The Durable Goods Report

December 2012

Executive Summary of US Economic Activity

Manufacturing Data Release of 12/2/2012 (October Preliminary)

Employment Data Release of 12/2/2012 (November Preliminary)

Retail Data Release of 11/15/2012 (October Advanced)

Industrial Production Data Release of 11/16/2012 (October 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	217,915	216,865	212,058
12 month moving average	218,631		205,934
% Change from Prior Year	6.2%		
Growth Index - Durable New Orders	0.966	0.984	1.032
Unshipped Orders - Durable	982,945	980,124	940,858
% Change from Prior Year	4.5%		
Value of Shipments - Durable	222,667	223,480	203,613
Inventory - Durables	374,473	372,820	355,393
% Change from Prior Year	5.4%		
Inv to shipments ratio - Durable	1.68	1.67	1.62
US Economy Key Measures			
	This period	Last period	Change
GDP 2012 Q2	15,797.4	15,585.6	1.4%
Industrial Production	2,540.9	2,568.5	-1.1%
Capacity Utilization %	77.8	78.2	(0.4)
Manufacturing %	76.6	77.3	(0.7)
Durable Goods %	75.8	76.4	(0.6)
Primary Metals %	70.7	70.8	(0.1)
Autos and Parts %	73.7	74.1	(0.4)
Machinery %	81.1	82.9	(1.8)
Durable Goods ($Mil SA)			
New orders	217,915	216,865	0.5%
Shipments	222,667	223,480	-0.4%
Inventory	374,473	372,820	0.4%
Unshipped Orders	982,945	980,124	0.3%
Retail ex Food Service ($Mil SA)	367,563	368,659	-0.3%
Autos and Parts	74,777	75,894	-1.5%
Gasoline	47,849	47,170	1.4%
Core retail (ex auto, gas)	244,937	245,595	-0.3%
Employment (000's SA)			
Civilian employed (Household Survey)	143,262	143,384	-122
% of potential workforce (HS)	58.7%	58.8%	-0.1%
Civilian not employed (HS)	100,912	100,599	313
Non-Farm (Establishment Survey)	133,852	133,706	146
Private (ES)	111,890	111,743	147
Government (fed, state, local) (ES)	21,962	21,963	-1
Goods Producing (ES)	18,301	18,323	-22
Manufacturing (ES)	11,954	11,961	-7
Construction (ES)	5,514	5,534	-20
Durable Goods Mfg (ES)	7,490	7,479	11
Housing (000s of Units SA)			
Total housing starts	894	863	3.6%
Single family starts	594	595	-0.2%
Single family sales (new)	368	369	-0.3%
Single family for sale (new)	147	145	1.4%

US Economy – Quick Look:

US GDP

Q3 GDP revised estimate reported as 2.7% SAAR (1.4% QtQ, 4.2% YtY)

Industrial Production

Industrial production excluding industrial supplies decreased1.1% and now stands barely 1% above last year's same month. Industrial capacity utilization decreased 0.4% to 77.8%. Down in all major categories including autos.

Durable Goods

New orders for durable goods increased 0.5%% to $217.9 billion. Last month's $218 billion estimate was reduced downward to $216 billion.

Retail:

Retail sales (ex food service) decreased 0.3% to $367.6 billion. Core retail decreased 0.3% to $244.9 billion. Both of last month's mini-surge numbers were revised downward.

Employment:

Employment showed a gain of 146,000 jobs along with a decrease in unemployment to 7.7% (based on the establishment survey). Working age population increased by 191,000. Durable goods employment increased 11,000. The Household Survey again showed conflicting results. Employed: -122,000. Not employed: +313,000. See detail in "Employment" section.

