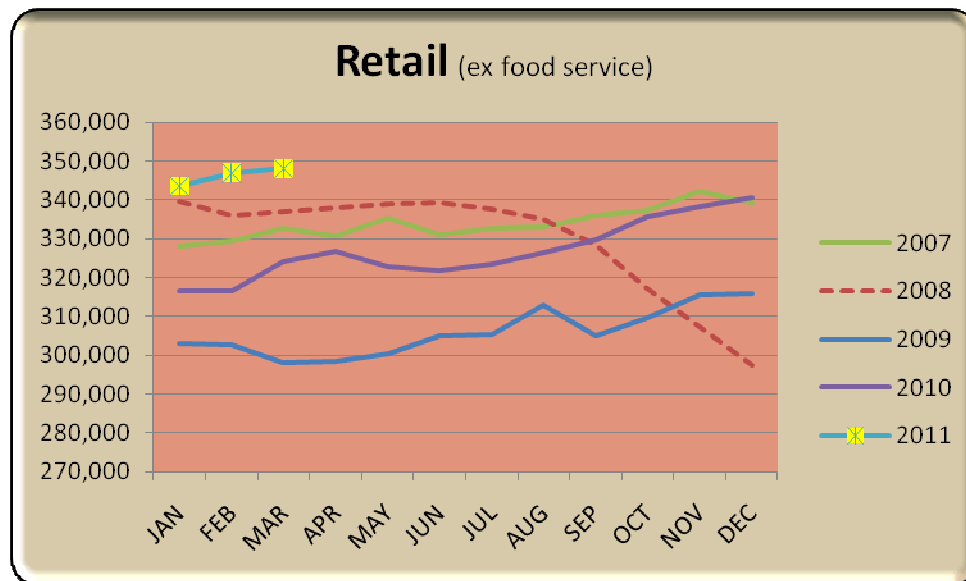
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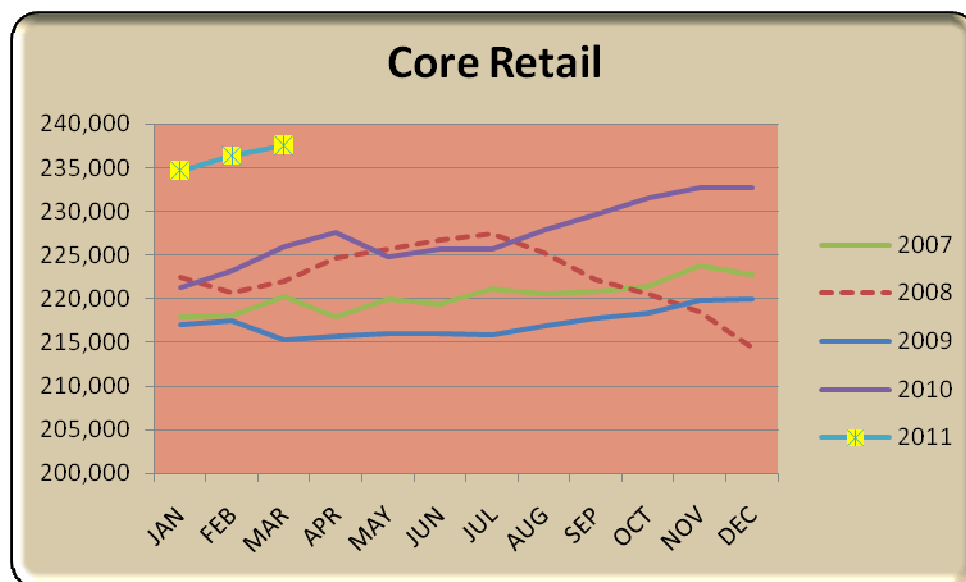
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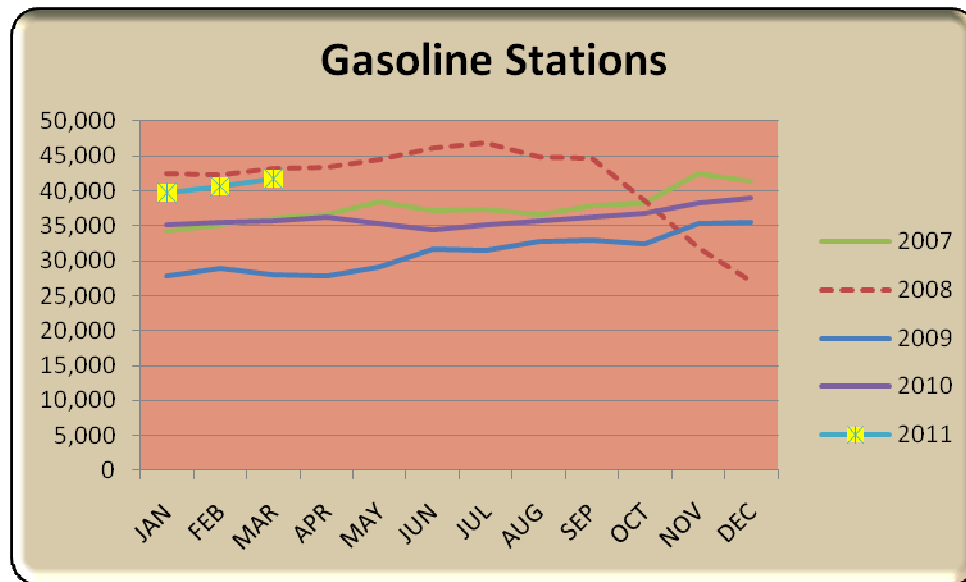
Retail Data (March advanced release)

