The Durable Goods Report

October 2012

Executive Summary of US Economic Activity

Manufacturing Data Release of 10/4/2012 (August Preliminary)

Employment Data Release of 10/5/2012 (September Preliminary)

Retail Data Release of 9/14/2012 (August Advanced)

Industrial Production Data Release of 9/16/2012 (August Advanced)

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

John E. Layden

By the Numbers

Durable Goods Key Measures			
	Current Mo	Prior Mo	Prior Yr
New Orders-Durable	198,320	228,588	212,790
12 month moving average	217,787		203,749
% Change from Prior Year	6.9%		
Growth Index - Durable New Orders	0.992	1.017	1.044
Unshipped Orders - Durable	978,842	995,852	928,914
% Change from Prior Year	5.4%		
Value of Shipments - Durable	222,370	229,046	201,505
Inventory - Durables	372,216	369,847	353,297
% Change from Prior Year	5.4%		
Inv to shipments ratio - Durable	1.67	1.61	1.60

US Economy Key Measures			
	This period	Last period	Change
GDP 2012 Q2	15,585.6	15,478.3	0.7%
Industrial Production	2,570.1	2,593.1	-0.9%
Capacity Utilization %	78.2	79.2	(1.0)
Manufacturing %	77.6	78.3	(0.7)
Durable Goods %	77.3	78.3	(1.0)
Primary Metals %	75.2	74.7	0.5
Autos and Parts %	76.0	79.5	(3.5)
Machinery %	83.1	84.0	(0.9)
Durable Goods ($Mil SA)			
New orders	198,320	228,588	-13.2%
Shipments	222,370	229,046	-2.9%
Inventory	372,216	369,847	0.6%
Unshipped Orders	978,842	995,852	-1.7%
Retail ex Food Service ($Mil SA)	362,696	359,352	0.9%
Autos and Parts	74,214	73,246	1.3%
Gasoline	45,750	43,363	5.5%
Core retail (ex auto, gas)	242,732	242,743	0.0%
Employment (000's SA)			
Civilian employed (Household Survey)	142,974	142,101	873
% of potential workforce	58.7%	58.3%	0.3%
Civilian not employed (HS)	100,798	101,465	-667
Non-Farm (Establishment Survey)	133,500	133,386	114
Private (ES)	111,499	111,395	104
Government (fed, state, local) (ES)	22,001	21,991	10
Goods Producing (ES)	18,304	18,314	-10
Manufacturing (ES)	11,942	11,958	-16
Construction (ES)	5,523	5,518	5
Durable Goods Mfg (ES)	7,469	7,482	-13
Housing (000s of Units SA)			
Total housing starts	750	733	2.3%
Single family starts	535	502	6.6%
Single family sales (new)	373	374	-0.3%
Single family for sale (new)	141	142	-0.7%

US Economy – Quick Look:

US GDP

Q2 GDP revised to downward to 1.25% from 1.7% SAAR (0.7% QtQ, 3.9% YtY)

Industrial Production

Industrial production excluding industrial supplies dropped 0.9%. Capacity utilization dropped a full point to 78.2, the biggest drop since the entry into the recession in 2009. Autos dropped 3.5% to 76%. Only primary metals increased.

Durable Goods

New orders for durable goods decreased 13.2% in August to $198.3 billion. Biggest drop since the beginning of the recession. Capital goods led the decline.

Retail:

Retail sales (ex food service) increased 0.9% in August. Core retail was flat. Almost all of the “increase” in retail was driven by gas price inflation.

Employment:

September employment showed a gain of 114,000 jobs along with a drop in unemployment to 7.8%. Working age population increased by 206,000. No one familiar with the numbers believes this is a real indicator. Durable goods employment off 13,000. See the detail in “Employment” section.

Housing:

Single family housing starts increased 6.6% to a 535,000 annual rate, after a comparable decline in the prior month. Single family sales decreased 0.3% to a 373,000 annual rate. Total starts (singe + multi-family) increased 2.3% to a 750,000 annual rate.

Random Thoughts, Stray Data and Rants:

- Clarity of thought; simplicity of speech. Attributes of great leaders and thoughtful people. Churchill, Orwell, Thatcher, Reagan, Milton Friedman and Thomas Sowell come to mind. It's especially rare in politicians. When it occurs the Washington political press corps calls it a gaffe.
- Libyan embassy is overrun in a planned and coordinated attack. Ambassador Stevens is assassinated, three others murdered. This act of war triggered a Washington debate on who was politicizing the issue. And a further debate on who was to blame for confused administration positions. Are they serious? The US government had a 3am phone call and nobody answered.
- About 30 riots break out across the Muslim world at US and other western embassies. The administration is acting as if in denial about the true nature of the problem. There was only contract security at Benghazi despite 3 days of advance warning and months of requests for increased security. A security detail was removed from the country a month before the attack, apparently to show good will.
- What part of objective reality offends them? BTW, how about the past three administrations? We've had 1400 years to get up to speed on the goals of radical Islam. The Islam of the Mid-East has the declared objective of ruling the world through conquest or subjugation. The Arab secular intellectuals – those who have built a framework for modern Islam - seem to have lost the debate.
- To understand this subject the following link is a good source. Heavy on data but well worth the 44 minutes. It shows how Americans and Europeans are in willful denial about the ultimate goals of Islam. http://www.youtube.com/watch?v=t_Qpy0mXg8Y
- It is often remarked that Thomas Jefferson owned a leather-bound copy of the Koran and was a serious student of Islam. What is rarely reported is that he was attempting to understand a declared enemy of the US. Radical Islam has never accepted individual freedom as a tolerable political choice.
- The peace movement of the 1960s and 1970s has now born fruit. If wishing could make it so we would already live in utopia. Magical thinking has been their hallmark. They think they can wish away the laws of thermodynamics with good intentions on "sustainability." They think they can wish away the hard laws of economics. Or the lessons of history. Or even the rules of math. Hasn't worked in 55 centuries. Still doesn't.
- China and Japan are moving closer to an armed conflict over several small islands in a territory dispute.
- Spain (25% unemployed), Italy (10%), Greece (40%) continue the slow motion train wreck. Demonstrations are now too frequent to be news.
- HHS introduces new cafeteria lunch menus heavy on fruits and vegetables. Students revolt. Who saw that coming?
- Low fat diets are particularly risky for the young. Dietary fat is necessary for proper brain development. Probably risky for everyone. Double the rate of secondary heart attacks in patients on low fat diets compared to patients on the Mediterranean diet (40% fat calories) (from a study over a decade ago).

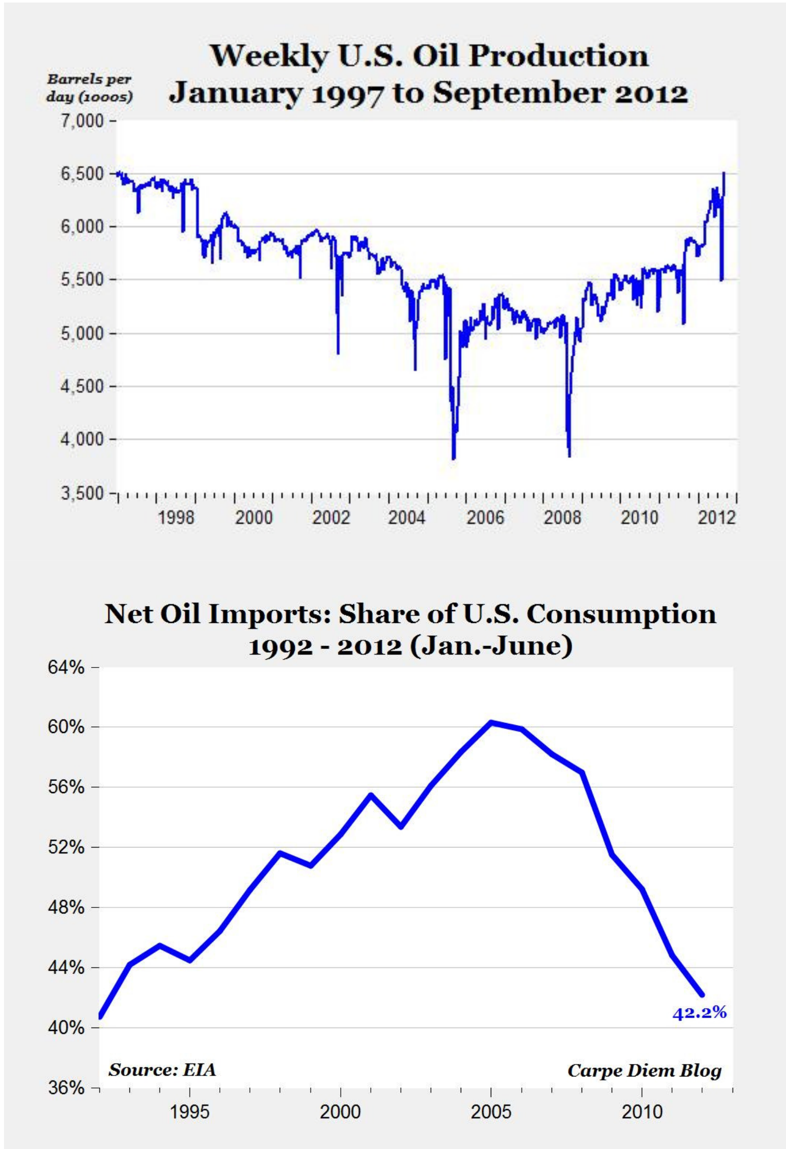
- Please spare us department: Madonna has promised to strip naked in public if Obama wins. Romney victory assured.
- Please spare us department 2: The Rolling Stones (sometimes known as the Strolling Bones) are going to do another tour.

Economy

- Durable goods took a big hit, foretells bigger economic drops as the high jobs multiplier of durable goods (8:1) will play out over a few months.
- FedEx now confirms what the DGR first reported in the spring of 2011. The Chinese economy is facing rapidly slowing growth.
- Japan is closing factories in China after riots and demonstrations.
- Newspaper ad revenue falls to 1950s level.
- Early reports on Q3 indicate that corporate profits are slipping. The stock market will follow.
- The Fed is starting a new round of money printing. Who do they think is going to pay back this debt? Maybe the better question is who wants to buy this debt?