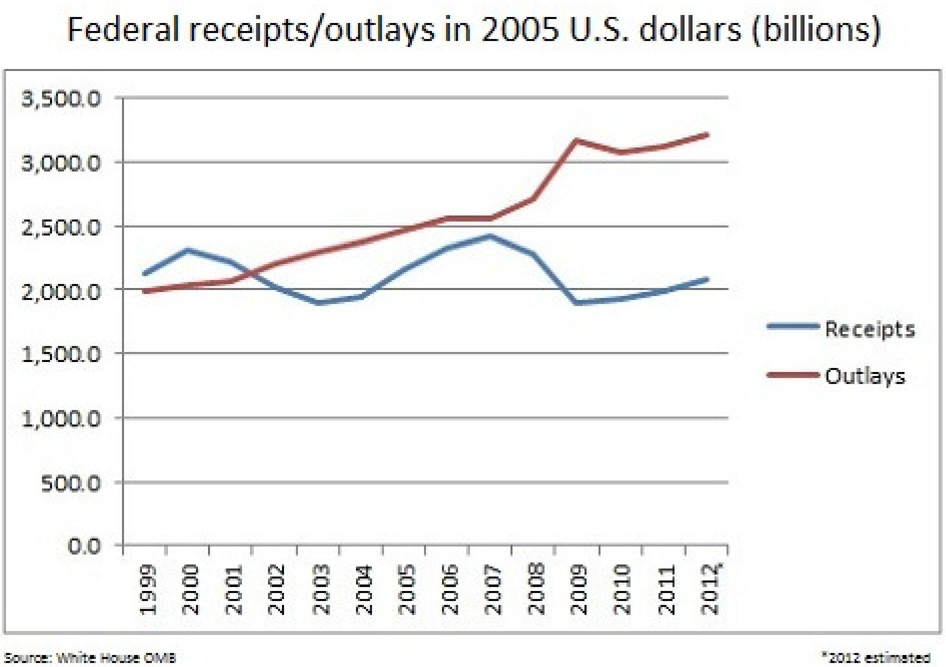
Housing:

Total starts: +3.6%. Single family starts: -0.2%. Single family sales: -0.3%.

Random Thoughts, Stray Data and Rants:

Economy

- The revised (upward) GDP numbers hide a serious disconnect. Government spending and inventory increases drove it higher. Personal consumption declined.
- The government data published monthly is subject to revision in later releases, usually three times. All of the revisions for data published just prior to the election have been revised downward this month. Who would have guessed.
- The Economist now points out that a US recession probably started in July. DGR reported in August (based on June data) that the US was likely slipping into recession.
- The driver for federal deficits is clear from the following chart. Federal spending has surged while receipts have faded. The revenue decline began before the housing/financial crisis of late 2008. It began with the takeover of Congress by the Democrats in January of 2007 and their immediate announcement of tax increase plans. Manufacturers started to pull back in anticipation of higher costs.

