The Durable Goods Report

August 2011Report

Executive Summary of the US Economy

Manufacturing Data Release of 8/3/2011 (June Preliminary)

Employment Data Release of 8/5/2011 (July Preliminary)

Retail Data Release of 7/14/2011 (June Advanced)

Industrial Production Data Release of 7/15/2011 (June Advanced)

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

John E. Layden

By the Numbers

Durable Goods Key Measures			
May	Current Mo	Prior Mo	Prior Yr
New Orders-Durable	192,447	196,209	192,327
12 month moving average	195,462		183,538
% Change from Prior Year	6.5%		
Growth Index - Durable New Ord	0.991	0.999	1.051
Unshipped Orders - Durable	863,237	860,748	803,897
% Change from Prior Year	7.4%		
Value of Shipments - Durable	196,082	195,099	196,120
12 month moving average	197,523		190,134
% Change from Prior Year	3.9%		
Growth Index - Durable Shipmts	0.988	0.989	1.033
Inventory - Durables	357,828	355,983	309,396
% Change from Prior Year	15.7%		
Inv to shipments ratio - Durable	1.82	1.82	1.58

US Economy Key Measures			
	This period	Last period	Change
GDP Q2	15,003.8	14,867.8	0.9%
Industrial Production June Data	2,496.8	2,500.5	-0.1%
Capacity Utilization % June Data	76.7	76.7	0.1
Manufacturing %	74.9	74.9	(0.0)
Durable Goods %	72.8	72.9	(0.1)
Primary Metals %	73.1	71.9	1.2
Autos and Parts %	60.8	62.2	(1.4)
Machinery %	78.8	78.4	0.4
Durable Goods ($Mil SA) June Data			
New orders	192,447	196,209	-1.9%
Shipments	196,082	195,099	0.5%
Inventory	357,828	355,983	0.5%
Unshipped Orders	863,237	860,748	0.3%
Retail ex Food Srv ($Mil SA) June Data	347,217	346,531	0.2%
Autos and Parts	66,523	66,017	0.8%
Gasoline	44,517	45,096	-1.3%
Core retail (ex auto, gas)	236,177	235,418	0.3%
Groceries	97,247	96,977	0.3%
Employment (000's SA) July Data			
Civilian employed (Household Survey)	139,296	139,334	-38
Civilian not employed (HS)	100,375	100,155	220
Non-Farm (Establishment Survey)	131,190	131,073	117
Private (ES)	109,156	109,002	154
Government (fed, state, local) (ES)	22,034	22,071	-37
Goods Producing (ES)	18,077	18,035	42
Manufacturing (ES)	11,745	11,721	24
Construction (ES)	5,532	5,524	8
Durable Goods Mfg (ES)	7,311	7,288	23
Housing (000s of Units SA) June Data			
Single family starts	453	414	9.4%
Single family sales (new)	312	315	-1.0%
Single family for sale (new)	164	166	-1.2%

US Economy:

Q2 GDP reported at 1.3% seasonally adjusted annual rate (0.9% Q/Q; 3.1% Y/Y). The first quarter growth was revised downward from 1.9% to 0.4%. The economy is clearly stalled. The Q2 performance had been visible in the detailed data for two months.

Industrial Production

Industrial production declined 0.1% in June. Down 3.9% since January.

Retail:

Retail increased 0.2% in June but essentially flat since March.

Employment:

Employment continues to rapidly lose ground. The July report claimed job growth of 117,000 from the payroll survey (large organizations). The broader household survey showed a decline in employed of 38,000. More dramatic the number not working increased by 220,000. See the “Employment” section for the gruesome details.

Durable Goods:

Durable goods orders declined by 1.9% in June, after an aircraft-induced 2.1% surge in May. Durable orders have been flat for a year. Shipments continue to track well with orders suggesting careful management by manufacturing executives. Inventory is the only major red flag. The inventory to shipments ratio matches the record high of 2008.

Housing

Housing construction is still a major drag on the economy. Single family starts increased by 9%, but sales declined by 1%.

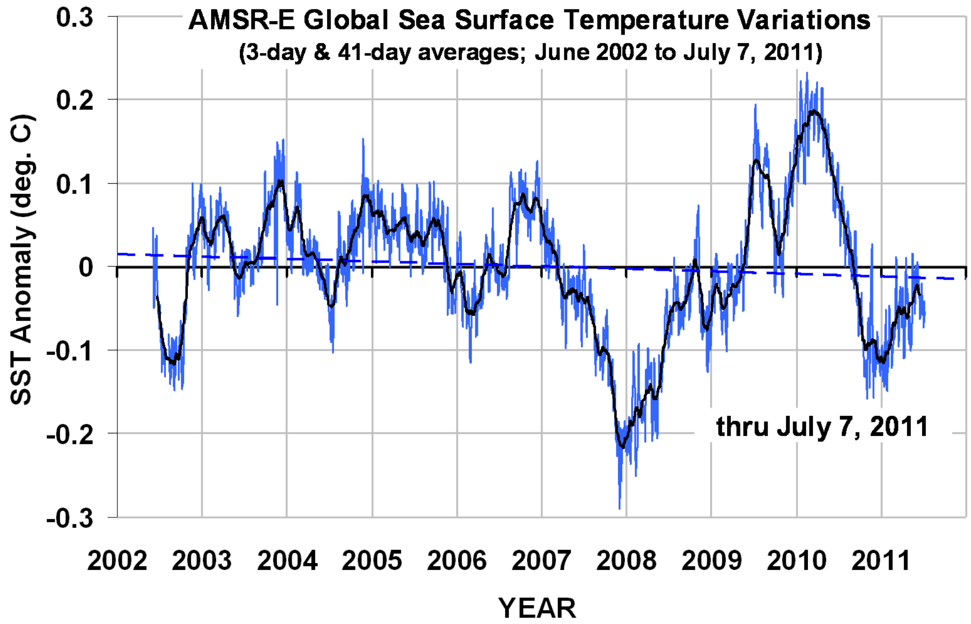
Random Thoughts:

- [ed. You need to insert your sage comment on the debt deal and downgrade here]. First take: I don't have one. [ed. You need to anyway] Second take: I don't wanna. [ed. Shut up and type]
- *Ok, if you insist:* S&P bond rater: It's the debt, stupid; Update: S&P official: Another downgrade will come if we don't reduce long-term debt. "Actually, the Tea Party caucus in Congress had it right. The bond raters needed to see the US take a significant step towards ending deficit spending and getting future liabilities under control. The problem with the lack of consensus came from the resistance of Democrats to the fiscal realities of the situation we face. Instead of addressing the real problems, Democrats blocked any attempt to deal with the entitlement crises and would only agree to address *discretionary* spending." Via Instapundit.
- Two months ago we reported on a major ($850 million) short sale in the futures market for US treasuries– roughly 10:1 odds. Essentially a bet on the US debt rating downgrade. Speculation is now that it was George Soros. Soros spokesperson denies. Could backfire. As bad as US debt looks, it is still serving as a safe haven. New marketing campaign: "We suck less."
- In a conference call with reporters, [Energy Secretary Steven] Chu said the more-efficient bulbs required would save consumers money over the life of the product, even if the up-front price is higher.
  "We are taking away a choice that continues to let people waste their own money," he said.
  - First take: What idiocy. Every purchase decision is a trade between initial cost and life cycle value. The specific economic condition of the buyer at the time of the purchase controls the decision. The idea that there is a single trade off for everyone is a symptom of an avowed stasist (a person incapable of dealing with the dynamics of the real world).
  - Second take: Who the hell does this guy think he is? When I make a free decision on how to spend my money, it is <u>*by definition*</u> not a waste of money.
  - Third take: Someone please locate the flush handle on the Potomac River.
- Rasmussen poll: 72% of respondents prefer free markets. What on Earth do the other 28% prefer? A government paid personal buyer to guide them through the grocery store? It's only a guess, but I'll bet that they want the government to make you conform to their idea of good decisions.
- Really bad hair month for the believers in the religion of anthropogenic global warming. The following six events will provide partial scorecard:
  - JUNEAU, Alaska (AP) — A federal wildlife biologist whose observation in 2004 of presumably drowned polar bears in the Arctic helped to galvanize the global warming movement has been placed on administrative leave and is being investigated for scientific misconduct, possibly over the veracity of that

article. [one wag commented: it couldn't be about fraud. The article was not credible on its face].