Energy

- We received questions on what I have against the Chevy Volt and other electric cars (other than cost & performance?). Actually, not a thing. I firmly believe that you have every right to pursue any foolish mode of transportation that falls within your pursuit of happiness. I object to the expectation that I should pay my "fair share" of your folly. I further object to the insistence that I hold you in some sort of special regard because of you "concern" for the environment. As a matter of factual engineering a lithium-ion battery does far more "harm" to the environment than the gas I burn.
- I rather like some of the hybrid designs like the Jag concept car (1200 HP) and the Ferrari. The thing I like about them is that no one tries to con me that they save energy or kittens. For an unrepentant engineer with great admiration for human technical achievement, they're just fun.
- US oil production is about to set a 15 year record. So much for "Peak Oil."

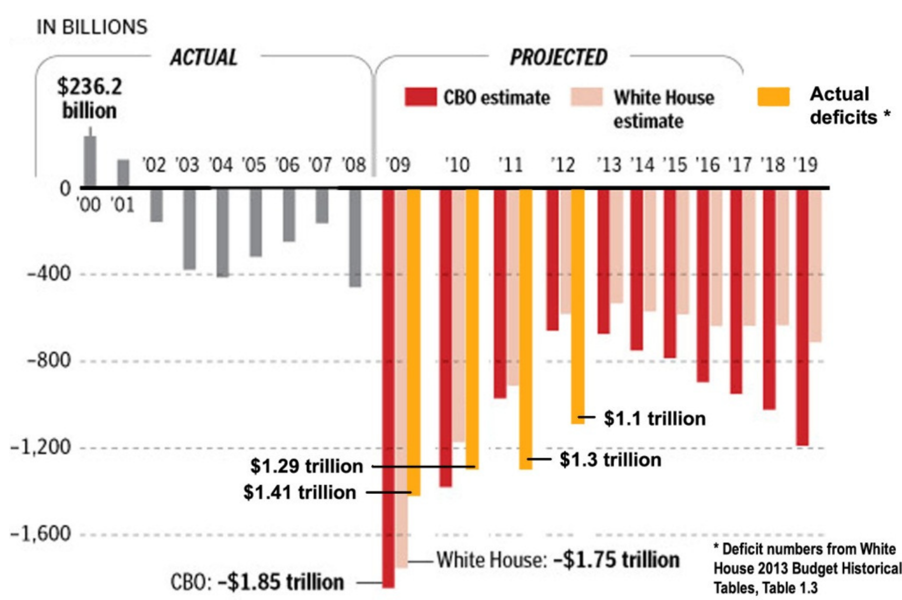


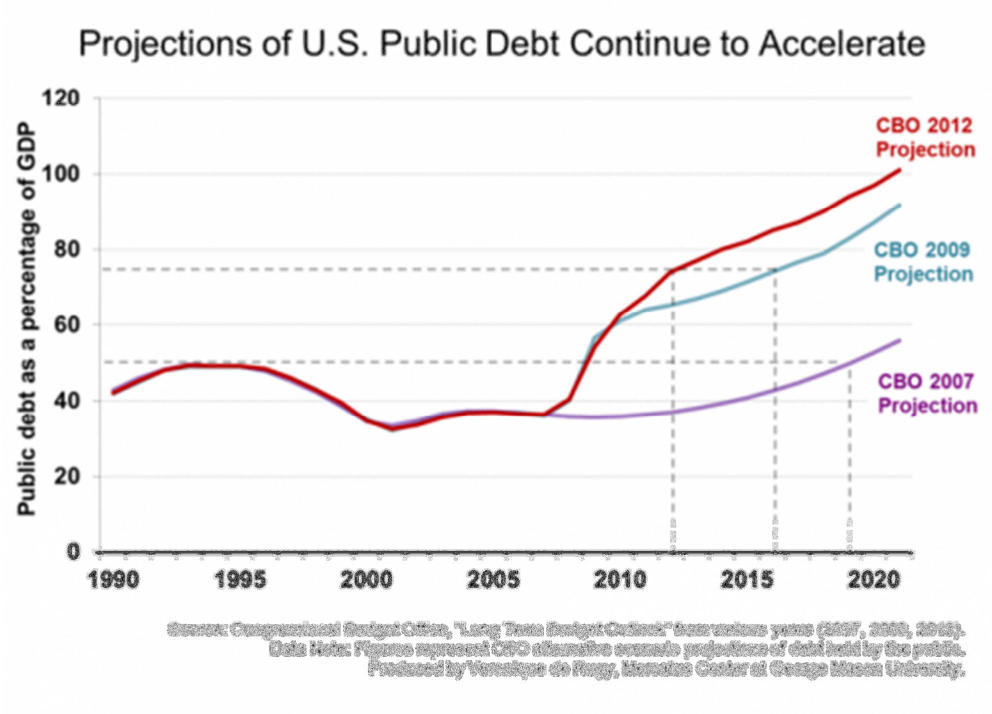
- As the production has surged the % of oil imported has plummeted to a 20 year low.
- We're still seeing the benefits of the Bush energy policies, despite the attempts of the Obama administration to reverse it.
- Matt Damon's anti-fracking movie turns out to have been funded by mid-east oil interests. We're shocked! Shocked!! To find gambling at Rick's Cafe.
- Just as we were about to invoke the "Celebrity makes you stupid!" rule, we discover that he's really just a greedy capitalist. Good on him and his stupid attempts to sell me a false narrative. Even stupid movies create jobs.

<u>Government</u>

- Cost of government regulation is estimated at $488 billion annually. Doesn't include the coming health care mandates.
- Currently 40% of small business revenues is diverted to government regulation or mandates.

- In 2011 government payments to individuals were 65% of the federal budget, up from 26% in 1960.
- The signals from Europe suggest the central bankers have selected a managed depression as the solution to the debt crisis. The only other options are inflation or default. Maybe we could call it a slow-motion default.
- France has raised the millionaire tax to 75%. Millionaires are leaving the country. How unpatriotic can you get?!
- Several large companies are moving out of Greece. There ought to be a law.
- In Europe suggesting thrift as an option is described as “austerity” and triggers riots.
- “In a time of universal deceit, telling the truth is a revolutionary act.” George Orwell.
- Turns out Orwell by one report was actually a socialist writing in contempt about the communists. I guess nobody can tolerate the communists. It’s also confirmed that his dreaded “Conference Room 1” was modeled after the HQ conference room at the BBC where political correctness ran amok daily. Still does.
- Just discovered that my copy of “1984”, given to me by my dad, is a first edition.
- The FY 2012 deficit was to be the lowest over the 10 years of the CBO projection at the beginning of the recession. But the actual deficit is double what both the White House and CBO projected. So last year’s $1.1 trillion deficit should be viewed as the good times! Fills me with joy.





<u>Climate</u>

- Ice panic in the Arctic. August ice area plummeted suddenly. Now reported to have been caused by a massive storm. Same thing happened in 2007 when a wind shift pushed the sea ice through the Greenland Straight and into the North Atlantic. But for a while the chicken-little climate crowd went non-linear.
- Arctic is headed into an early winter. <u>Adding 1.3x the area of Manhattan every minute!</u> Good news for the oil drillers who need frozen permafrost to start the season.
- The early onset of winter must extend to Washington where it is observed that oil drilling permits are frozen in place.
- Antarctic ice area sets an all-time record high. Thirty year trend shows a slight decline in the Arctic and a slight increase in the Antarctic. Probably caused by the slight wobble of the Earth on its axis.
- Michael Mann (author of the “Hockey Stick” curve of runaway global warming) threatens to sue several analysts who exposed his methods as flawed and possibly fraudulent. There is celebration in the skeptic community since this would involve a full legal disclosure process, something they’ve been trying to force through Freedom of Information Act process for at least three years. Smart money bets it’s a bluff.
- We’re clearly headed into another ice age. Probably of the “mini” variety that bottomed in about 1750 and ended about 1850. Solar activity is running parallel to the entry into that cool period.
- The source for last month’s chart on solar radiation/temperature correlation was included on the chart if you look closely. Also received a similar report from my 4 year old granddaughter. Can’t remember for sure if she actually used the word “correlation.”

The Corruption of the Language Department

- George Orwell is best known for his popular book "1984." But he was a prolific writer against tyranny and pointed out that it was always dependent on the ability of the elites to redefine and corrupt the meaning of the language. Hence this new department where we can collect modern examples. To make this list the phrase only needs to be intentionally misleading, mathematically impossible, or oxymoronic.
  - "It's for the Children": Nothing that involves government debt is a positive for the children. It's a cover story for stealing their future before they can vote.
  - Affordable housing: I don't know about you, but I've always lived in an affordable house. When this term is used by politicians it means government subsidized housing. That means you pay for someone else's mortgage. Giving free stuff to voters.
  - "We're all in this together" means "it's not my fault."
  - Sharing (when used by a politician) means they covet your money.
  - Fair share: would that mean everyone paying the same %? Guess not.
  - Social Justice: I thought justice was a matter of law. Silly me.
  - Targeted tax cuts: The real issue is that someone besides the market gets to pick winners. Taxpayers are always the losers.
  - Living wage: You deserve a good wage even if you don't produce that much value. In that case your job goes away and you no longer receive the embarrassment of a low wage.
- We'll keep the list growing as we get time.