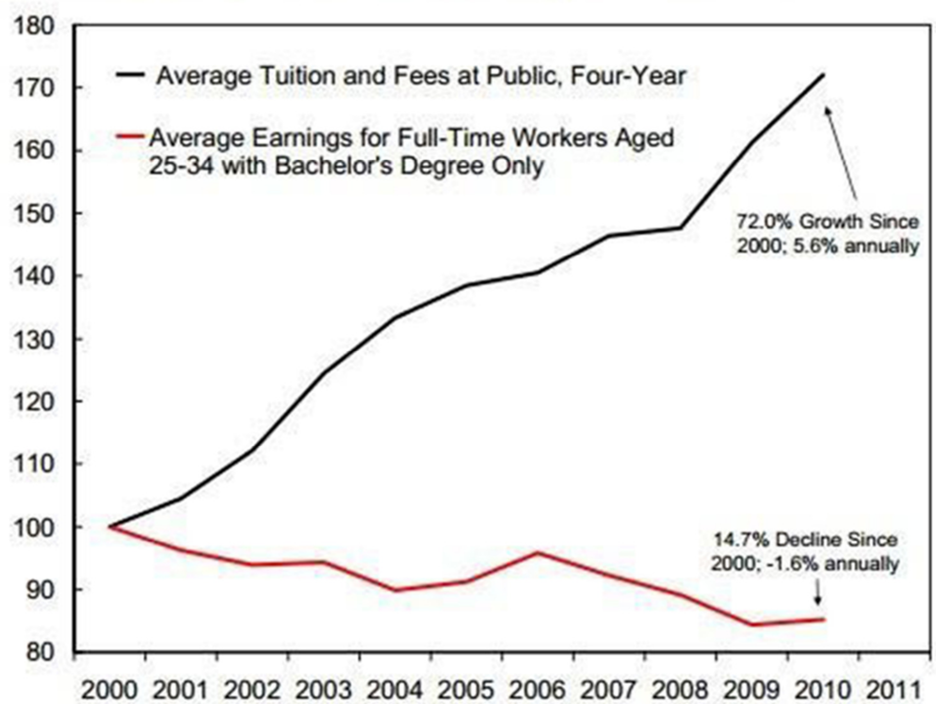


- Federal receipts are falling because taxable income is falling. Increasing taxes will cause federal revenues to decline further. Reducing taxes will increase growth but not nearly enough to fix this massive gap. But we'll go broke more slowly.
- Only large spending cuts can solve this problem.
- Of course the real goal in the debate is politics, not economic results.

- We're now seeing more reporting on the bubble in higher education. Some pundits have challenged the reality. But with college loans now adding up to more than total credit card debt their case looks like a hard sell.

- Add this to the fact that graduate earnings continue to decline and costs continue to skyrocket (chart below) and the case is iron clad. The only open question is what happens when it bursts.
- On line education is likely to bring this to a crashing halt. From one report, envision a world where a college education is free and where Harvard has 100 million students. Kind of scary when you think of the track record of Harvard and Yale grads recently.

Figure 5. Real Tuition and Fees at a Public, Four-Year College and Average Earnings for Full-Time Workers Aged 25–34 with Bachelor's Degree Only (Indexed, 2000 = 100)



Sources: College Board, U.S. Department of Education, Census Bureau, and Citi Research. Note: Both tuition and earnings were weighted in 2010 dollars, and tuition and fees were enrollment-weighted.

- As if that weren't enough, GEORGE WILL has a column on Greg Lukianoff's new book about the campus assault on free speech. But he also touches on yet another reason why the Higher Education Bubble may be bursting:

Such coercion is a natural augmentation of censorship. Next comes mob rule. Last year, at the University of Wisconsin-Madison, the vice provost for diversity and climate — really; you can't make this stuff up — encouraged students to disrupt a news conference by a speaker opposed to racial preferences. They did, which the vice provost called "awesome." This is the climate on an especially liberal campus that celebrates "diversity" in everything but thought.

"What happens on campus," Lukianoff says, "doesn't stay on campus" because censorship has "downstream effects." He quotes a sociologist whose data he says demonstrate that "those with the highest levels of education have the lowest exposure to people with conflicting points of view." This

encourages "the human tendency to live within our own echo chambers." Parents' tuition dollars and student indebtedness pay for this. Good grief.