  - The original lab experiment that showed CO2 as a greenhouse gas was performed by Professor Robert W. Wood at Johns Hopkins University in 1909. It seems incredible that the experiment had not been repeated since. This year Professor Nasif Nahle of Monterrey repeated the experiment and (www.biocab.org) showed that the result occurred only because of the flask. The greenhouse effect doesn't work without a physical barrier to prevent convection.
  - A study of temperature lapse rates in the atmosphere showed no temperature inversion in the atmosphere that should be there if a greenhouse effect were in operation.
  - If instead of re-radiation, the operation was a simple insulating effect reducing radiation to space, then there would be a change in slope of the lapse rate with altitude. Sorry, they can't find that one either. All studies of satellite data show that the temperature lapse rate as a function of altitude is proportional to atmospheric density (Boyle's gas law controls).
  - A study of NASA satellite data shows that the "missing heat energy" that has been the unexplained anomaly in the AGW theory isn't missing after all. It's being radiated into outer space. That's how scientists used to explain the Earth's energy balance before it became fashionable to fret about human activity.
  - There are advanced leaks about a study from an Australian scientist that shows that humans don't influence atmospheric CO2 in any meaningful way. Over the last two years he has been looking at C12 and C13 isotope ratios and CO2 levels around the world, and has come to the conclusion that man-made emissions have only a small effect on global CO2 levels. It's not just that man-made CO2 emissions don't control climate, they don't even control global CO2 levels. A quick review of the study indicates that there are multiple blockbuster conclusions that will surprise both alarmists and skeptics. Publication of the peer reviewed article is scheduled for September 30.

- Mexico never had a stimulus package. They couldn't afford it. Poor folks will just need to live with their 4.9% unemployment rate.
- Australia never had a stimulus package. They could afford it but they weren't that stupid. Poor folks will just need to live with their 4.9% unemployment rate.
- The administration added 608 new regulations to the economy in July. Death by paper cuts.
- Temperatures in the Antarctic are 20 degrees below normal.
- Sea surface temperatures are dropping slowly over time.



- JANET DALEY: <u>If we are to survive the looming catastrophe, we need to face the truth.</u> "The idea that a capitalist economy can support a socialist welfare state is collapsing before our eyes. . . . That is the problem. So profound is its challenge to the received wisdom of postwar Western democratic life that it is unutterable in the EU circles in which the crucial decisions are being made – or rather, not being made."
- TELEGRAPH: <u>The real story of the US debt deal is not the triumph of the Tea Party but the death of the Socialist Left.</u>
- *"This would explain almost everything" department* :

  DC Adults are the top alcohol abusers
  <u>http://www.nbcwashington.com/news/local/DC-DC-Adults-Top-Alcohol-Abusers-in-Country-126507408.html?dr</u>
- <u>*"There may be hope yet" department*</u>:

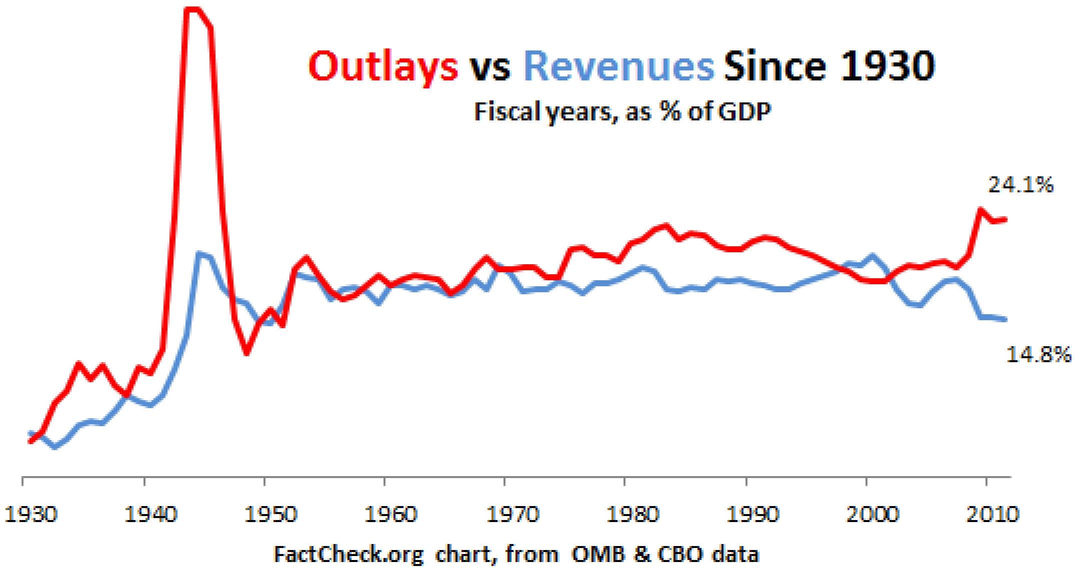
  Via Politico.com: "We have negotiated with terrorists," an angry [Congressman Mike] Doyle [D-Pa.] said, according to sources in the room. "This small group of terrorists have made it impossible to spend any money."
- <u>*"There may be no hope" department*</u>:

  "Ronnie Bryant was vastly outnumbered. Leaning against a wall during a recent Birmingham, Alabama, public hearing, Bryant listened to an overflow crowd pepper federal officials with concerns about businesses polluting the drinking water and causing cases of cancer.

  After two hours, Bryant—a coal mine owner from Jasper—had heard enough and, in a moment being described as "right out of Atlas Shrugged," took his turn at the microphone:

"Nearly every day without fail…men stream to these [mining] operations looking for work in Walker County. They can't pay their mortgage. They can't pay their car note. They can't feed their families. They don't have health insurance. And as I stand here today, I just…you know…what's the use? I got a permit to open up an underground coal mine that would employ probably 125 people. They'd be paid wages from $50,000 to $150,000 a year. We would consume probably $50 million to $60 million in consumables a year, putting more men to work. And my only idea today is to go home. What's the use? I see these guys—I see them with tears in their eyes—looking for work. And if there's so much opposition to these guys making a living, I feel like there's no need in me putting out the effort to provide work for them. So…basically what I've decided is not to open the mine. I'm just quitting. Thank you."

- The search for a risk free world is a fool's errand. There is no such world. The EPA initially served a useful purpose in stopping a minority of industrial companies with unethical operating policies. But that time is long gone. The EPA is out of control and trying to use the "risk free" world as a utopian justification for continued existence.
- Washington Post: Citing new rules that would have required it to submit to more federal oversight, Soros's management firm said Tuesday that it plans to close its $25.5 billion funds to outside investors and become a family-only enterprise.
- According to an insurance company with operations in China, China's high-speed train accident resulted in 259 people dead, 183 injured, and 154 still missing. The numbers are set to increase, according to this insurance company.
- Ten oil rigs have left the Gulf of Mexico since the Obama Administration imposed a moratorium on deepwater oil and gas drilling in May 2010, according to documentation the Pelican Institute obtained from Sen. David Vitter's (R-La.) office. UPDATE: An 11th is now headed for Egypt on a 180 day contract.
- The following chart helps clarify what's hitting the economy. The debate over tax rates and "fairness" is a complete waste of otherwise useful oxygen. Money withdrawn from the productive economy reduces the revenues to the federal government. Doesn't matter whether it comes in the form of increased taxes or deficits. The US is squashing the productive economy to "invest" in activities that can't stand on their own economically.

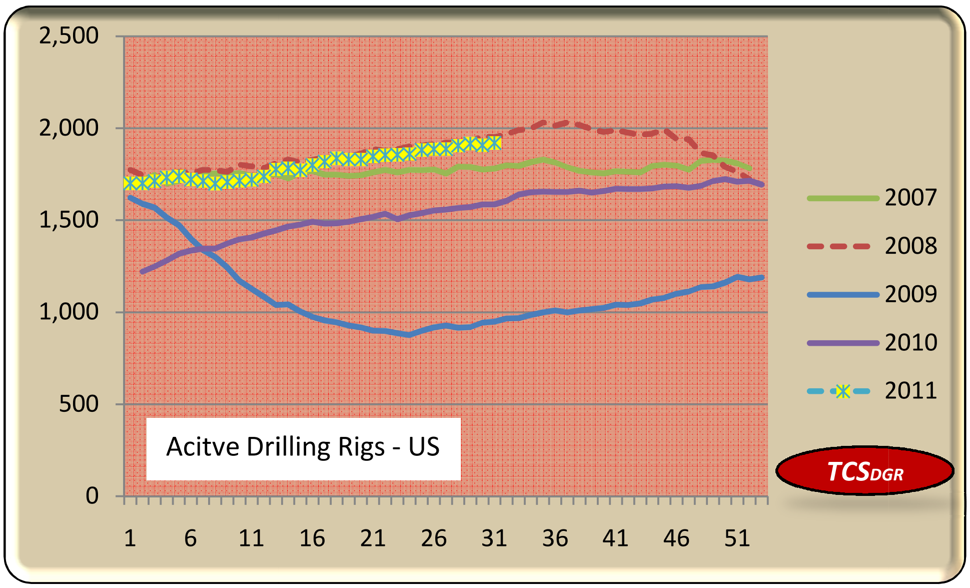


- H. L. Mencken (1880-1956): "The whole aim of practical politics is to keep the populace alarmed (and hence clamorous to be led to safety) by menacing it with an endless series of hobgoblins, all of them imaginary." Not a particular fan of Menken. But he got a few things right.
- P.J. O'Rourke: Cars didn't shape our existence; cars let us escape with our lives. We're way the heck out here in Valley Bottom Heights and Trout Antler Estates because we were at war with the cities. We fought rotten public schools, idiot municipal bureaucracies, corrupt political machines, rampant criminality and the pointy-headed busybodies. Cars gave us our dragoons and hussars, lent us speed and mobility, let us scout the terrain and probe the enemy's lines. And thanks to our cars, when we lost the cities we weren't forced to surrender, we were able to retreat.