Retail Sales (excluding food service) increased by 0.3% to \$348 billion in March. Given the dramatic surge in inflation in most categories, this probably represents a decline in physical buying activity. John Williams at shadowstats.com estimates overall inflation at 10%.

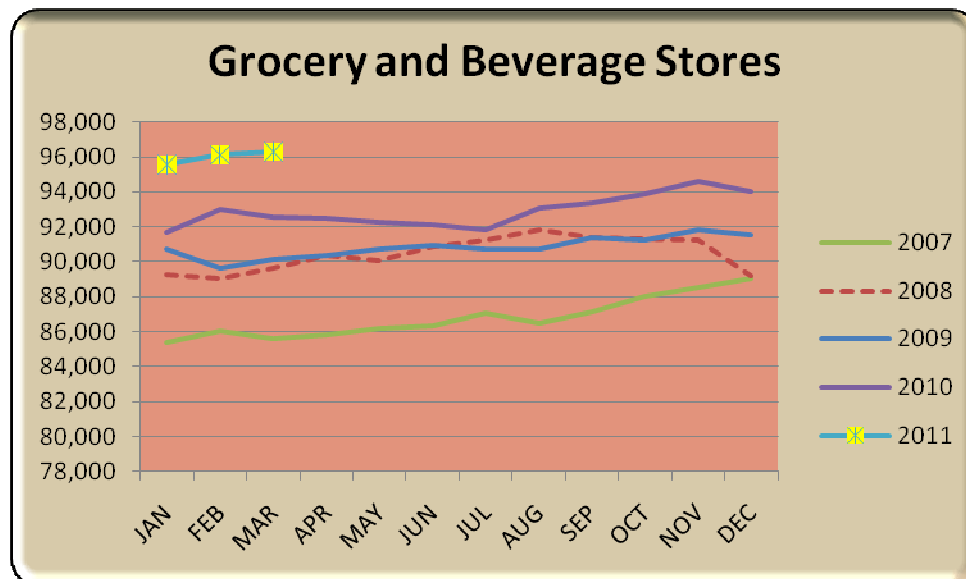


Core retail (excludes food service, gasoline, autos and parts) continues to surge. Most of this increase is likely due to the inflation in cotton, gas and food.





Gasoline sales posted a modest increase. Compared to last year revenue is up by 16.7%, about half the increase in the price per gallon at the pump. Drivers are clearly cutting miles to compensate for higher gas prices. It is also likely that they are cutting other purchases to cover this inflation component.



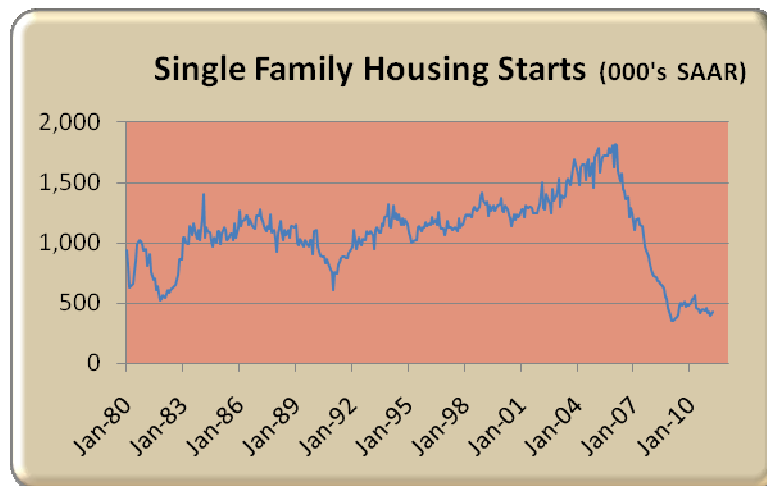
Grocery and Beverage stores also showed a modest increase. The category stands 4% above the prior year, more than double the rate of population growth.