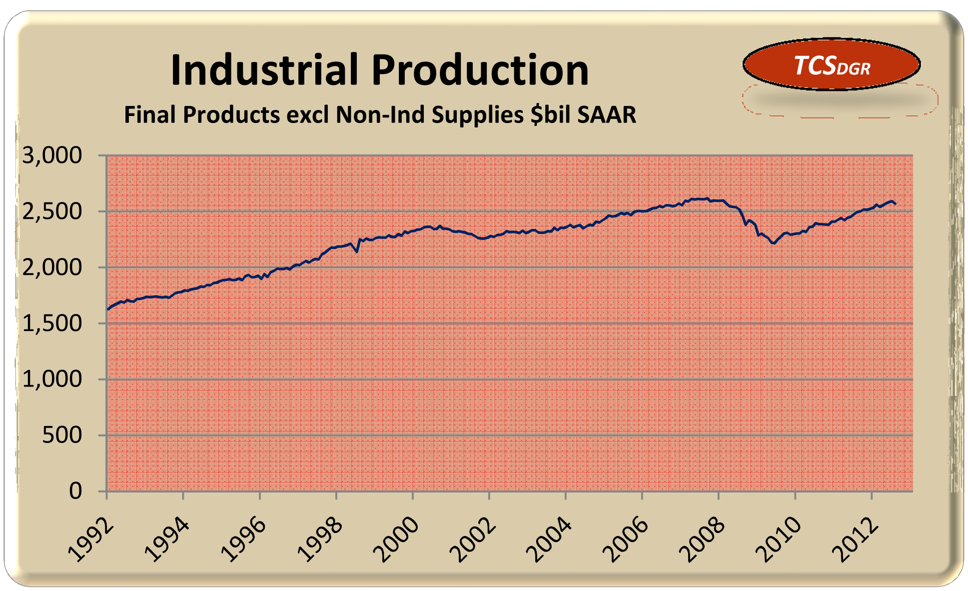
US GDP

GDP growth rate revised to 1.25% for Q2, down from 1.7% in the earlier estimate. Decline in the growth rate over the past four quarters is troublesome. The only fix to the current fiscal mess is not found in the monetary policy of the fed. Only growth will solve this without a major drop in our standard of living.

Industrial Production (excluding industrial supplies)

Industrial production dropped 0.9% in August. Largest drop in 17 months.

Industrial Production - final products $b SAAR				
Year	Mo	Ind Prod - Value of Prod	Chg from Prior Pd	Chg from Prior Year
2011	1	2,410.4	0.1%	4.6%
2011	2	2,425.1	0.6%	5.2%
2011	3	2,442.0	0.7%	5.0%
2011	4	2,420.8	-0.9%	4.4%
2011	5	2,444.1	1.0%	3.5%
2011	6	2,451.9	0.3%	3.8%
2011	7	2,474.8	0.9%	3.4%
2011	8	2,494.5	0.8%	4.6%
2011	9	2,500.4	0.2%	4.8%
2011	10	2,516.5	0.6%	5.6%
2011	11	2,516.2	0.0%	5.7%
2011	12	2,524.4	0.3%	4.8%
2012	1	2,532.7	0.3%	5.1%
2012	2	2,560.8	1.1%	5.6%
2012	3	2,541.9	-0.7%	4.1%
2012	4	2,554.1	0.5%	5.5%
2012	5	2,570.2	0.6%	5.2%
2012	6	2,583.7	0.5%	5.4%
2012	7	2,593.1	0.4%	4.8%
2012	8	2,570.1	-0.9%	3.0%



Capacity utilization (below) has dropped across the board with the exception of primary metals. Since the metals industry is at the head end of the supply chain, a lag is expected before they react. Metals contracts rarely include short term cancellation options. The effect of this situation can be seen in manufacturing inventories. Inventory to shipments ratio is surging. (Durable Goods Sector below).

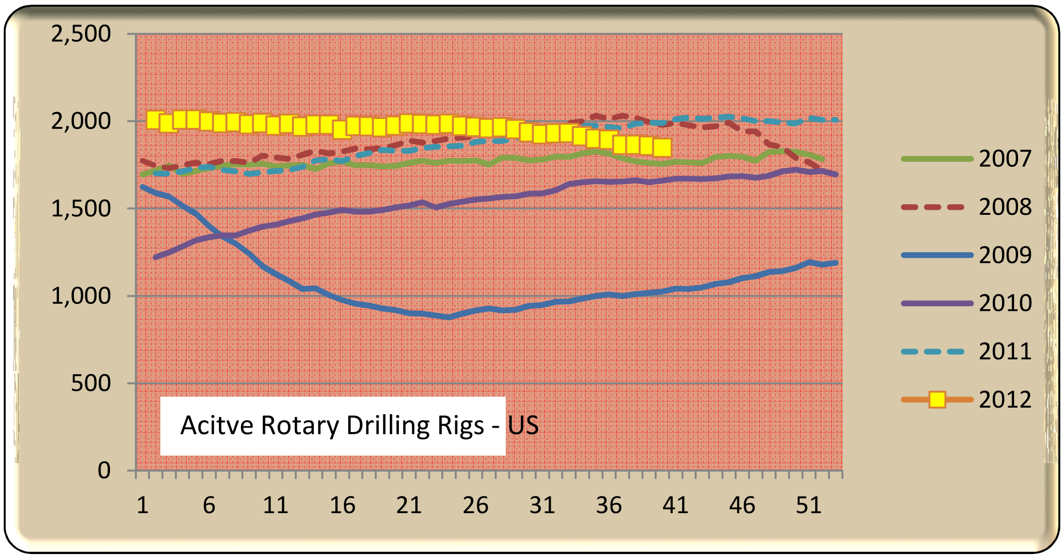
Capacity Utilization %							
Year	Month	Ind Prod	Mfg	Durable	Primary Metals	Auto	Mach-inery
2010	1	70.8	78.0	76.6	75.8	81.9	63.6
2010	2	71.3	77.6	77.1	78.1	82.3	63.4
2010	3	71.9	77.3	77.7	79.7	81.9	64.2
2010	4	72.4	76.5	78.4	79.5	82.3	65.5
2010	5	73.7	76.1	78.1	81.0	82.9	66.5
2010	6	73.9	75.7	78.2	81.3	82.5	67.7
2010	7	74.5	75.0	78.1	84.7	82.0	67.6
2010	8	74.8	74.0	77.8	82.9	84.7	69.1
2010	9	75.2	71.5	78.0	83.9	83.3	69.5
2010	10	74.9	71.1	77.9	84.6	85.6	69.7
2010	11	75.2	69.6	78.5	84.8	84.8	70.0
2010	12	76.0	67.4	78.6	83.6	84.2	68.6
2011	1	76.1	65.6	78.4	82.8	85.8	68.7
2011	2	75.9	65.7	78.3	82.3	84.8	69.9
2011	3	76.5	64.6	78.1	82.1	84.7	70.2
2011	4	76.1	64.3	77.1	79.9	85.5	68.5
2011	5	76.3	63.7	76.7	78.0	85.2	68.8
2011	6	76.3	63.6	76.6	75.9	83.9	68.5
2011	7	77.0	64.6	75.5	75.0	79.0	68.0
2011	8	77.1	65.4	74.3	77.6	80.6	68.4
2011	9	77.2	66.1	71.7	78.8	81.3	68.5
2011	10	77.6	66.2	69.8	78.7	79.0	67.6
2011	11	77.7	67.0	67.9	80.6	75.2	70.2
2011	12	78.3	67.3	65.8	80.6	72.5	69.8
2012	1	78.7	78.0	77.0	77.5	74.6	83.9
2012	2	79.0	78.6	77.9	78.1	75.0	85.0
2012	3	78.4	77.9	77.5	75.3	75.5	85.8
2012	4	79.0	78.4	78.2	76.9	77.5	85.9
2012	5	78.9	77.8	77.7	75.4	76.6	85.3
2012	6	78.9	78.1	78.2	73.3	77.8	87.1
2012	7	79.2	78.3	78.3	74.7	79.5	84.0
2012	8	78.2	77.6	77.3	75.2	76.0	83.1

The large drop in the auto industry signals the end of the channel stuffing that has been going on for months. Despite relatively healthy dealer sales, production levels were higher. This is an old trick to make the manufacturer’s financial statements look good at the end of a quarter. But it’s a one time trick.

Energy:

September saw a further drop in active rotary rigs in the US. Signs of a slowing global economy are visible in oil inventory increases. Active rig count has dropped over 8% since the start of the year. Offshore rig counts (included in the total) remained steady at 50. Stories of many Canadian rigs parked on the side of the road. A major rig manufacturer has placed no component orders for next year, a signal of a very weak segment.

On a positive note, the earlier than normal onset of winter in the Arctic raises hope of early permafrost which will signal the start of the drilling season. Of course it would be aided by a thaw of the permit process in Washington.

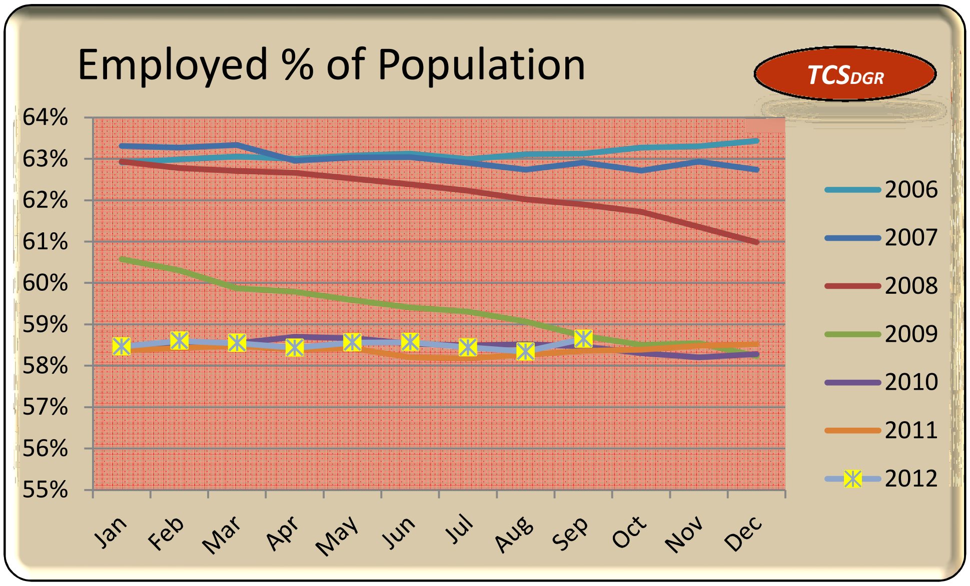


Everything seems to hinge on the outcome of the election and the turn of the international economy. The US, China and all of Europe are slowing. Some parts of Asia are doing better. The energy policies of a new administration will be the key to the decisions of drillers and producers.

Immediate action by a new administration to reverse the back-door ban on drilling by the current administration will cause an immediate reversal in the record gas prices across the nation. This will produce an increase in consumption.

The pervasive effects of energy prices on the economy should make this the highest priority of any administration. Since the Eisenhower administration government actions have only occasionally matched this economic fact.