Energy:

One of the very few advantages of a downturn in the economy is that the speculators in the energy market are forced to run for cover. In the sell-off of recent weeks the price of oil has dropped to near $80 per barrel. This offers a little more realistic look at market price without having to wait for the long term average to appear..

As the concerns over economic growth have escalated, there seems to be a slight retrench in drilling activity. Time will tell if it's a trend or a blip.



Employment:

Note: The Bureau of Labor Statistics conducts two surveys on employment. The first is the Establishment Survey of Payroll Employment. The second is the Household Survey. The Payroll survey collects data from large employers and is the basis of the job growth press release. The Household survey is a very large sample of the entire population and is the basis for the unemployment rate press release. The Durable Goods Report places primary emphasis on the Household Survey as the most accurate picture.

Employment continues to deteriorate. The payroll survey supported a press release reporting 117,000 jobs created. The household survey showed 38,000 *FEWER* people working. The unemployment rate based on the household survey dropped from 9.2 to 9.1%. But that was because more people dropped out of the job market. The total number of people not working (sum of unemployed and not looking) increased from

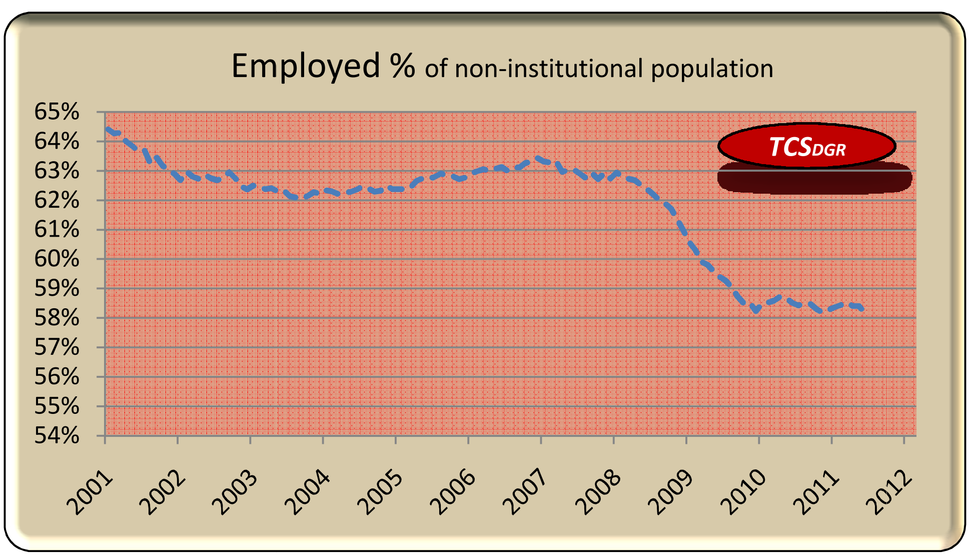
41.8 to 41.9%. We are losing the war on jobs. Here is a way to get a clear picture of the household survey picture of the total US workforce:

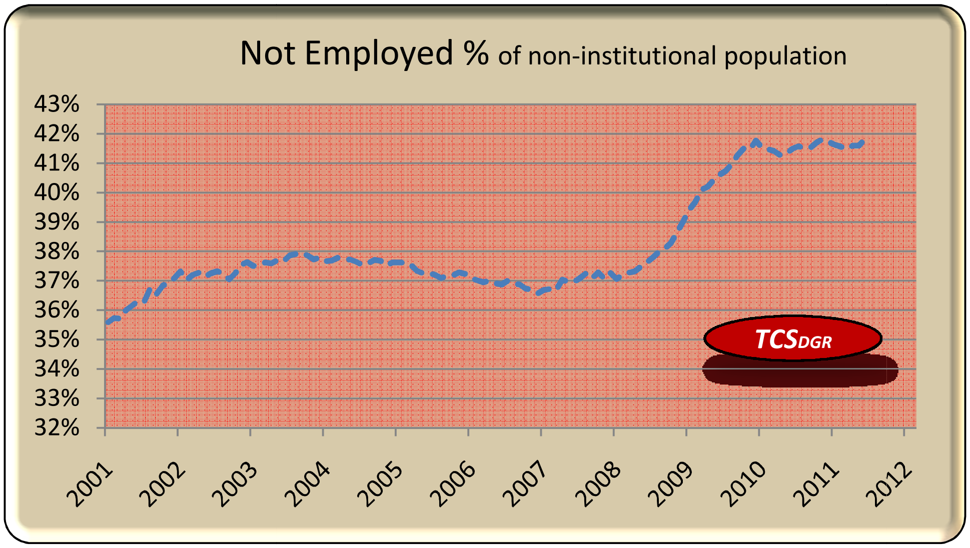
Jul-11	Number	%	
Employed	139,296	58.1%	
Not Employed	100,375	41.9%	
Total	239,671	100.0%	
Total non-institutional population			
Change in Number	vs. Prior month	Last 3 months	Last 12 months
Employed	(38)	(378)	305
Not Employed	220	903	1,476
Net Change	(258)	(1,281)	(1,171)
Net Change/mo	(258)	(427)	(98)

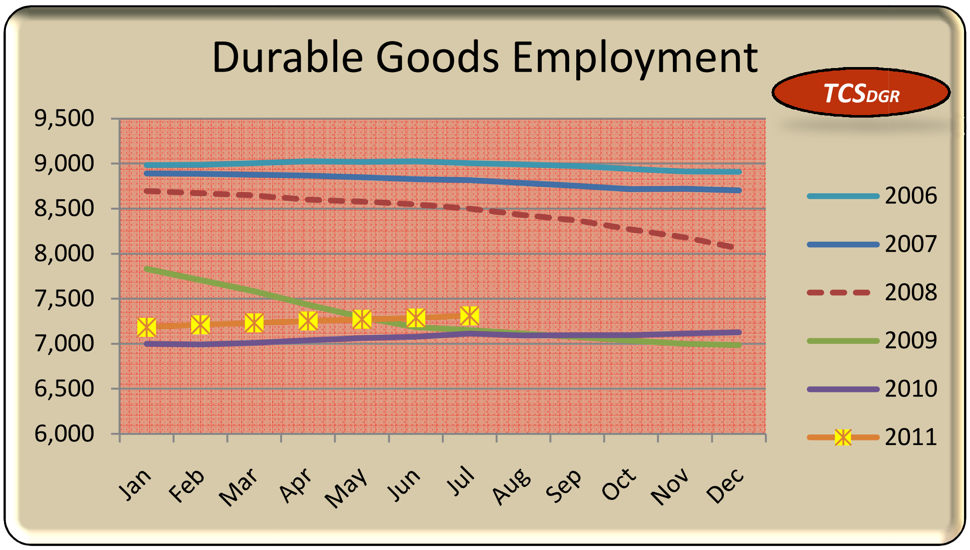
In the past 12 months the number employed has increased by 305,000. But the number not employed has increased by 1,476,000. We fell behind population growth by 1,171,000 or about 98,000 jobs per month. More dramatic is the 3 month "fall behind" number of 427,000 per month.

The charts below show employment situation since 2001. The debate about the "recovery" is completely misplaced. There has been no recovery of any sort on the employment scene.

The US economy is not heading into a second dip. The first dip never ended. We are experiencing the exact replica of what happened the last time we tried massive government intervention in the economy. It took from 1932 to 1937 before the Treasury Secretary commented that the massive intervention had failed.







There are two positive signs in the employment data: Durable goods and government employment.

Durable goods employment increased by 23,000 in June. Employment gains have averaged 21,000 since February. Many segments of durable goods (aircraft, construction machinery, mining equipment) are growing on the back of export sales.

The second positive sign is that government employment continues to decline. The June decline was 37,000 to 22.0 million. The last four months have averaged declines of 35,000. When you hear of police deployed to shut down the lemonade stand of 4-year-old children we can only say “faster please.”

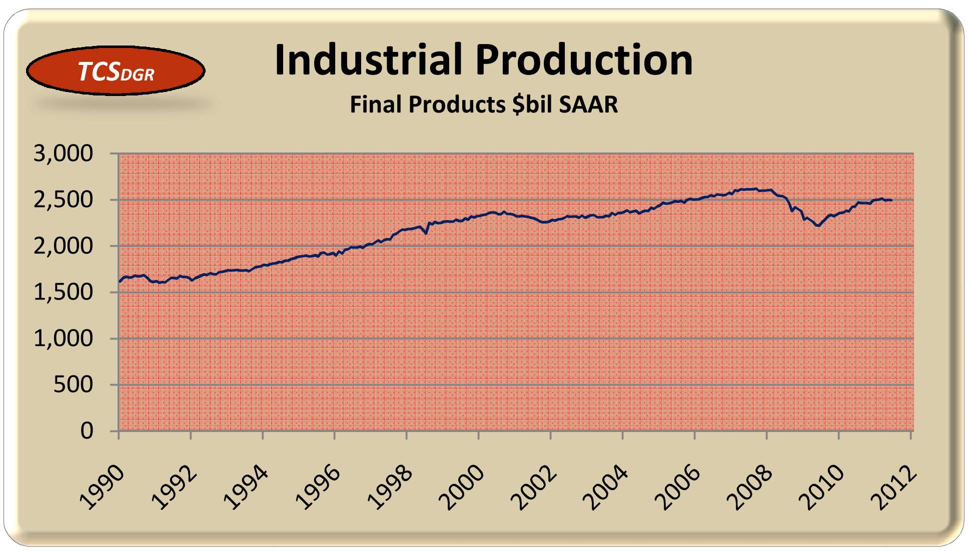
Sector Detail

GDP: US GDP 2011Q2 growth rate was reported as 1.3% SAAR (0.9% Q/Q; 3.7% Y/Y). Q1 growth was revised downward to 0.4% from 1.9%. Problems with the Japanese supply chain played a role in Q1 performance. But Q2 performance was dominated by the overall weakness of the economy.