Housing (March Data):

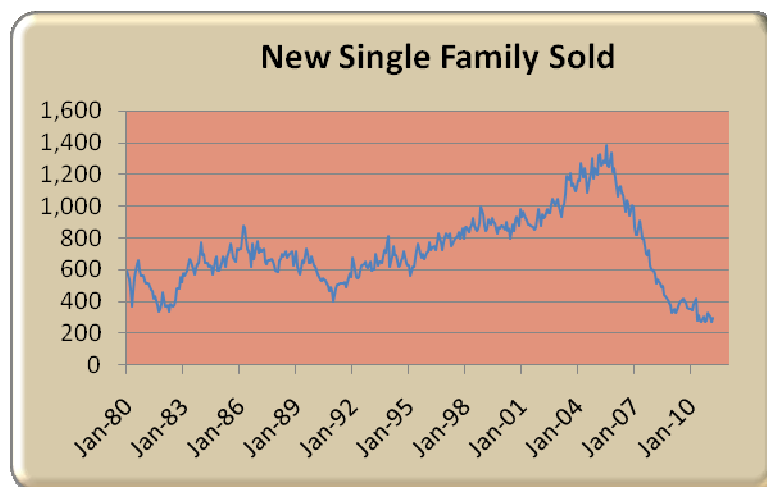
The housing market recovered from last month's collapse. Now it's returned to horrible. The mystery of how the depressed level of housing construction could support the growth in population. Now we know. See "Household Formations" below.

Note: DGR regularly reports on single family home construction. This segment has a major impact on the durable goods economy. We also monitor multi-family construction, but report on it only if it provides additional insights.

Single family starts recovered the losses of last month. The record low levels represent a serious drag on the economy. Population continues to grow, housing stock does not.

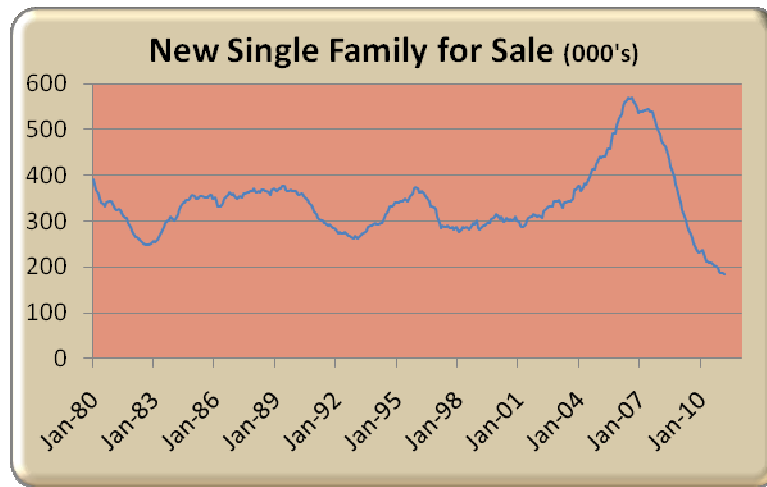


Single family sales: Still in the tank. There is simply nothing like a normal level of demand from qualified buyers. The flood of bank owned homes on the market depresses prices, but does not change the total housing stock.



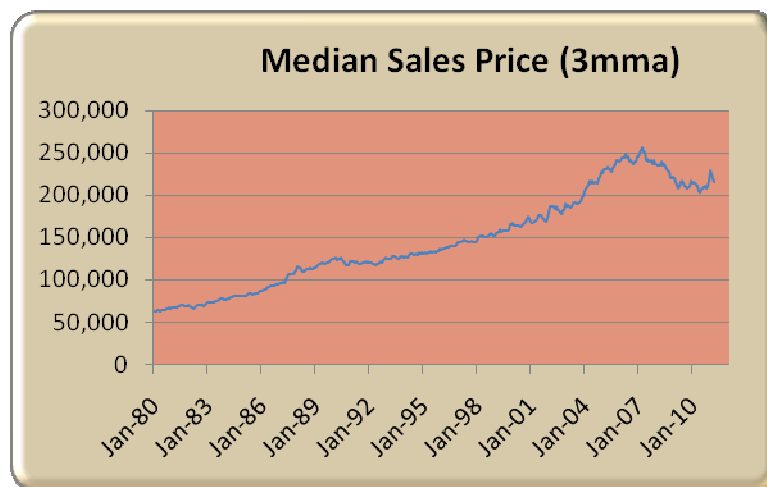
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Single family homes for sale: With inventories at an all time low, we should expect to see shortages - eventually. Even at the depressed levels of current sales the inventory represents only about 7 months of sales.