Employment:



The employed % of the non-institutional population increased to 58.7% in September from 58.4% in the prior month. As a result the unemployment rate dropped to 7.8%. Jack Welch, retired CEO of General Electric, claims the administration is cooking the books. The DGR has frequently rejected the conspiracy theories on these numbers, but it's pretty hard to maintain that view with this set of numbers. Welch may be right.

Several unusual things happened in the household survey. The seasonal adjustment factors were revised for September. This usually happens in January. So while the survey showed an increase of 873,000, almost half was due to a statistical adjustment. A surge in part time employment accounted for most of the remainder.

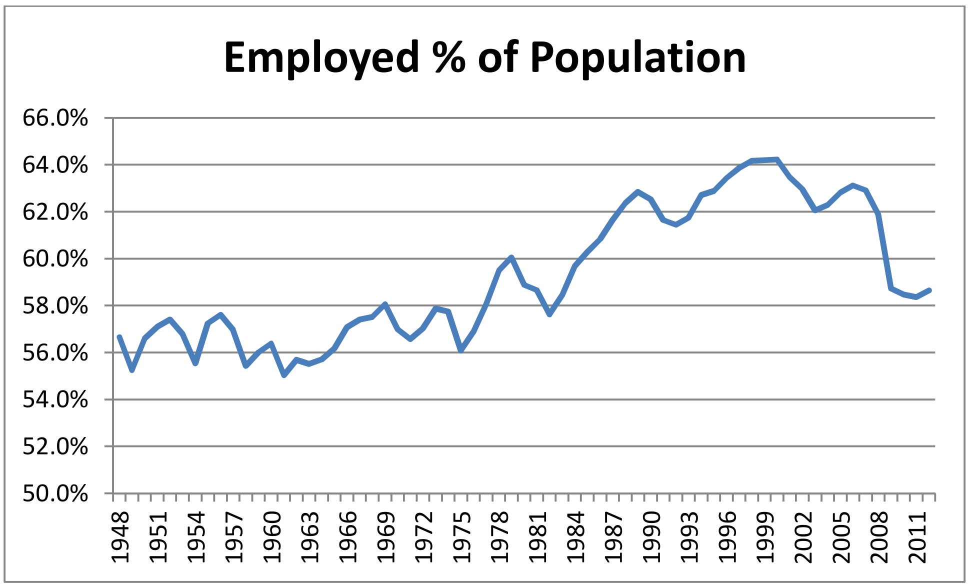
The employer survey showed 114,000 new jobs created against a working age population increase of 206,000. But the internals were troubling. The three primary sectors showed the following:

- Private - Goods producing: -10,000
- Private - Service providing: +114,000
- Public - Government: +10,000

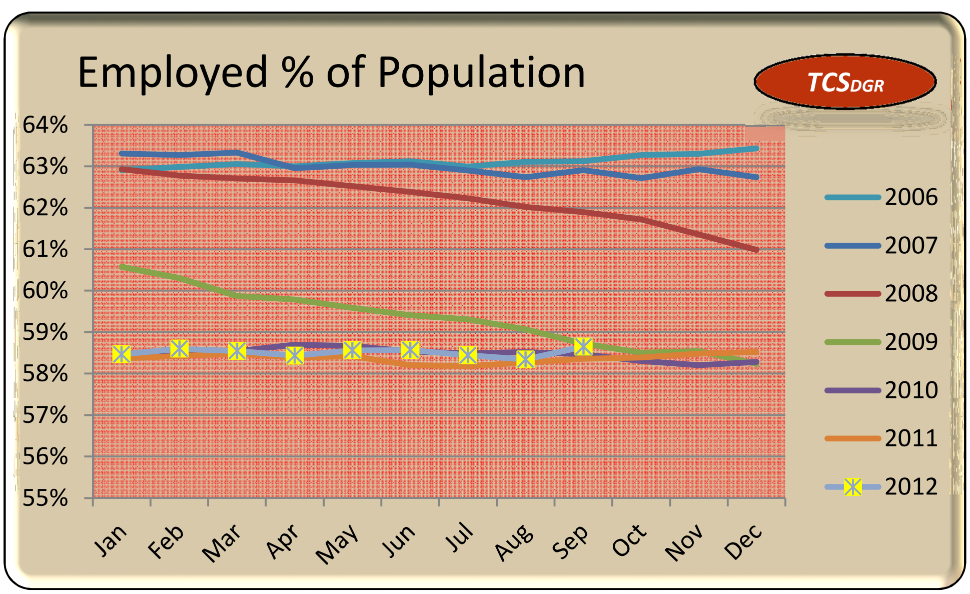
The future of the US economy depends on the goods producing sector. The modern economy depends on manufactured goods as a transportable store of wealth. Every job in that sector generates 8 more jobs (durable goods as high a 13). The service sector leverages only 3 added jobs. Further large portions of the service and government setors are dependent on the goods producing sector. Government is a net negative of 2 to 10 jobs destroyed for every government job created (depending on where tax revenue generation hits the private economy).

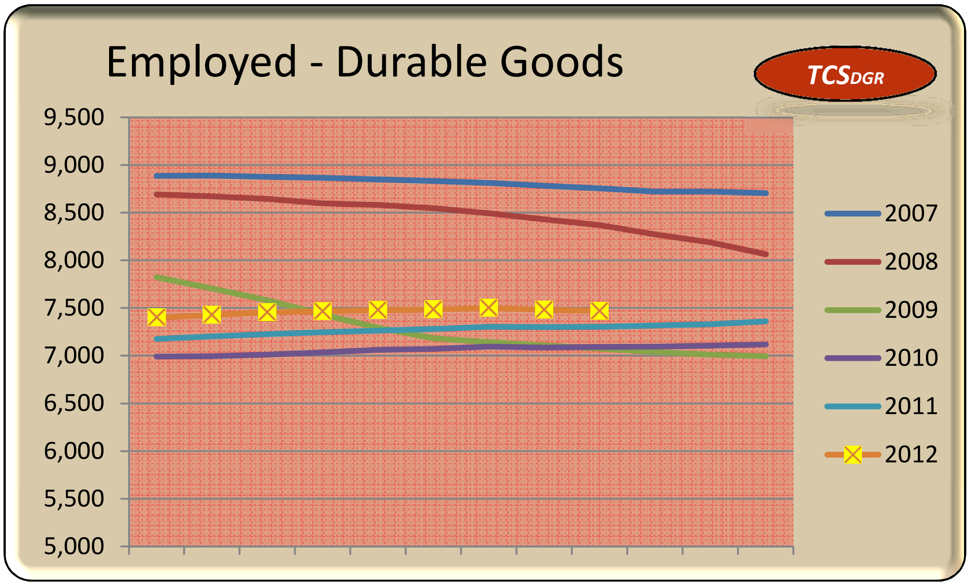
The most likely interpretation of the household survey is that it didn't happen. Cross checking against three other economic indicators that should move in concert with employment showed no parallel movement. You're on your own as to whether the fluke was incompetence or malice.

Ultimately the shift was a gnat on the back of an elephant. We're still in the tank.



September Employed % since 1948





Durable goods employment dropped by 13,000 in September following a drop of 20,000 in August. The surge in inventories discussed below adds to the evidence that a significant retrenchment is underway.

Sector Detail

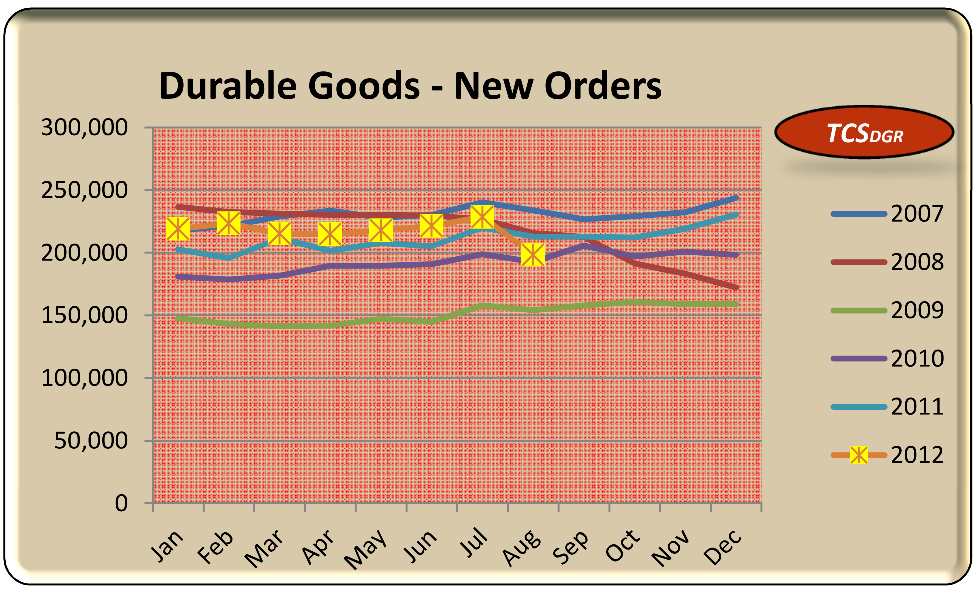
The Durable Goods Sector:

New Orders: Durable new orders decreased 13.2% to $198 billion. This major drop was predicted in last month's DGR based on early employment numbers.

The new order growth index dropped into contraction territory at 0.992. Last year's comparable number was 1.044. Inventory to shipments ratio surged to 1.67.