Gross Domestic Product				
Year	Qtr	GDP $b (SAAR)	Chg from Prior Pd	Chg from Prior Year
2008	1	14,273.9	-0.1%	3.5%
2008	2	14,415.5	1.0%	2.9%
2008	3	14,395.1	-0.1%	1.7%
2008	4	14,081.7	-2.2%	-1.5%
2009	1	13,893.7	-1.3%	-2.7%
2009	2	13,854.1	-0.3%	-3.9%
2009	3	13,920.5	0.5%	-3.3%
2009	4	14,087.4	1.2%	0.0%
2010	1	14,277.9	1.4%	2.8%
2010	2	14,467.8	1.3%	4.4%
2010	3	14,605.5	1.0%	4.9%
2010	4	14,755.0	1.0%	4.7%
2011	1	14,867.8	0.8%	4.1%
2011	2	15,003.8	0.9%	3.7%

Industrial Production (excluding industrial supplies like energy) declined 0.1% in June and now stands above June 2010. The June numbers still include some remaining supply chain problems, especially in autos. But it is now small enough that this signals a real weakness in the industrial sector.

Industrial Production - final products $b SAAR				
Year	Mo	Ind Prod - Value of Prod	Chg from Prior Pd	Chg from Prior Year
2010	1	2359.3	0.8%	3.2%
2010	2	2361.5	0.1%	2.5%
2010	3	2383.6	0.9%	4.5%
2010	4	2374.4	-0.4%	4.9%
2010	5	2422.8	2.0%	8.8%
2010	6	2428.2	0.2%	9.4%
2010	7	2470.9	1.8%	9.4%
2010	8	2464.9	-0.2%	7.8%
2010	9	2465.2	0.0%	6.0%
2010	10	2463.7	-0.1%	5.4%
2010	11	2459.5	-0.2%	5.8%
2010	12	2493.1	1.4%	6.6%
2011	1	2499.7	0.3%	5.9%
2011	2	2502.1	0.1%	6.0%
2011	3	2513.7	0.5%	5.5%
2011	4	2493.6	-0.8%	5.0%
2011	5	2500.5	0.3%	3.2%
2011	6	2496.8	-0.1%	2.8%



Industrial production remains 2.8% above June of 2010. But the near term trend is not good. IP has declined by 3.9% since January. There is no possibility of a robust recovery until the IP sector recovers.

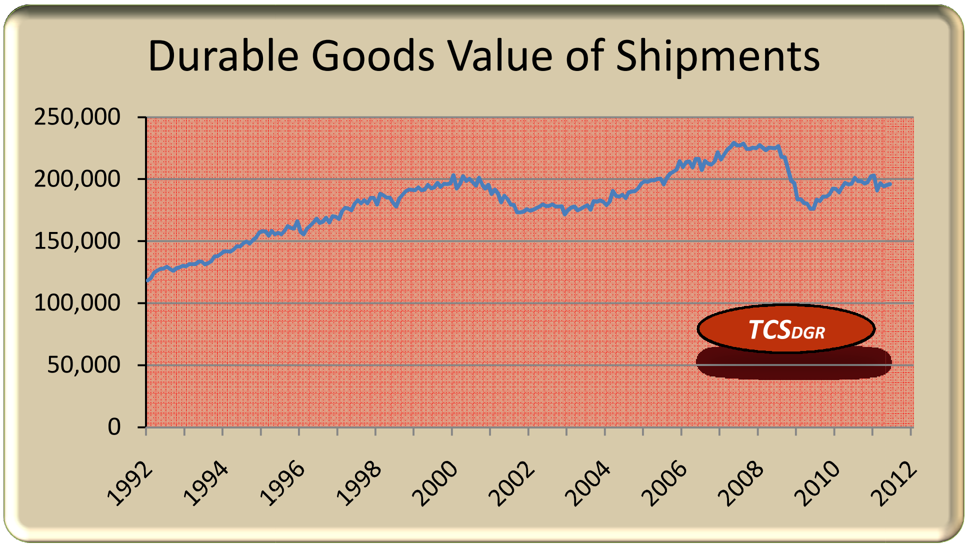
A positive note. An economic forecasting team that I trust, Alan and Brian Beaulieu, are keeping their forecast unchanged: growth in 2012 and 2013. It's not all glory, though. They are also calling for recessions in 2014 and 2019; depression in the 2030s.

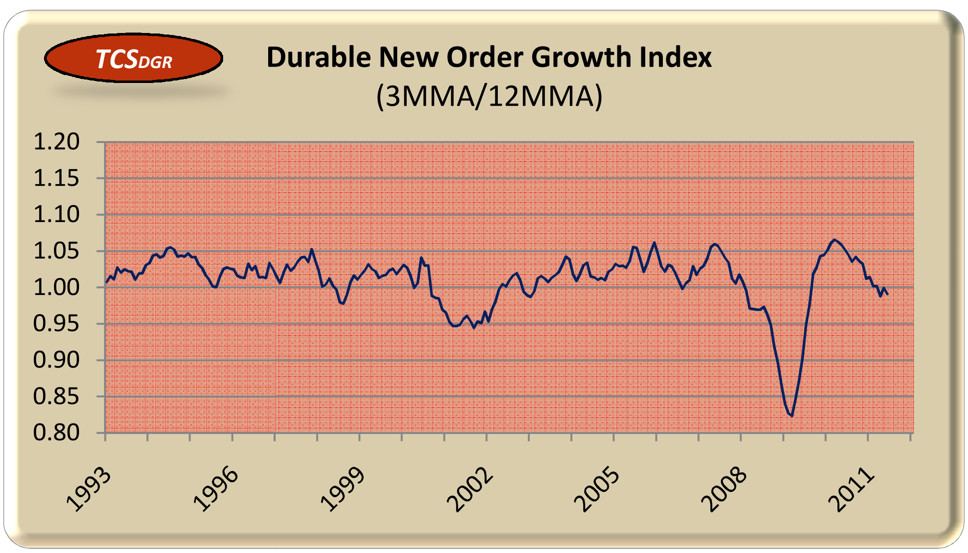
Capacity Utilization (June data): Capacity utilization for industrial production remained flat in June. Durable manufacturing was down a fraction. Primary metals increased 1.2 to 73.1% and machinery was up 0.4 to 78.8%. Autos fell by 1.4 to 60.8% (possible supply chain effects, but surging inventory at GM may also be taking a toll).

Capacity Utilization %							
Year	Mo	Ind Prod	Mfg	Durable	Primary Metals	Auto	Mach-inery
2009	1	71.3	67.0	64.4	53.3	35.8	71.3
2009	2	70.7	67.0	63.9	50.1	40.3	69.8
2009	3	69.6	66.0	62.6	48.0	41.3	66.1
2009	4	69.0	65.7	62.2	47.5	41.8	64.4
2009	5	68.3	65.3	61.2	46.8	37.9	62.7
2009	6	68.2	65.2	61.0	48.3	36.7	61.1
2009	7	69.1	66.5	63.2	53.3	46.6	61.2
2009	8	70.0	67.5	64.3	56.6	49.3	62.4
2009	9	70.5	68.1	65.1	58.7	54.0	61.4
2009	10	70.7	68.2	65.1	59.4	53.6	63.0
2009	11	71.1	68.9	65.8	62.9	55.3	62.3
2009	12	71.6	69.1	65.9	65.5	55.8	65.0
2010	1	71.9	69.0	64.7	65.0	57.1	64.8
2010	2	72.2	69.3	64.9	66.5	55.9	65.3
2010	3	72.8	70.1	66.0	68.8	57.7	65.6
2010	4	73.2	70.9	67.0	68.2	57.2	68.1
2010	5	74.3	71.8	68.3	68.8	60.7	69.8
2010	6	74.5	71.9	68.4	68.7	60.1	70.9
2010	7	75.3	72.6	69.6	66.3	65.7	71.0
2010	8	75.5	72.8	69.4	66.4	61.6	71.1
2010	9	75.7	73.0	69.7	66.9	62.3	71.5
2010	10	75.7	73.3	70.2	66.5	62.8	72.7
2010	11	75.8	73.4	70.5	68.4	60.5	73.8
2010	12	76.8	74.2	71.1	71.2	60.7	76.1
2011	1	76.9	74.7	72.3	72.3	63.0	79.0
2011	2	76.6	74.8	72.8	71.5	65.2	78.9
2011	3	77.0	75.3	73.3	73.2	67.1	78.0
2011	4	76.8	74.9	72.6	72.0	62.6	77.5
2011	5	76.7	74.9	72.9	71.9	62.2	78.4
2011	6	76.7	74.9	72.8	73.1	60.8	78.8