Energy

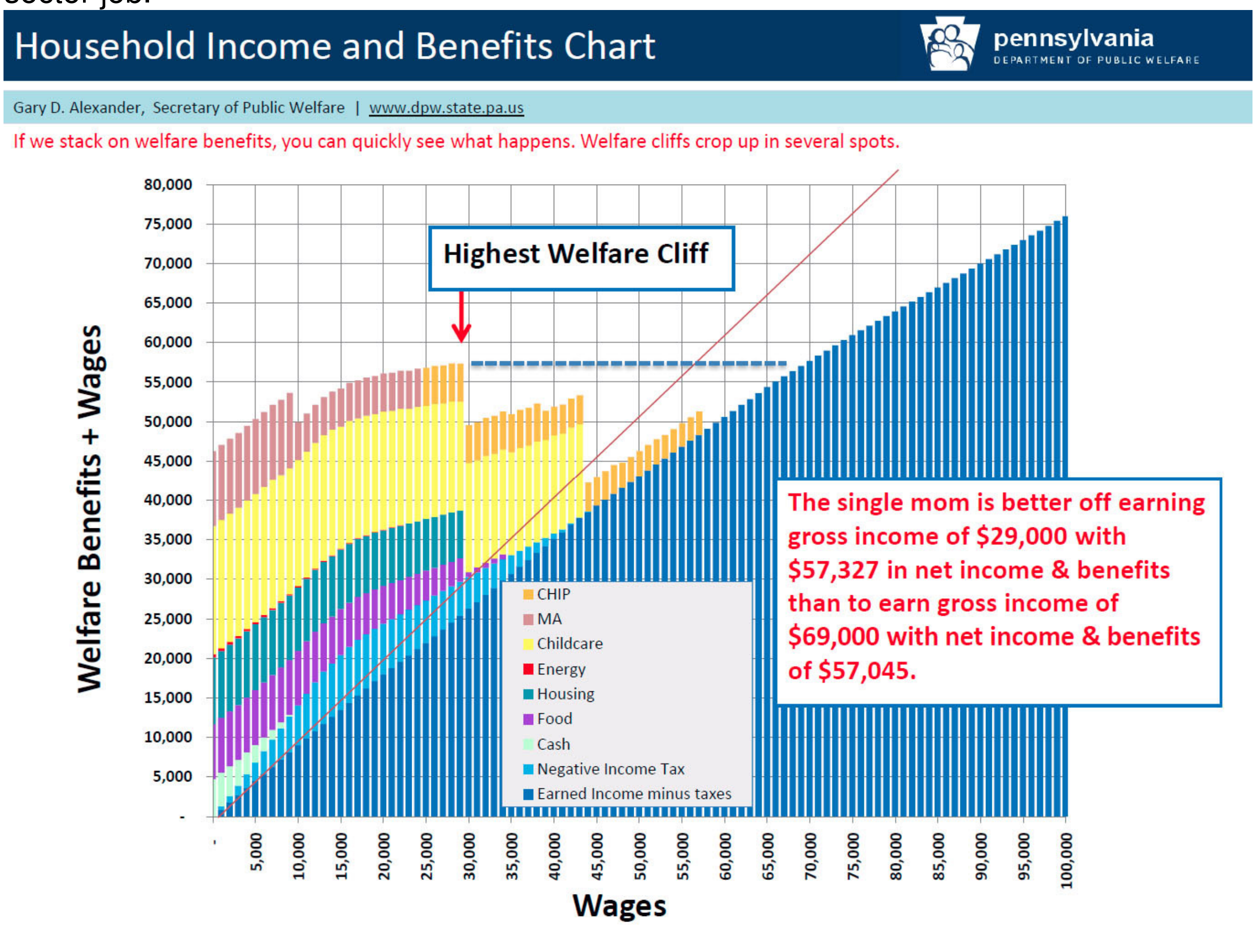
- The green energy movement continues to collapse. Solar companies are leading the way in bankruptcy.
- Wind energy is not far behind. The industry is in panic mode as they scramble to get their subsidies renewed.
- Press coverage continues to treat this as a financial story. There is no general coverage of the fact that none of these technologies are net producers of energy. This means that no amount of subsidy will change the outcome. Check out the special report on Alternate Energy Economy on the Durable Goods Report page: www.tcsdb.com.