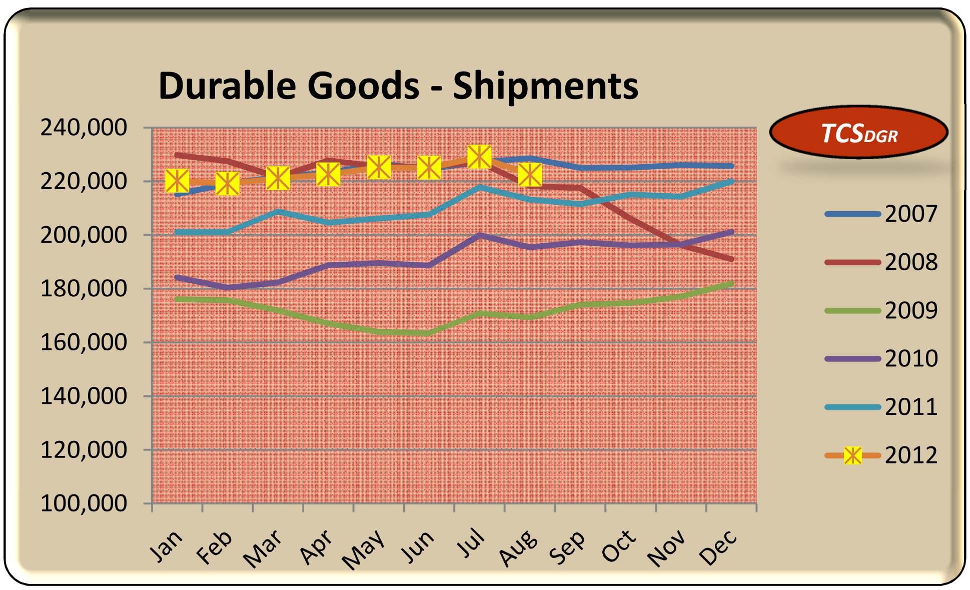
General picture is not optimistic for durable goods, and thus for the economy as a whole.

Note: The latest durable goods number is August (preliminary). Employment numbers are for September (advanced). The further drop in manufacturing employment in September suggests a further decline in the future.



The long term chart below puts the magnitude of the collapse in perspective. This rate of decline is comparable to the early months of the 2009 recession.

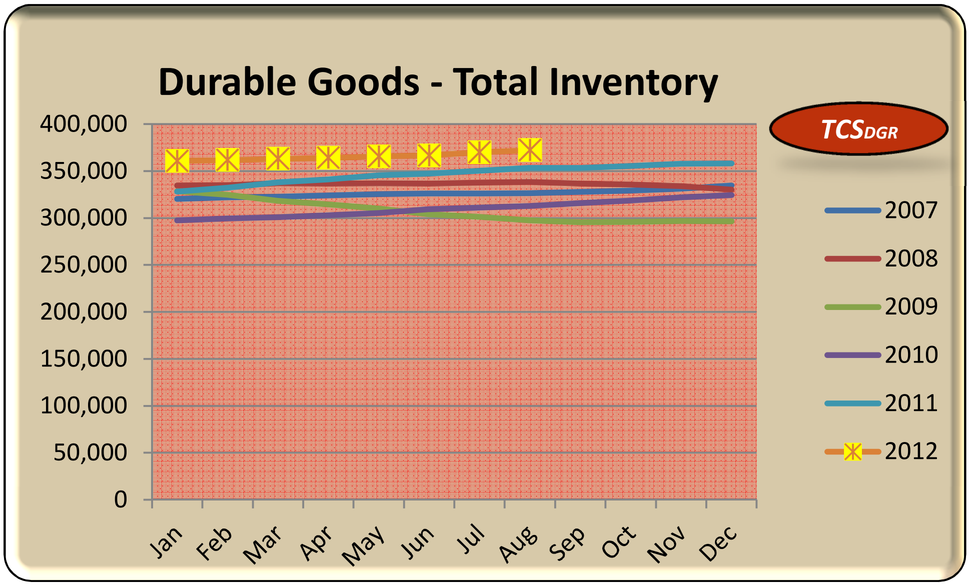
Shipments decreased 2.9% to $222.4 billion. Book to bill ratio dropped to 0.89 (long term average is 0.98). This is a significant imbalance with orders for the durable goods sector and is normally adjusted rather quickly.

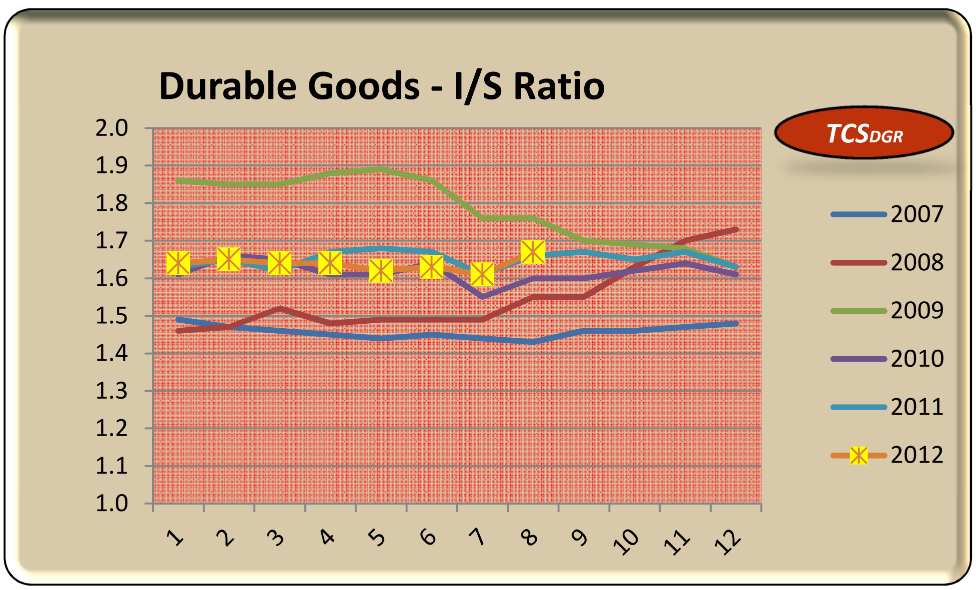


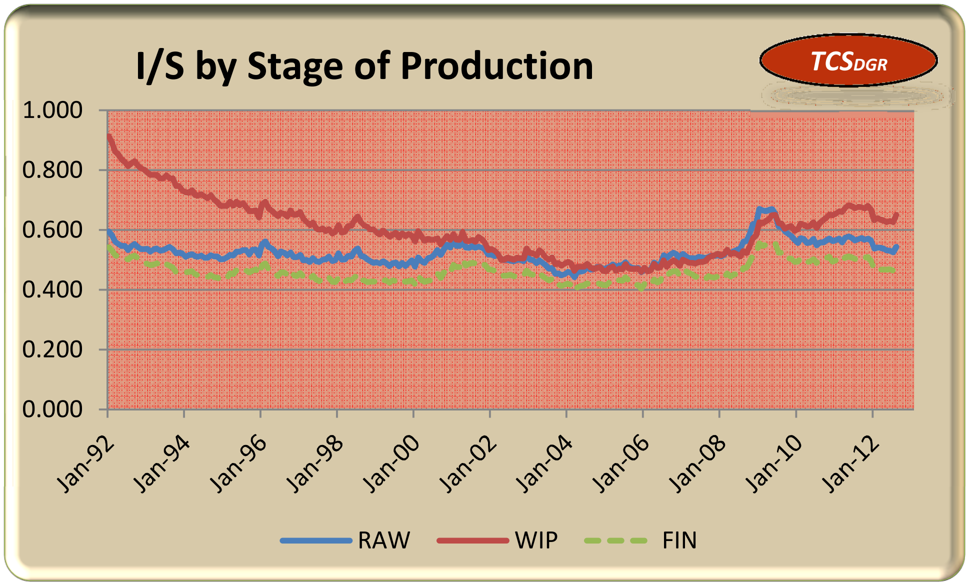
Unfilled Orders decreased 1.7% to $979 billion. The last time we saw a drop this large was in March 2009 as we fell into the recession.

Inventory Total inventory increased by 0.6% to $372 billion, another record high. While the raw value of inventory growth is not large, its relationship to shipments is significant.

Inventory to shipments ratio surged to 1.67. This increase in I/S ratio (second chart below) indicates the order drop was not anticipated in time to curtail inbound materials.