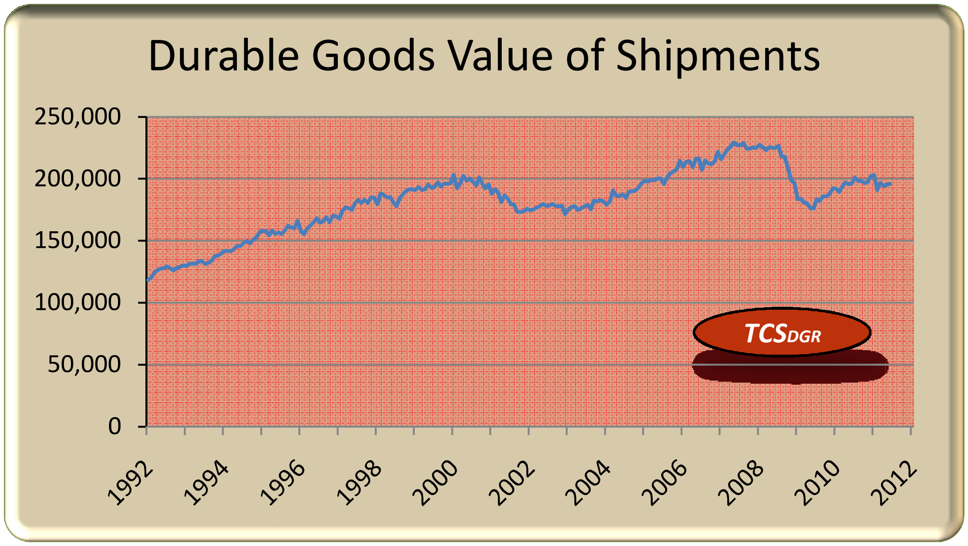
The Durable Goods Sector (June Preliminary Data):

New Orders: Durable new orders decreased by 1.9% to $192.4 billion. The new order growth index has declined further to 0.991. This is a reversal of last month's jump in orders. The growth index signals declining growth. Book to bill ratio stands at 98% (long term average = 98%) which suggests no pressure to change production rates. The long chart shows flat performance for over a year.

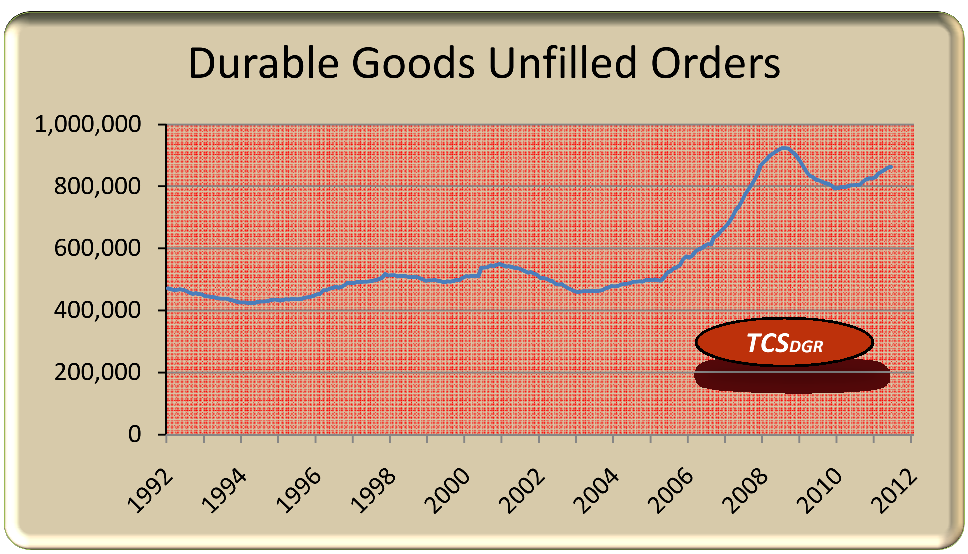




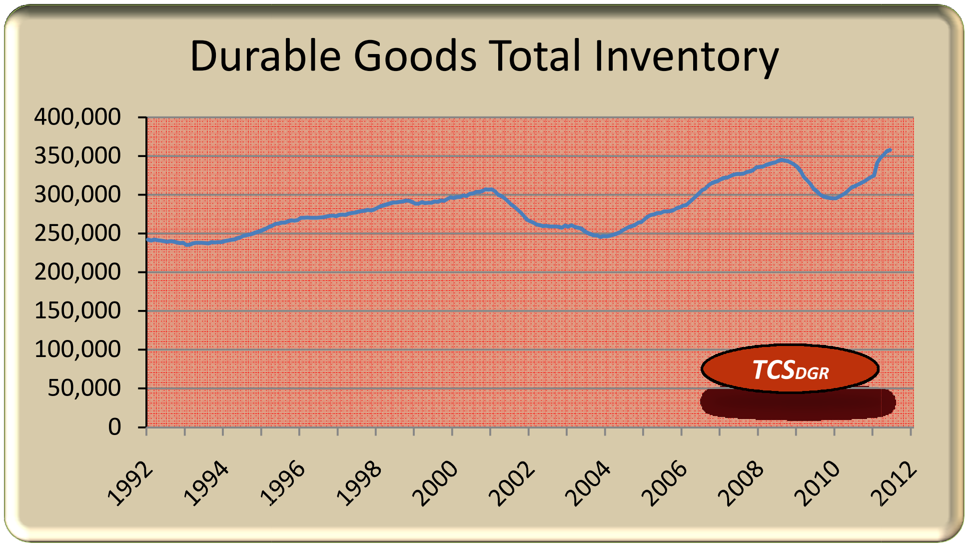
Shipments increased 0.5% to $196.1 billion. The book to bill ratio is in neutral territory with the difference between shipments and orders likely related to the inclusion of freight cost billings in the shipment nymbers.

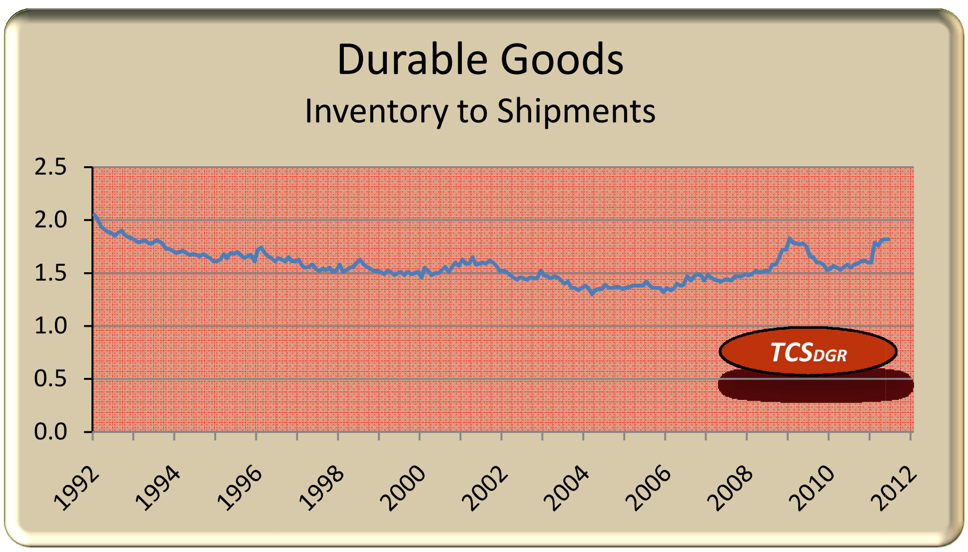


Unfilled Orders increased by 0.3% to $863.2 billion and remain at relatively high levels. This represents 6.1 months (unchanged from last month) average lead time. A positive note is the increase in capacity utilization in primary metals. This may be a signal that the long foundry lead times will soon ease.