Median Sale Price: The bright spot in all the data is the chart of median sale price. The bubble pricing is clearly visible in the chart. Also visible is the return to a normal growth rates in home values. The fear of a total price collapse has not materialized, but pressure on pricing will remain until the backlog of bank owned homes is cleared, probably later this year.

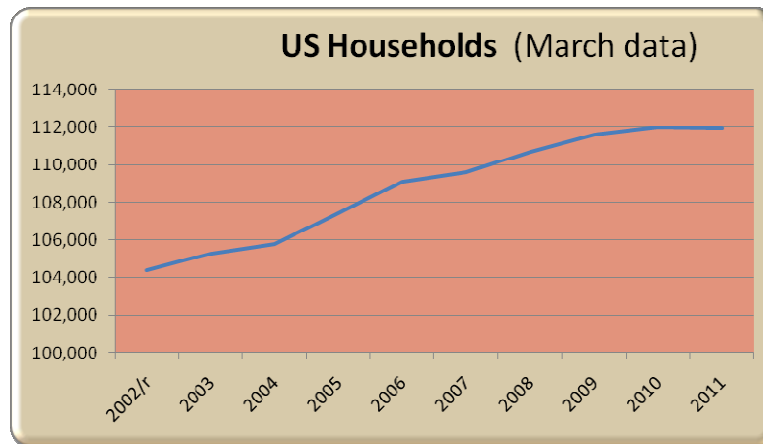
It seems unlikely to produce a serious crash, given the inflation in the raw materials and low levels of inventory. Most of the concerns regarding this number were related to the tracking of the Case Schiller index of the top 20 markets. The list included the seven markets of greatest inflation, plus an inordinate proportion of over-\$750k homes. So it reported an exaggerated collapse. The total US market was never hit as hard as the index suggested and has now returned to something like normal rates.



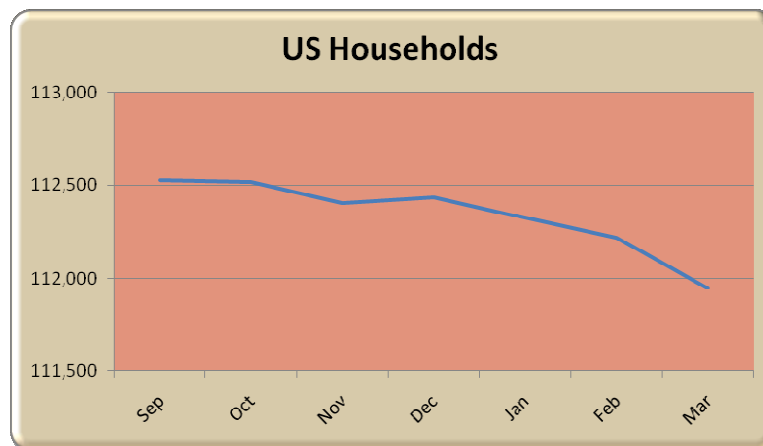
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New Household Formations: For several years the DGR has raised the question of how the depressed levels of housing construction could support a normal level of household formation. We now have some added insight. For the first time since WWII the count of total households in the US is declining. The charts below show a clear pattern. The exploded detail since September is most dramatic. Actual declines in households are an ominous signal for the housing market.

Total US Households



Exploded View Sept - Mar



About Time Compression Strategies and the Durable Goods Report

TCS provides business consulting and information technology support to high performance organizations. Our focus is on manufacturing and telecom. Through our business partners we support health care and other high-demand business environments.

The goal of the Durable Goods Report 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 current conditions. The analysis of historical patterns provides a necessary framework for understanding plausible scenarios. Since a high percentage of durable goods go through retail, this sector serves as a leading indicator of future durable goods activity.

The Durable Goods Report 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 wherever possible. The preliminary release occurs 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. Wherever the advanced release is used it is noted. Tracking reports are available for several durable goods sub sub-sectors. Contact TCS for details about this subscription based service.

Technical Note: The “TCS 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 CEO of Time Compression Strategies Corp (TCS), a management consulting and information technology company serving manufacturing, distribution, and their supporting technologies. He also serves as Chairman of Temporal Dynamics, Inc. (TDI), the developer of the patented Ancelus high performance database. TCS has developed a suite of high-performance real-time applications systems in support of their client industries.

Prior to launching TCS, Layden’s career included 22 years’ in manufacturing and another 20 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

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discrete event simulation and advanced planning and scheduling fields. He negotiated the Pritsker acquisition by Frontstep. 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 TCS advisory services 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.

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 317-842-6417

jlaiden@timecompressionstrategies.com

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Time Compression Strategies Corp

Business and Technology Services

www.timecompressionstrategies.com

317-842-6417

Temporal Dynamics, Inc.

Extreme Performance Database Technology

www.temporaldyn.com

888-218-0218