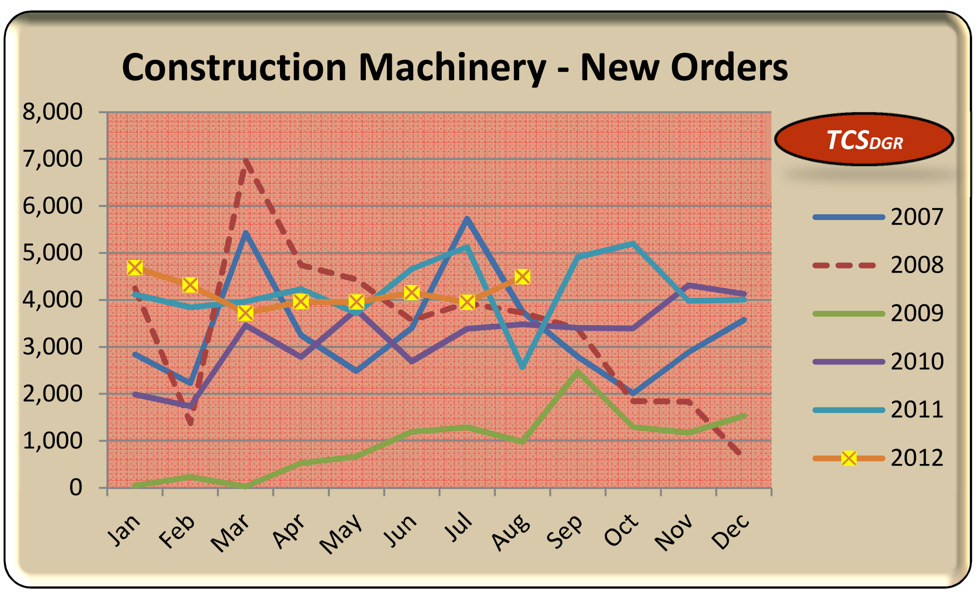




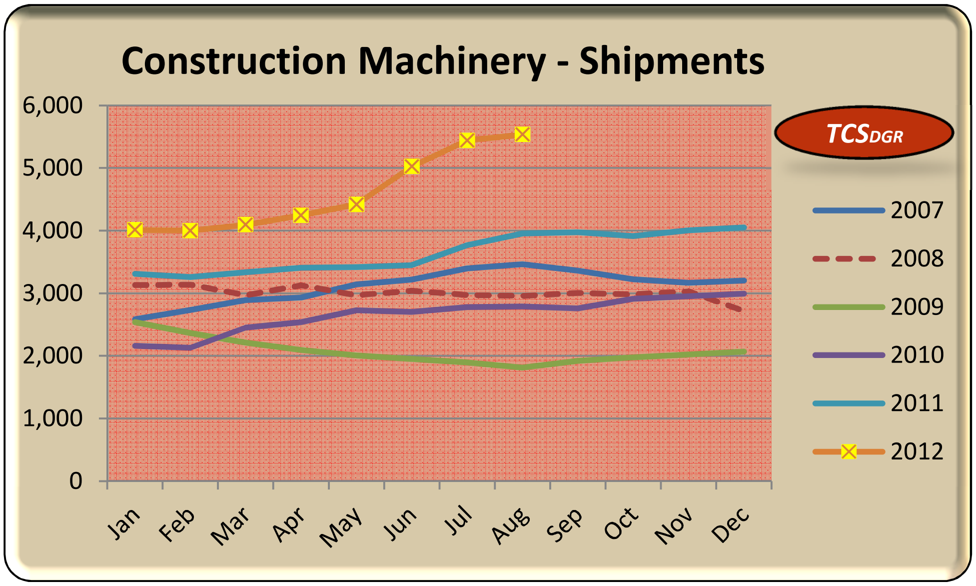


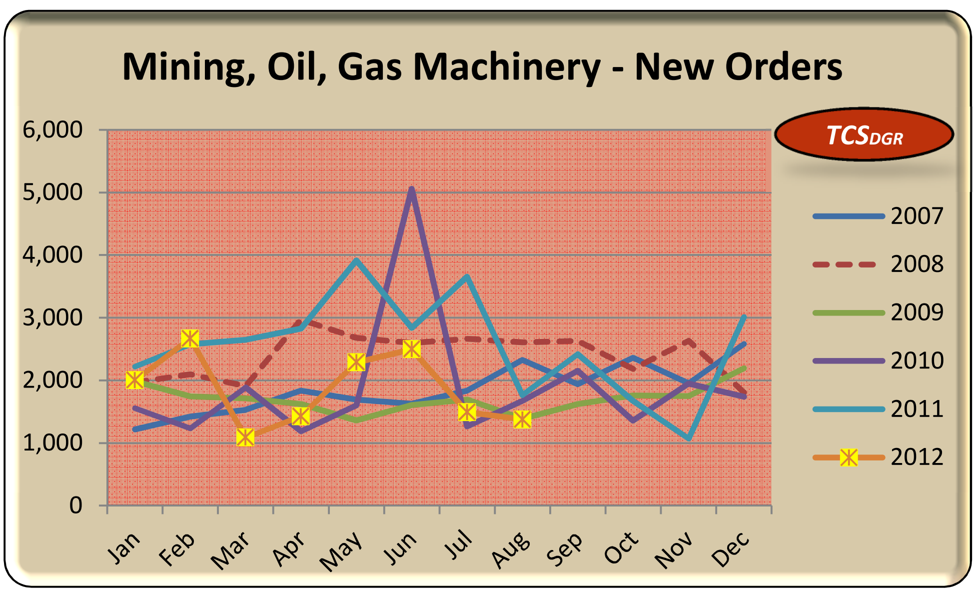
The I/S ratio by stage of production (a DGR exclusive) also presents an ominous signal. Finished goods I/S is stable, but WIP and RAW have turned up. This is further evidence that it was not a planned event. Durable orders dropped too quickly for planners to adjust the supply chain. This may still reverse itself, but the interpretation of the current condition has no positive spin. After a couple of years of effective control of a challenging supply chain situation, it now looks like the challenge will get much worse.

Durable goods sub sectors:



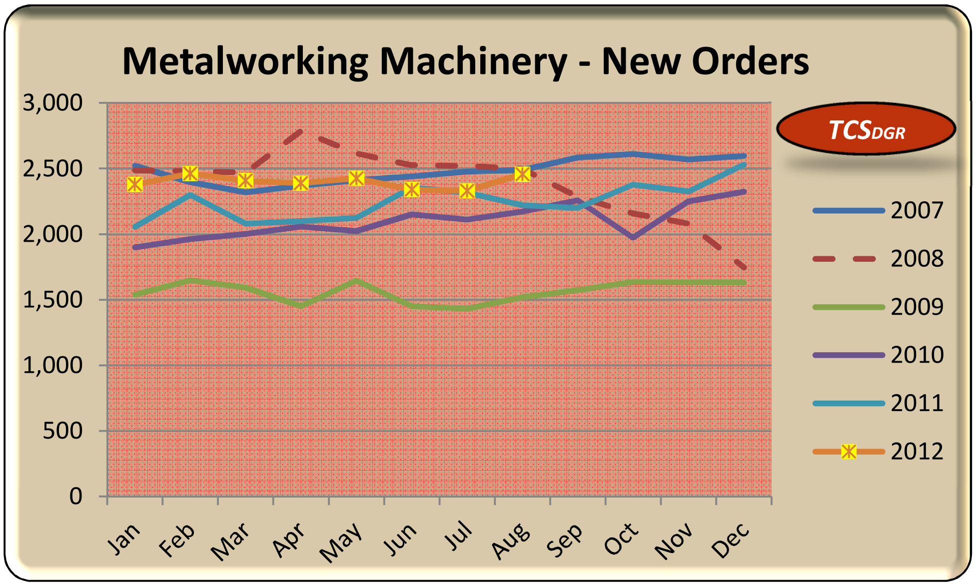
Construction machinery new orders increased by 13.8% to $4.5 billion, one of the few bright spots in the current report. But it is tempered with the news that shipments were a billion higher at $5.5 billion. Book to Bill ratio is badly upside down at 0.89 (long term average 1.01). The drop in unfilled orders reflected this mismatch. Further adjustment in will come soon. Orders will increase or shipments will decrease, but the industry doesn't run upside down on B/B for long. Companies in this sector have long experience with capital goods cycles. CAT in particular has business plans on the shelf for handling exactly this type of upset. Their supply chain team responds quickly and over the past few years they have promoted these skills in their supplier base.



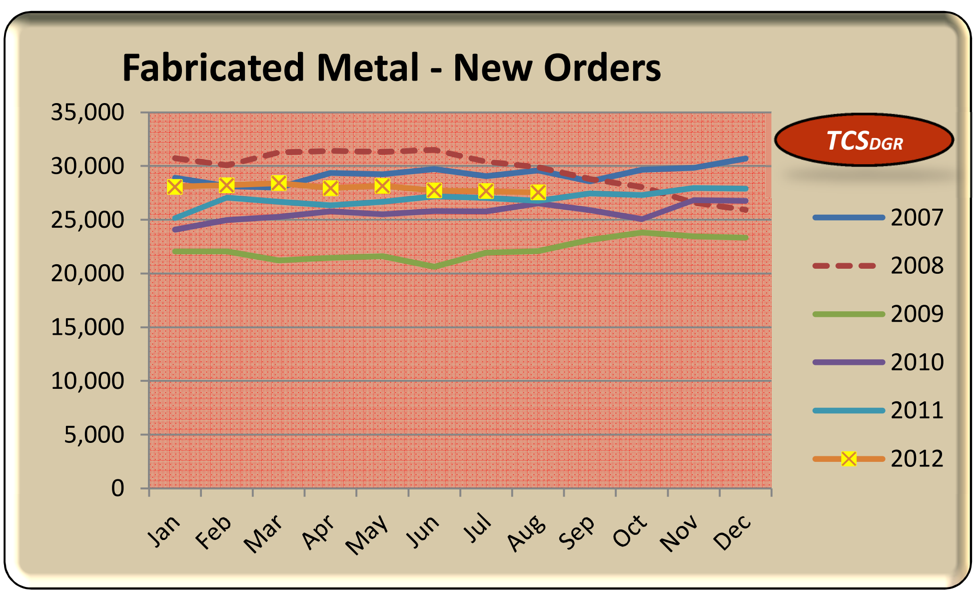


Mining, oil and gas machinery new orders continued their decline with a drop of 8% to $1.4 billion. This followed last month's revised 41% decline. Book to bill ratio retreated further to 0.65 (long term average = 1.03). Industry chatter is focused on the difficult permitting process and the dramatic reduction in drilling approvals offshore and on federal lands. An equal culprit is the slowing global economy.

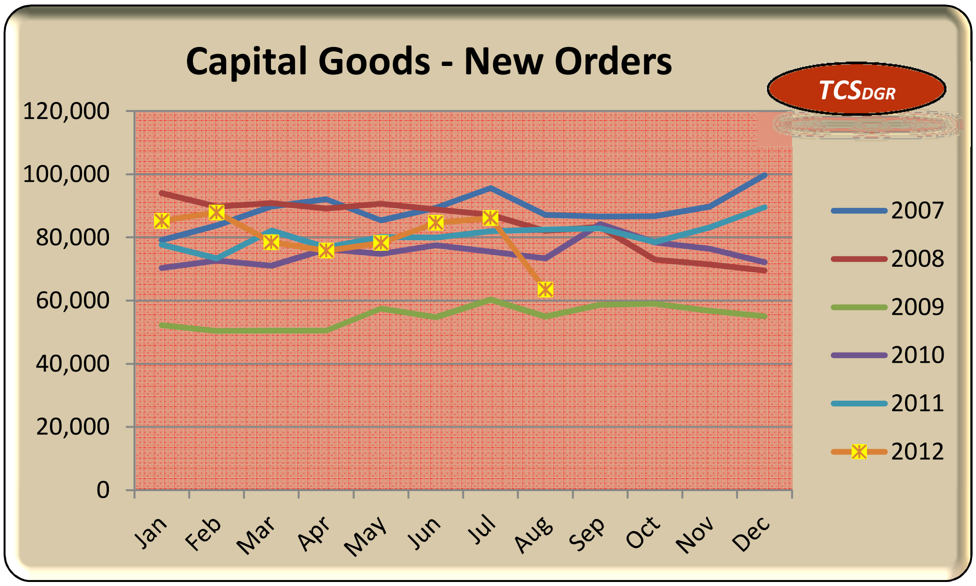
Metalworking machinery new orders increased 3.6% to $2.5 billion. Book to bill ratio held at a solid 1.05 (long term average = 1.00). Industry pattern remains solid. Orders remain strong despite the expiration of government investment incentives.