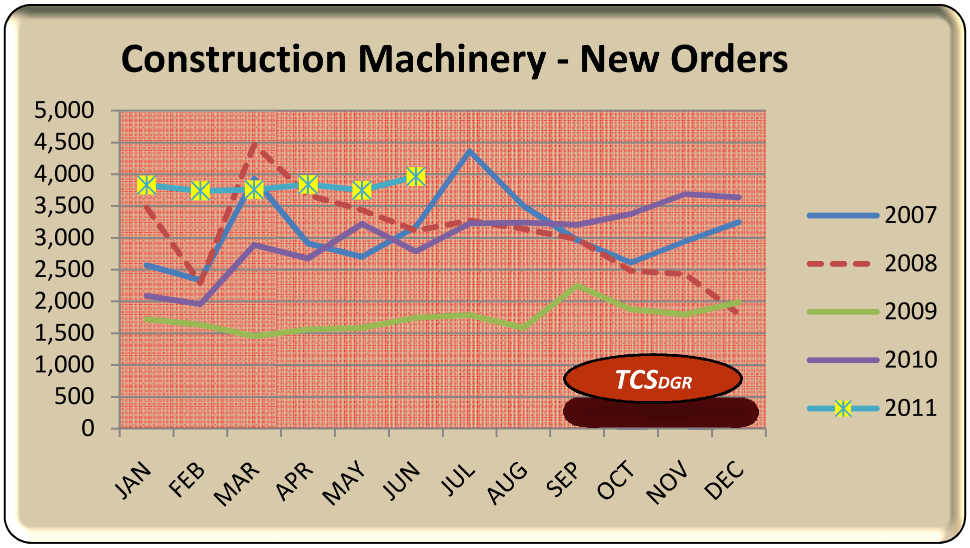
Inventory climbed by 0.5% to $357.8 billion. Inventory to shipments ratios remained flat at 1.82. This record high performance is the only strong negative in the durable goods picture. The claim in some news reports that the order decline was the result of inventory cuts is rejected by the numbers. But that may be coming. The I/S ratio matches the peak reached at the beginning of the 2008 meltdown.



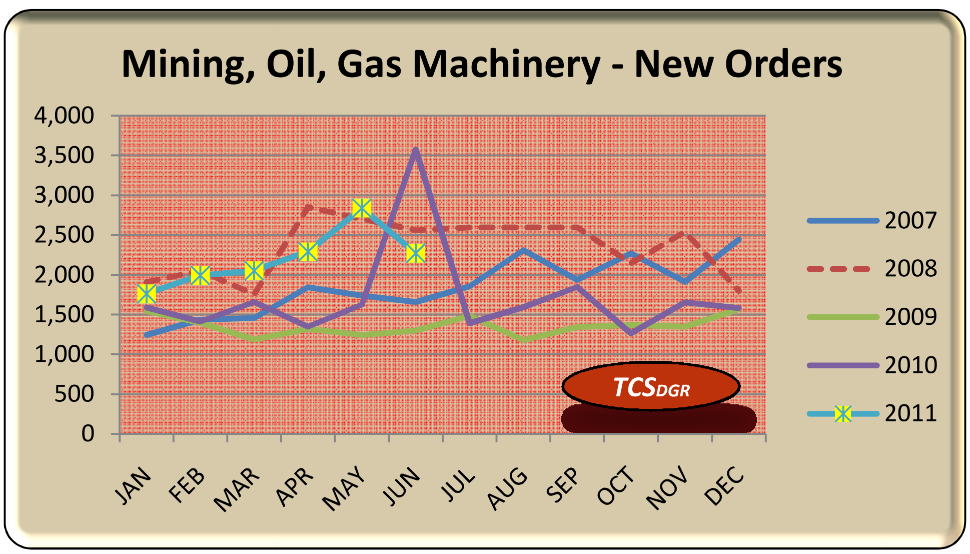


Key durable goods sub sectors:

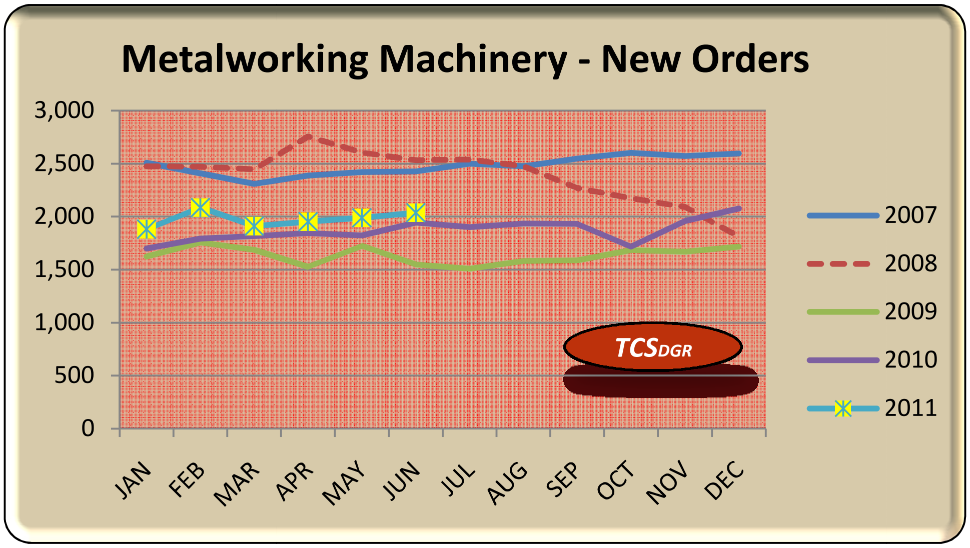
Construction machinery new orders increased 5.7% to $4 billion. Book to Bill ratio increased to 1.10 (long term average 1.02). The export markets continue to support growth in this sector.



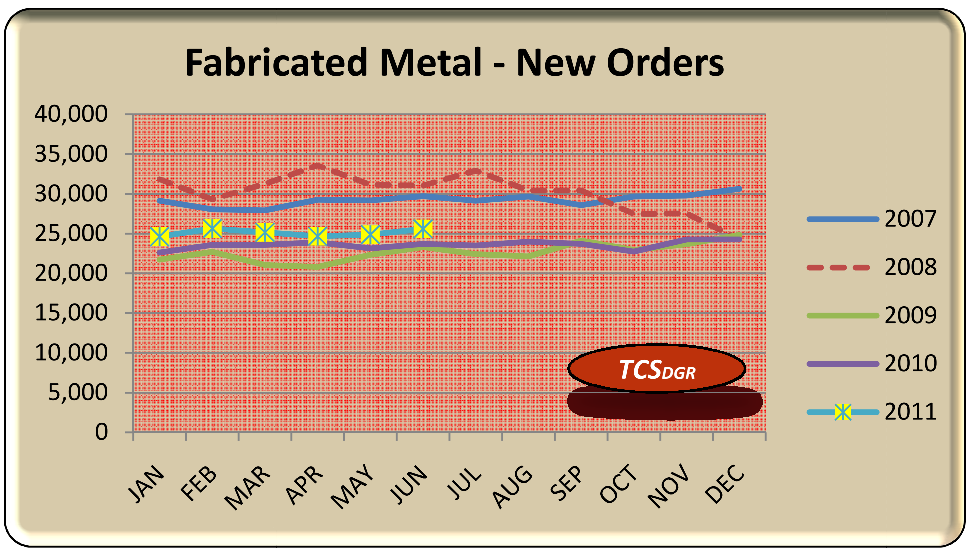
Mining, oil and gas machinery new orders dropped 20% to $2.2 billion after a 24% surge in May. Book to bill ratio stands at a strong 1.34 (long term average = 1.03). Production increases should be expected here if the raw material supply chain can support it.



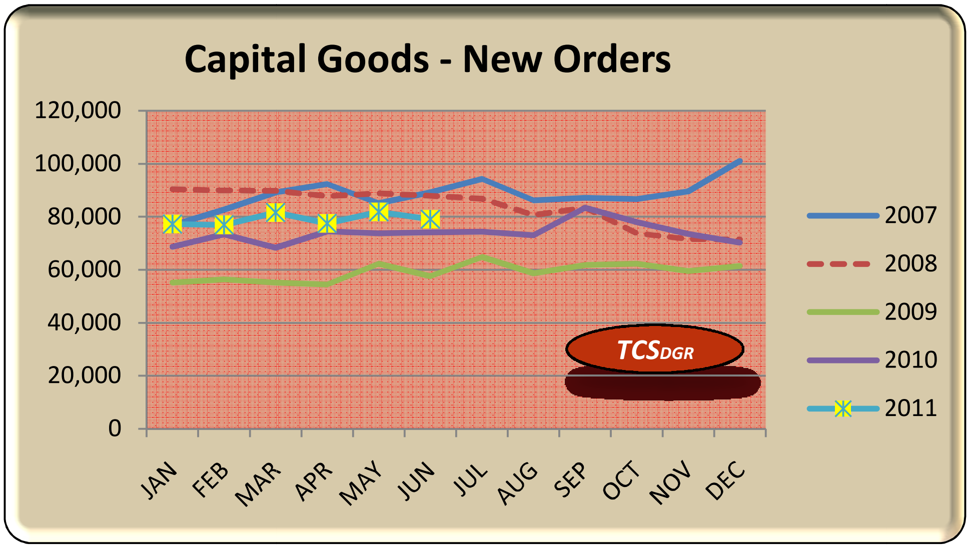
Metalworking machinery orders increased by 2.4% to $2 billion. Book to bill ratio is positive at 1.12 (long term average = 1.00).



Fabricated metal new orders increased 2.9% to $25.6 billion. Book to bill ratio is slightly positive at 1.02 (long term average = 1.00).