- Toyota Prius continues to sell modestly well, with 217,000 sold through November. That's up 81% from the same period in 2011. Your $7,500 subsidy is having the intended market distorting effect.
- The Prius now uses Lithium Ion batteries. This means that its lifetime energy footprint is even worse than earlier models using NiMh batteries. Roughly 3 times a normal car of similar size. The extra energy invested in a Prius will not be recovered in its useful life.
- As gas prices decline the payback period will go from 50 to 75 years.
- Cold Fusion, now referred to as Low Energy Nuclear Reactions (LENR), continues to make progress. The US rejected this field as an area of legitimate research for political reasons. The entrenched Uranium industry provided financial support to the academic researchers. In the late 80s they combined to lobby congress to banish the research as witchcraft.
- In a keynote address in 1995 I noted the continuation of successful research in Japan after stumbling on a project during a Tokyo business trip.
- Check out this story on recent Japanese research:
  Dec. 7, 2012 – By Steven B. Krivit –
  Researchers from Toyota Central Research and Development Laboratories performed an independent replication of a Mitsubishi low-energy nuclear reaction transmutation experiment, according to a physicist from Mitsubishi Heavy Industries speaking at the American Nuclear Society LENR session on Nov. 14 in San Diego, Calif.
  The physicist, Yasuhiro Iwamura, told the ANS audience that the Toyota researchers confirmed that nuclear changes from one element to another took place without the use of high-energy nuclear physics. Most scientists who have not followed this field closely consider such profound claims inconceivable. Toyota used a LENR deuterium-permeation transmutation method that Iwamura invented.
  Iwamura has been working with this LENR method for 14 years. He said that one of his LENR transmutations was closely but not identically replicated by Toyota. Osaka University and Iwate University previously reported similar replications.
- Keep up on the field here: http://news.newenergytimes.net/

- The problem with LENR is still the LE part. It's low energy. Energy at low temperature (voltage, etc.) has a low potential for doing work.

Government

- Nothing to report on the fiscal cliff discussions. Not because there's nothing happening. It just isn't relevant. All proposals under discussion will damage a fragile economy in about the same amount. As noted above it's the spending that causes the damage.
- Welfare payments average per recipient now total the equivalent of $30.50 per hour based on a 40 hour week. The median income for those in the workforce is $25.65. Hard work is no longer the best way to secure the middle class.
- Another view in the chart below. A single mom earning $29,000 plus transfer payments has a higher net income than if she were earning $69,000 in a private sector job.



- The effects of Obamacare are being seen in advance of the new taxes. Two fast food stores located on opposite corners of a major intersection have begun to share their workforce. All employees now work for both companies, but only for 20 hours per week. Employment statistics from the establishment survey will report this as an increase in total jobs.

- Gun control advocates suffered another setback at the hands of Bob Costas. His halftime rant on network TV claimed that a Denver football player and his girlfriend would still be alive if there were no guns.
- His rant forced modest coverage of the real statistics: Each day there are 4,000 known cases where an armed civilian prevents a violent act from being successful. That's 10 times more than the number initially prevented by police and 50 times more than the combination of criminal and accidental gun violence.
- More guns = less gun crime. Virginia study is the most recent in a long string.
- When the UK and Australia banned guns, gun violence soared.
- There are no good stats on deterrence other than the clear correlation between state level gun ownership vs. crime stats. Crimes not committed don't get reported.
- Interviews with inmates suggest that 80% had avoided areas known to have high rates of gun ownership.
- In Oregon a mall shooter killed two but was confronted by an armed civilian. The civilian drew but held fire due to by-standers in the line of fire, but the shooter realized he was done and took his own life. The civilian was carrying the gun in violation of mall gun-free policy.
- In Connecticut a shooter invaded an elementary school and killed 26. The school was a gun-free zone. Existing law prevented the shooter form having a gun, but he had three.
- The following day in Oklahoma a conspirator was arrested before he could carry out his plan for mass murder at a (gun-free) school.
- Gun free zones are targets for deranged people. The issue of mass violence requires serious debate, but gun control is not the solution or even part of the solution. It is a contributing root cause.
- Since 1950 every one mass shooting except one (Gabby Gifford) has occurred in a gun free zone.
- It could be argued that the 1970s movement to grant civil rights to the mentally ill was the beginning of the chain. Several months earlier a CT law to force treatment of certain mental illness was defeated.