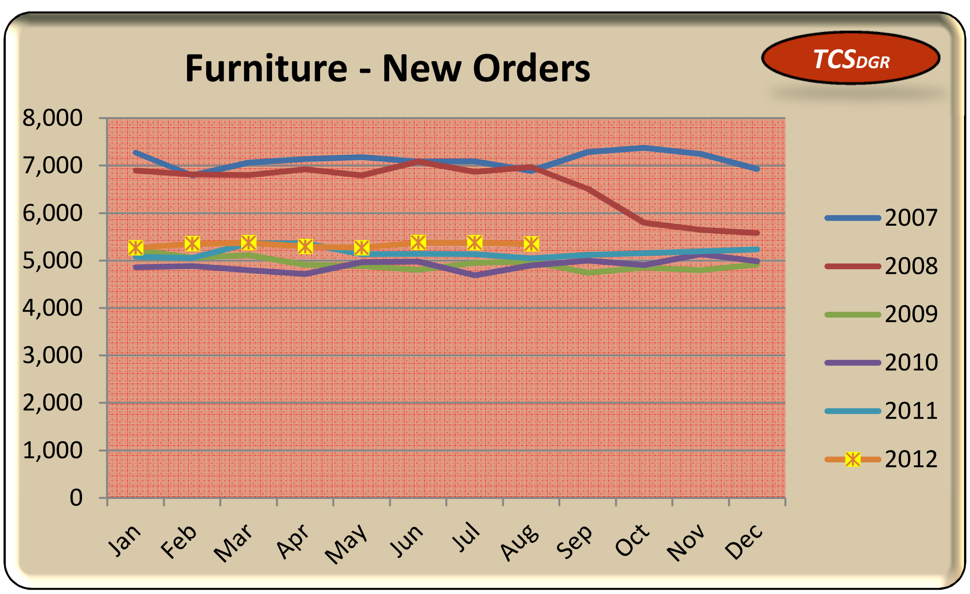
Fabricated metal new orders decreased 0.4% to $27.5 billion. Book to bill ratio remained steady at 1.01 (long term average = 1.00). This industry tends to operate on shorter order to shipment cycles than the average durable sector, so the Book to Bill rarely gets out of line very far.



Capital goods dropped by a dramatic 26% to $63.5 billion. Book to bill ratio dropped to 0.85 from last month's adjusted 1.09 (long term average = 1.01). This segment is the typical leading indicator for the manufacturing economy. CapEx budgets are the first discretionary cash flow item to get adjusted in anticipation of a downturn.

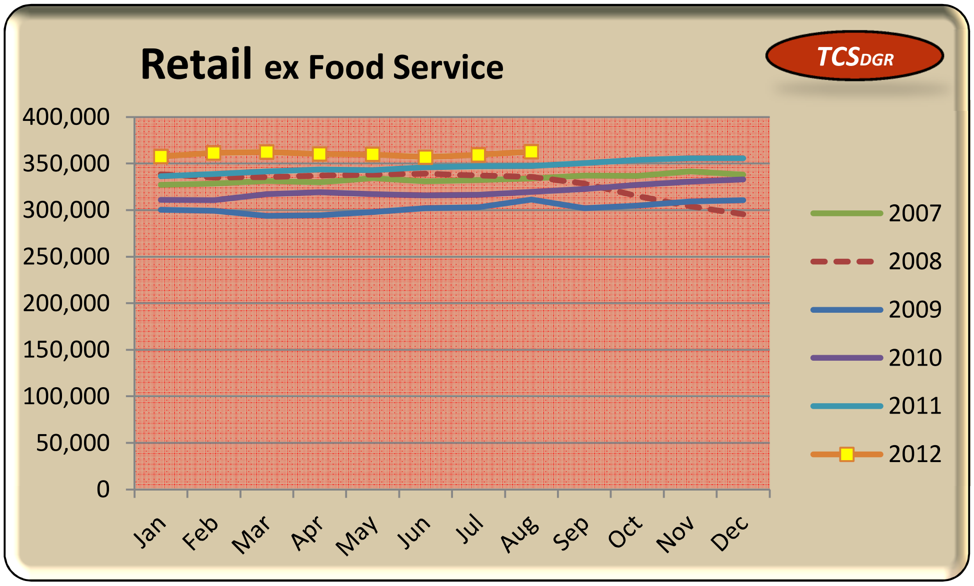


Furniture: New orders decreased 0.4% to $5.3 billion. The book to bill ratio remained steady at 1.0. Growth index remained at 1.016 (slow growth). The weak housing market and commercial construction sectors don't signal any near term improvement.

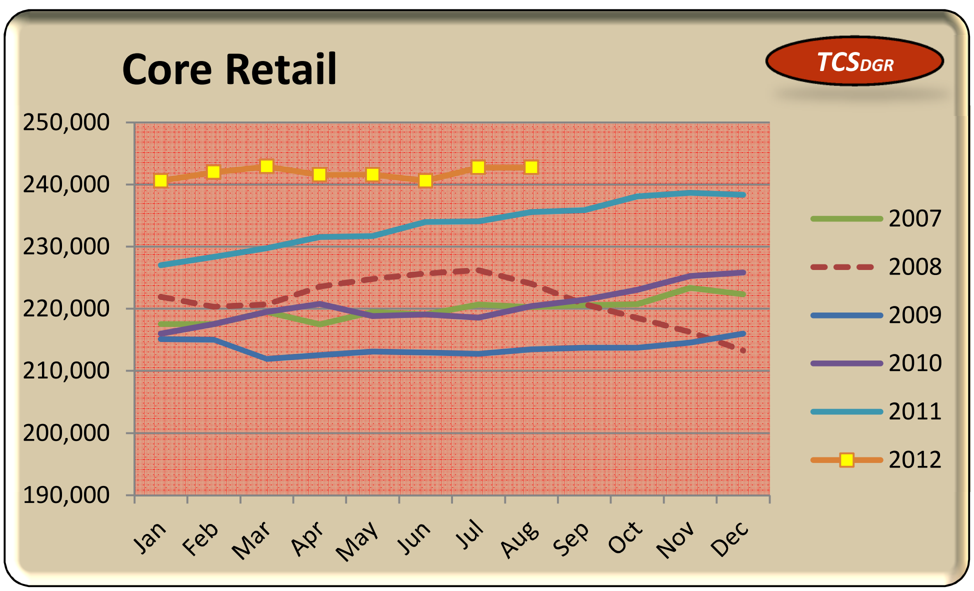


Retail Data (Advanced Release)

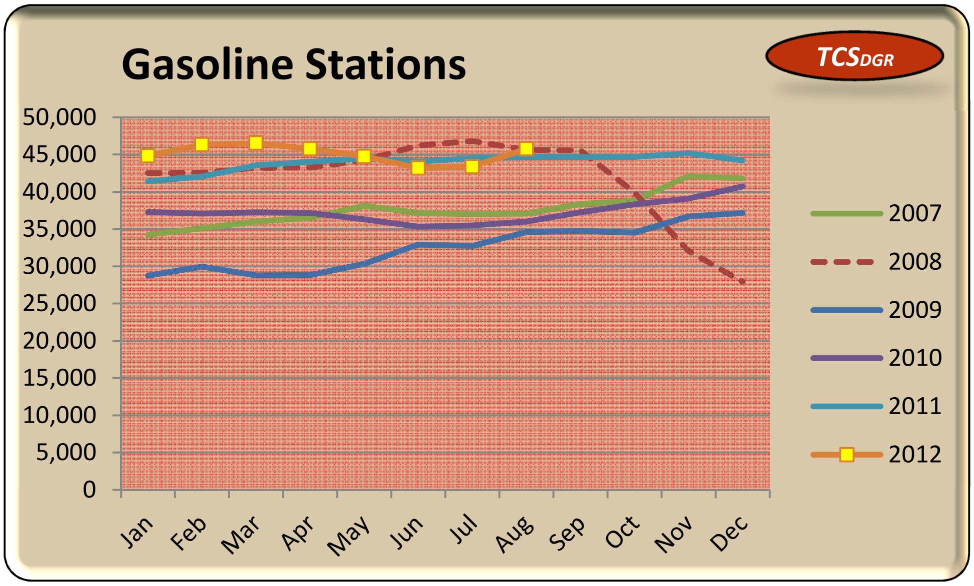
Retail Sales (excluding food service) increased 0.9% to $362.7 billion in August, another record. Gas price inflation accounted for almost all of the increase.



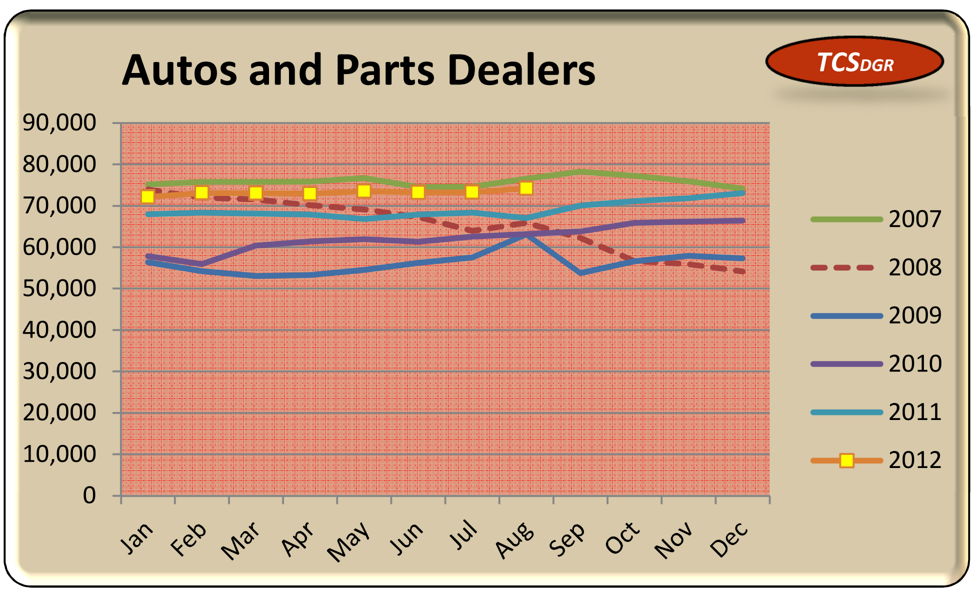
Core retail (excludes food service, gasoline, autos and parts) was flat at $242.7 billion.