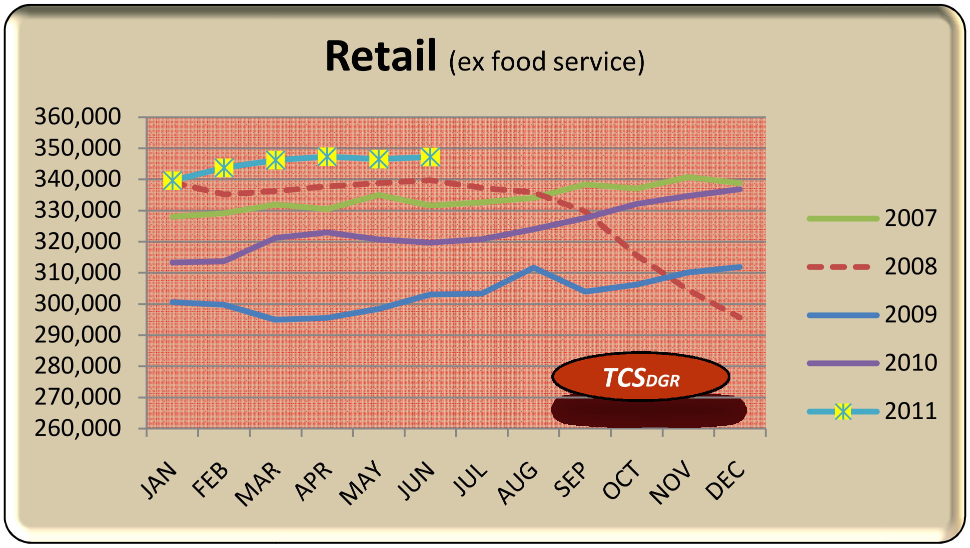


Capital goods decreased by 3.4% to $79.1 billion. Book to bill ratio is slightly positive at 1.05 (long term average = 1.01).

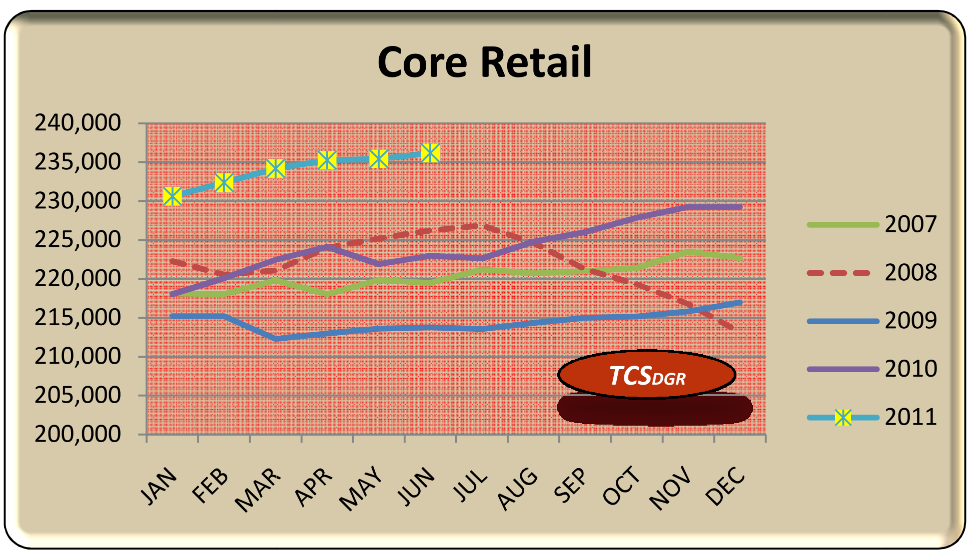

Capital Goods - New Orders
120,000
100,000
80,000
60,000
40,000
20,000
0
JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
2007
2008
2009
2010
2011
TCSDGR

Retail Data (June Advanced Release)

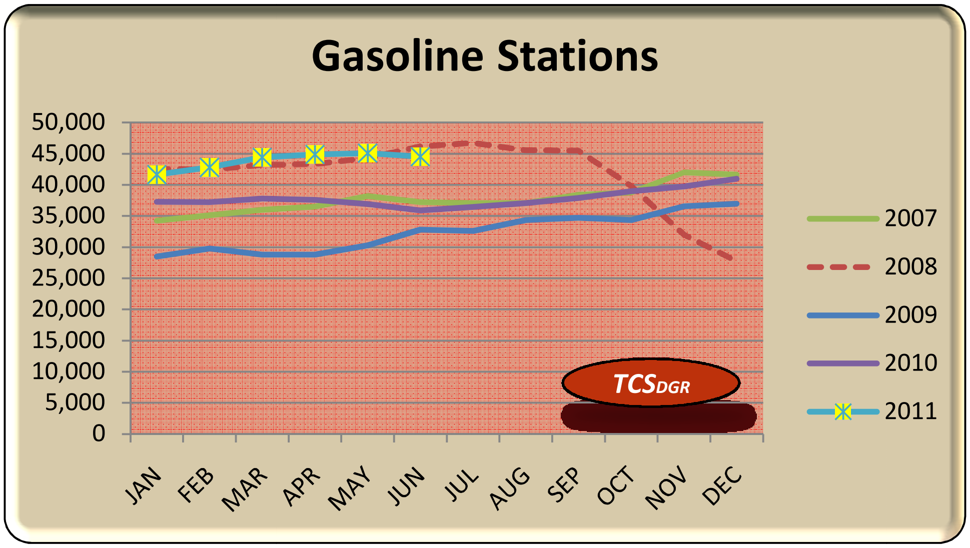
Retail Sales (excluding food service) remained essentially flat in June. Given the degree of inflation included in the measurement, the likely reality is a continued decline in real activity.



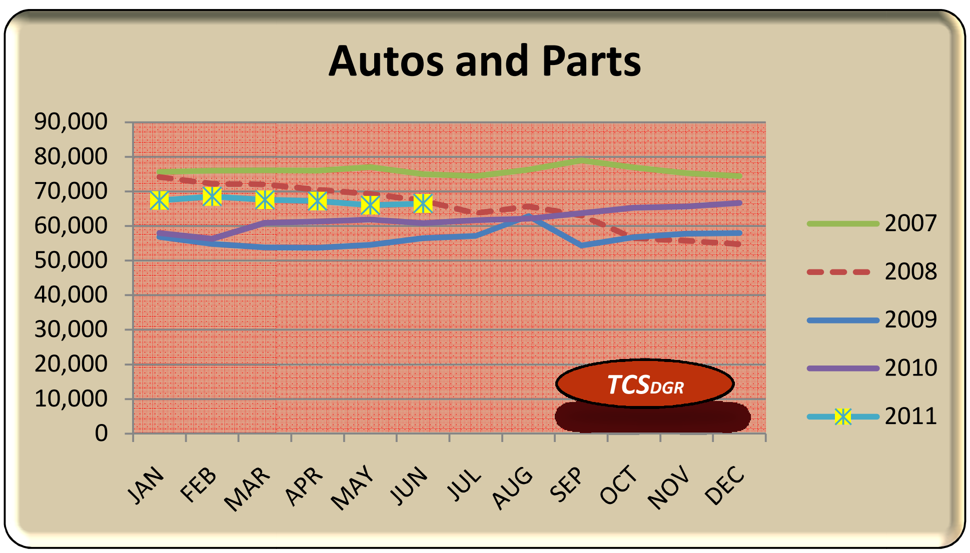
Core retail (excludes food service, gasoline, autos and parts) increased 0.3% to $236.2 billion. Last month's 0.5% increase was revised downward to 0.1%. Compared to last year core retail is up 5.9%, probably less than the embedded inflation.



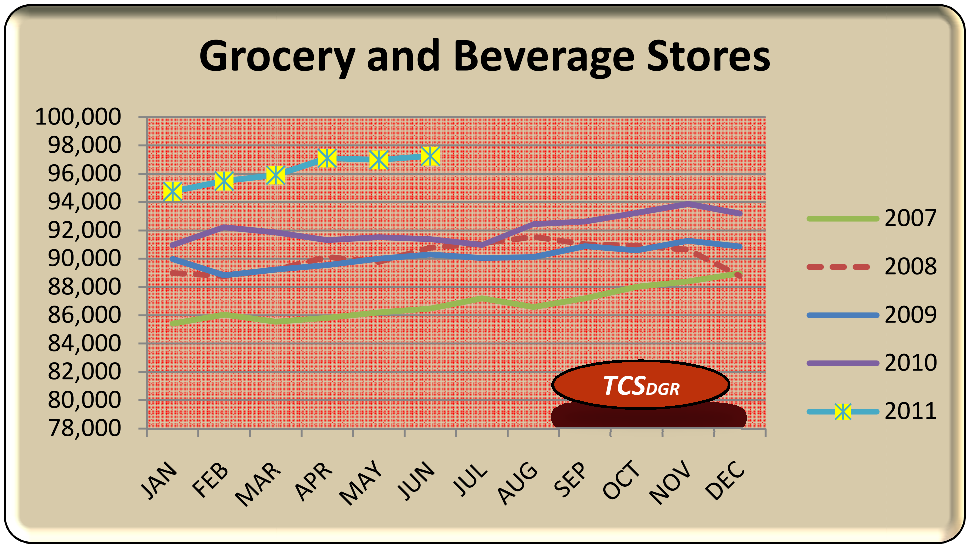
Gasoline sales declined 1.3% in May and now stand 24% above May 2010. The cost of gasoline remains a drag on retail spending. It continues to suggest that more than half of the price inflation in gasoline is being absorbed by reducing spending in other retail categories.