- Tax increases in France on millionaires resulted in millionaires leaving the country to the public chagrin of the Prime Minister.
- Tax increases on millionaires in the UK resulted in 70% of them leaving the country.
- Tax increases on millionaires in California is producing an exodus. State revenue has fallen to 10.8% below budget.
- The millionaire tax in Maryland resulted in a drop in revenue from millionaires.
- The "tax the rich" argument is built on the assumption that millionaires are stupid.
- Of course that assumes the objective is revenue. It increasingly looks like the goal is to exploit class envy for political gain. Revenue is irrelevant.

Climate

- The recent UN conference in Doha, Qatar has closed. The warmist movement has now become a parody of itself.
- The proceedings were disrupted when Lord Moncton of Benchley claimed a microphone and pointed out that there had been no warming in 16 years and that the best study in the field showed that warming from CO2 did not and could not happen. He was thrown out of the conference by security and his credentials confiscated. The cult has branded him a heretic for speaking truth in a venue of universal deceit.
- The delegates failed to reach agreement on another plan to follow the Kyoto agreement. The Kyoto agreement was rejected by the US Senate in a vote of 97-0. Who said the Senate only did foolish things?
- But the goal of the delegates was not to reach an agreement. It was to continue their 18 year 5-star vacation program. This show is as painful as a time share presentation.
- The table below shows the latest summary of various energy sources. The study covers only electrical generation, not the production of liquid fuels.
- Capacity factors in the DGR Alternate Energy report will be adjusted slightly bases on this update.
- Note that the focus is on economic viability. There is no evaluation of net energy output.
- None of the green energy alternates pay back the initial energy investment. *None of the green proposals is an energy source.*
- Until an energy source is shown to be a net energy producer it can never be economically viable.

Green energy has no fuel costs (see bottom five), but capital costs are extremely high

Table 1. Estimated Levelized Cost of New Generation Resources, 2017
U.S. Average Levelized Costs (2010 $/megawatthour) for Plants Entering Service in 2017

Plant type	Capacity Factor (%)	Levelized Capital Cost	Fixed OEM	Variable O&M (Including fuel)	Trasmission Investment	Total System Levelized Cost
Dispatchable Technologies						
Conventional Coal	85	65.8	4	28.6	1.2	99.6
Advanced Coal	85	75.2	6.6	29.2	1.2	112.2
Advanced Coal with CCS Cheap	85	93.3	9.3	36.8	1.2	140.7
Natural Gas-fired						
Conventional Combined Cycle	87	17.5	1.9	48	1.2	68.6
Advanced Combined Cycle	87	17.9	1.9	44.4	1.2	65.5
Advances CC with CCS	87	34.9	4	52.7	1.2	92.8
Conventional Combustion Turbine	30	46	2.7	79.9	3.6	132.0
Advanced Combustion Turbine	30	31.7	2.6	67.5	3.6	105.3
Advanced Nuclear	90	88.8	11.3	11.6	1.1	112.7
Geothermal	92	76.6	11.9	9.6	1.5	99.6
Biomass	83	56.8	13.8	48.3	1.3	120.2
Non-Dispatchable Technologies						
Wind	34	83.3	9.7	0	3.7	96.8
Wind-Offshore Expensive	27	300.6	22.4	0	7.7	330.6
Solar PV[1]	25	144.6	7.7	0	4.2	156.9
Solar Thermal	20	204.7	40.1	0	6.2	251.0
Hydro [2]	53	77.9	4	6	2.1	89.9

[1]Costs are expressed in terms of net AC power available to the grid for the installed capacity.

[2]As modeled, hydro is assumed to have seasonal storage so that it can be dispatched within a season, but overall operation is limited by resources available by site and season.