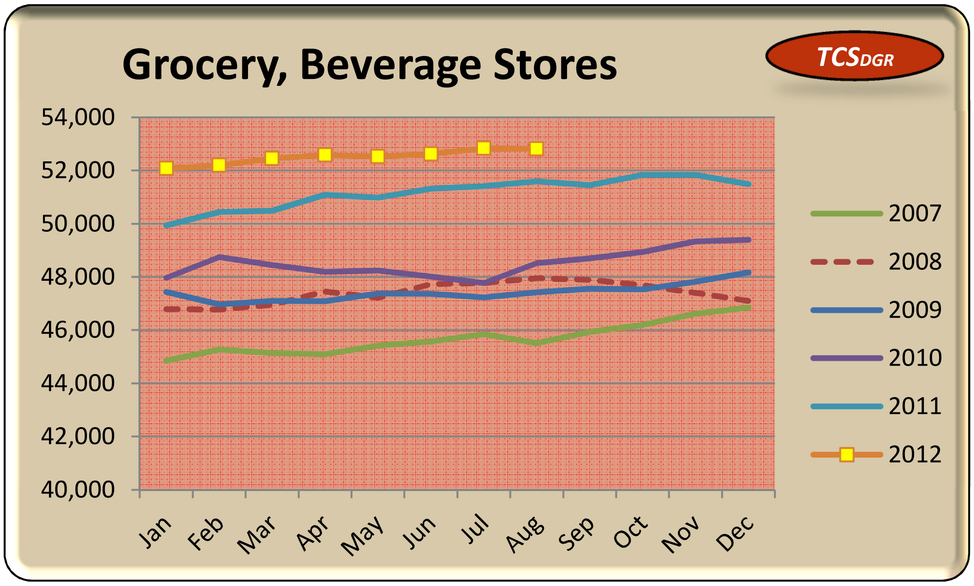
Gasoline sales increased 0.4% to $45.7 billion. The record price at the pump has caused unit gas consumption to decline by half over the past 6 years. We'll include the gallons per day chart next month.



Auto sales increased 1.3% to $74.2 billion. But the capacity utilization numbers (see Industrial Production above) show a general cutback at the factories. This is the inevitable result when the channel stuffing finally gets the dealers pushing back on the high levels of inventory. Makes the factory P&L look good for a while. But you eventually run out of places to put the extra cars. Always a hangover later.



Grocery and Beverage stores sales remained flat at $52.8. Seems unusual in light of the anecdotes of higher unit prices on the shelf. DGR has used this sector as a signal of inflation on the assumption that it tracks with population. But if consumers are trading down on quality/brand it could hide the inflation signal.


Grocery, Beverage Stores
TCSDGR
54,000
52,000
50,000
48,000
46,000
44,000
42,000
40,000
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2007
2008
2009
2010
2011
2012

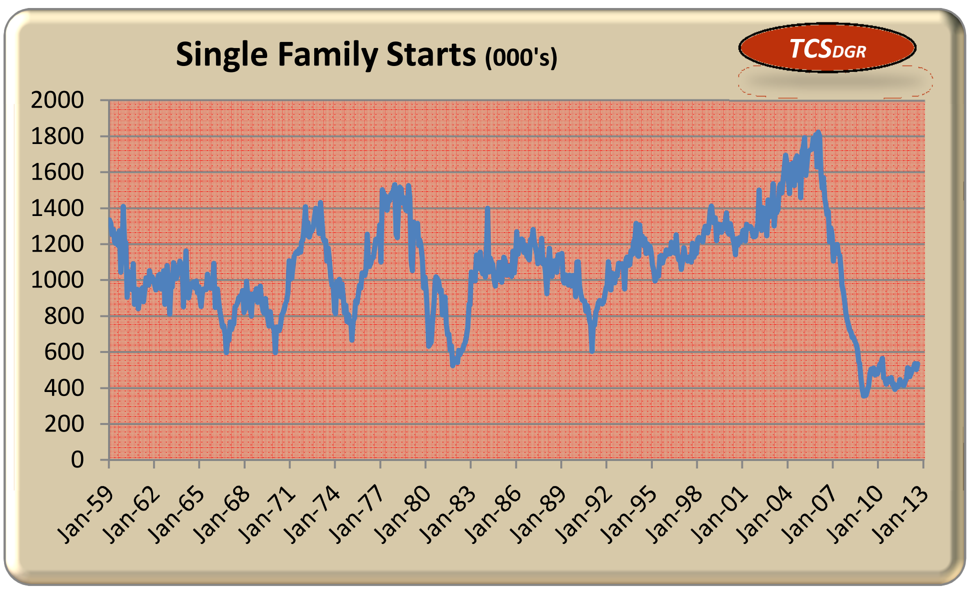
Housing:

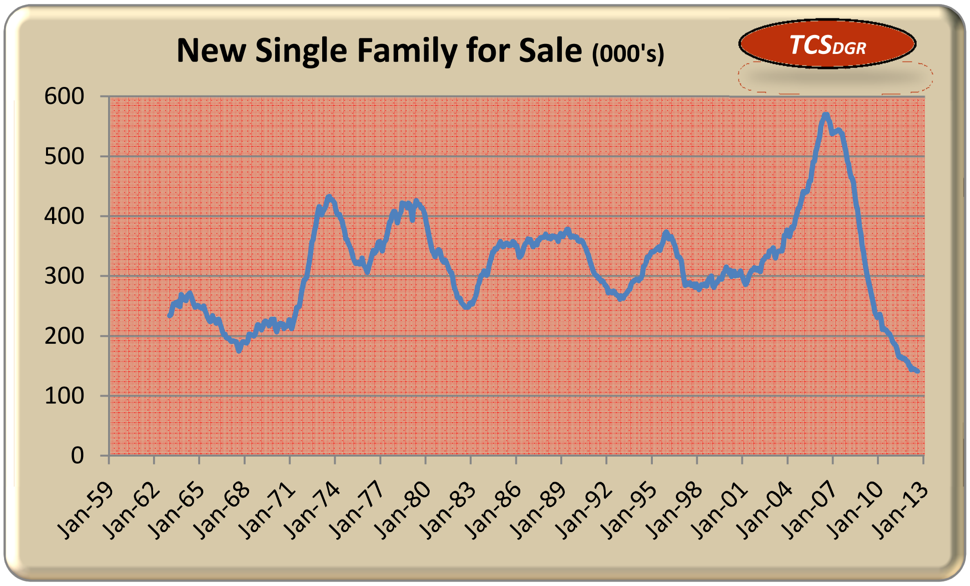
There is finally some glimmer of hope in the housing sector. Median home prices improved substantially. And the inventory is at an all-time low. But sales and starts are improving very slowly from the dramatic bottom of the past few years.

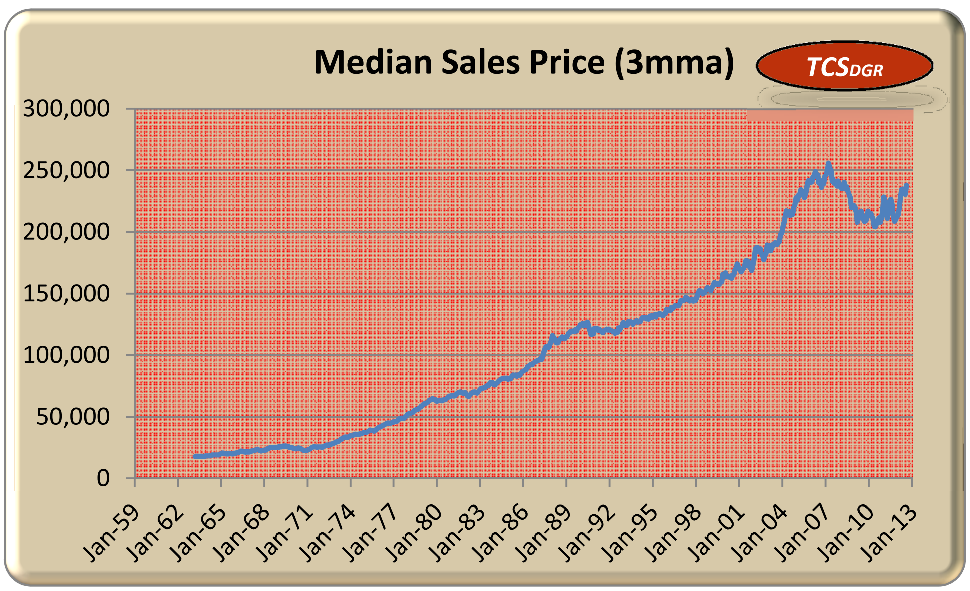
Single family starts increased 6.6% to 535,000, offsetting an identical drop in the prior month. New single family sales dropped 0.3% to 373,000 units. Inventory of unsold new single family homes decreased slightly to 141,000, another post WWII record low.

The good old days of 1 million single family sold seem like a distant memory. And the portion of the market carried by single family housing, once at 85%, now hovers around 70%. A single family home has almost 3 times the impact on the economy as a typical multi-family unit.

Median sales price (3MMA) decreased 7% to 237,900. Median prices are generally stable although the increases in Y/Y price comparisons have returned to neutral in the past 5 months.




New Single Family for Sale (000's)
TCSDGR
600
500
400
300
200
100
0
Jan-59
Jan-62
Jan-65
Jan-68
Jan-71
Jan-74
Jan-77
Jan-80
Jan-83
Jan-86
Jan-89
Jan-92
Jan-95
Jan-98
Jan-01
Jan-04
Jan-07
Jan-10
Jan-13


Median Sales Price (3mma)
TCSDGR
300,000
250,000
200,000
150,000
100,000
50,000
0
Jan-59
Jan-62
Jan-65
Jan-68
Jan-71
Jan-74
Jan-77
Jan-80
Jan-83
Jan-86
Jan-89
Jan-92
Jan-95
Jan-98
Jan-01
Jan-04
Jan-07
Jan-10
Jan-13

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, energy 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, Energy Information Administration, 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 in manufacturing 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, Indiana University, Ball State University, and others.

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