Auto sales reversed a three month decline in June, and recovered a portion of last month's drop. The increase of 0.8% to $66.5 billion will do little to solve the GM inventory problem. They currently sit on 122 days compared to half that number for Ford. The lower capacity utilization is mostly focused on the assemblers dependent on Japan for major components (like engines).



Grocery and Beverage stores sales increased 0.3% in June to $97.2 billion to 6.4% above June of last year. There are some indications that food inflation has slowed based on estimates of improved harvests coming this fall.

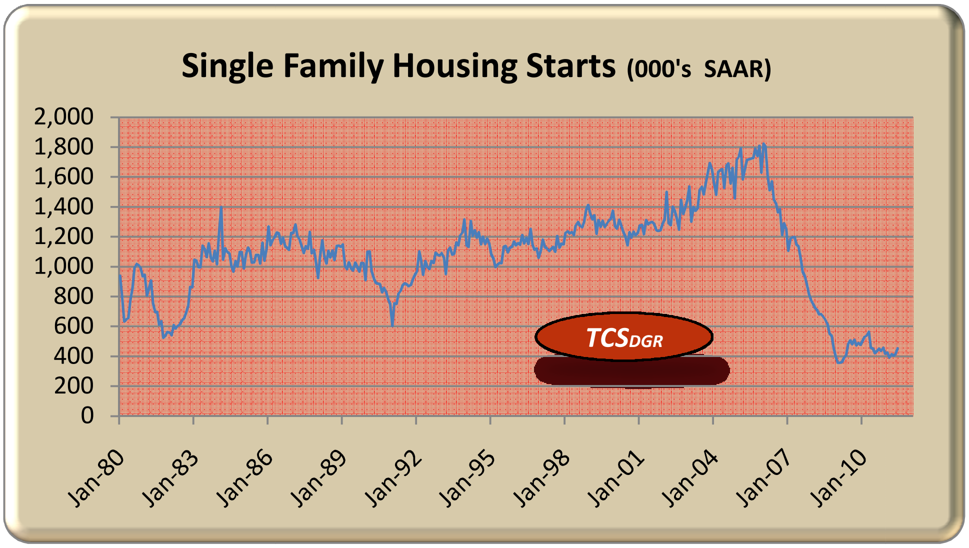


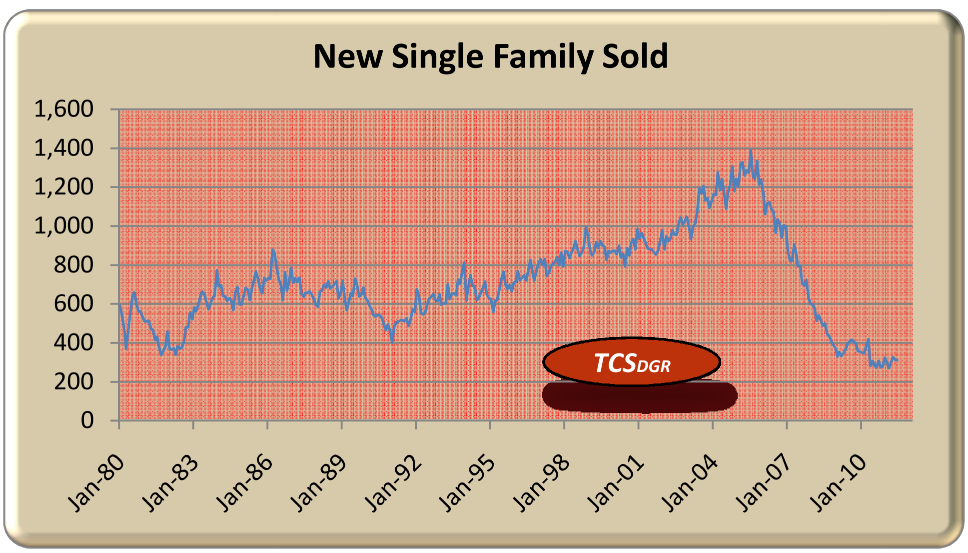
Grocery and Beverage Stores
100,000
98,000
96,000
94,000
92,000
90,000
88,000
86,000
84,000
82,000
80,000
78,000
JAN
FEB
MAR
APR
MAY
JUN
JUL
AUG
SEP
OCT
NOV
DEC
2007
2008
2009
2010
2011
TCSDGR

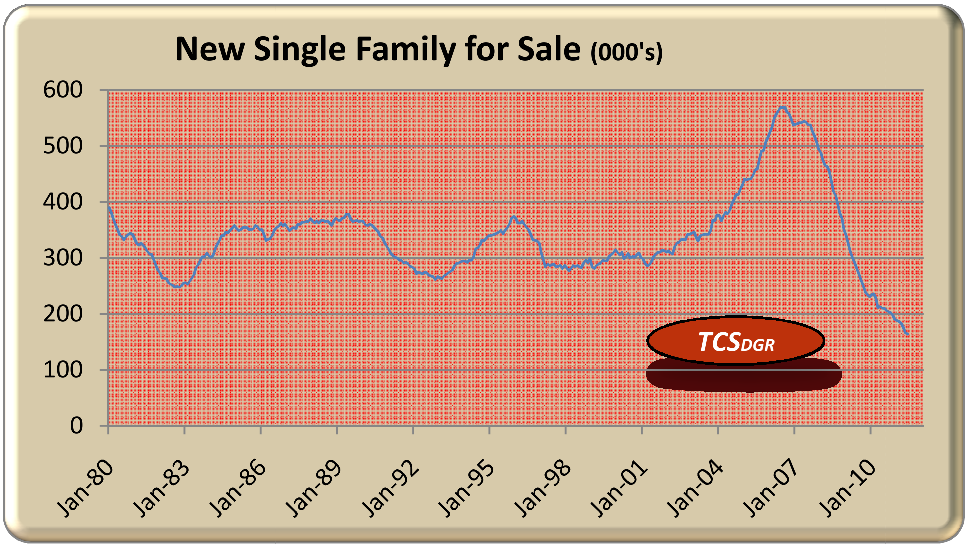
Housing (June Data):

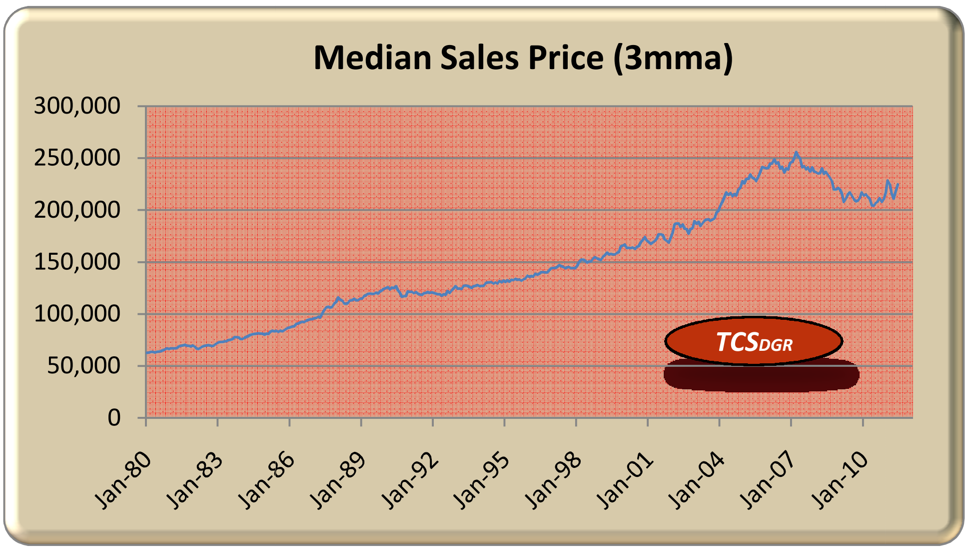
Housing remains weak despite occasional upticks. Single family starts increased to 453,000, by any measure an abysmal performance. To compound the problem, new single family sales dropped to 312,000 units. Inventory of unsold new single family homes is at an astounding record low of 164,000.

The only positive signal is the median sale price. The 3 month moving average stands at 224,900, the highest since September 2008. Prices have firmed and started to climb.






New Single Family for Sale (000's)
600
500
400
300
200
100
0
Jan-80
Jan-83
Jan-86
Jan-89
Jan-92
Jan-95
Jan-98
Jan-01
Jan-04
Jan-07
Jan-10
TCSDGR


Median Sales Price (3mma)
300,000
250,000
200,000
150,000
100,000
50,000
0
Jan-80
Jan-83
Jan-86
Jan-89
Jan-92
Jan-95
Jan-98
Jan-01
Jan-04
Jan-07
Jan-10
TCSDGR

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 rapid-response business sectors.

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 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 jlayden@timecompressionstrategies.com

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