Note: These results do not include targeted tax credits such as the production or investment tax credit available for some technologies, which could significantly affect the levelized cost estimate. For example, new solar thermal and PV plants are eligible to receive a 30 percent investment tax credit on capital expenditures if placed in service before the end of 2016, and 10 percent

Source: U.S. Energy Information Administration, Annual Energy Outlook 2012, January 2012, DOE/EIA-0383(2012).

IER

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 against the idea.
    - 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

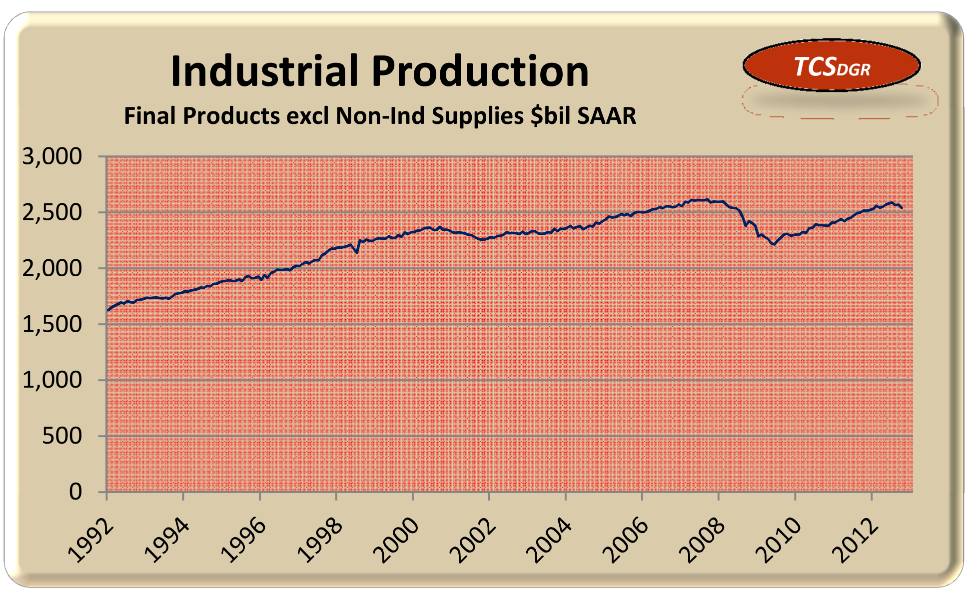
GDP revised estimate of Q3 growth rate reported at 2.7%. It was driven by government spending and inventory build. Personal consumption declined.

Gross Domestic Product				
Year	Qtr	GDP $b (SAAR)	Chg from Prior Pd	Chg from Prior Year
2008	1	14,273.9	0.1%	3.7%
2008	2	14,415.5	1.0%	3.1%
2008	3	14,395.1	-0.1%	1.9%
2008	4	14,081.7	-2.2%	-1.2%
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	14,270.3	1.3%	2.7%
2010	2	14,413.5	1.0%	4.0%
2010	3	14,576.0	1.1%	4.7%
2010	4	14,735.9	1.1%	4.6%
2011	1	14,814.9	0.5%	3.8%
2011	2	15,003.6	1.3%	4.1%
2011	3	15,163.2	1.1%	4.0%
2011	4	15,321.0	1.0%	4.0%
2012	1	15,478.3	1.0%	4.5%
2012	2	15,585.6	0.7%	3.9%
2012	3	15,797.4	1.4%	4.2%

Industrial Production (excluding industrial supplies)

Industrial production declined 1.1% in October. Largest one month drop since December 2008. The year to year comparison is now only 1% above the same month prior year. Much less than estimates of inflation.

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	2,553.3	0.4%	5.5%
2012	5	2,568.9	0.6%	5.1%
2012	6	2,580.9	0.5%	5.3%
2012	7	2,590.3	0.4%	4.7%
2012	8	2,567.8	-0.9%	2.9%
2012	9	2,568.5	0.0%	2.7%
2012	10	2,540.9	-1.1%	1.0%



Capacity Utilization:

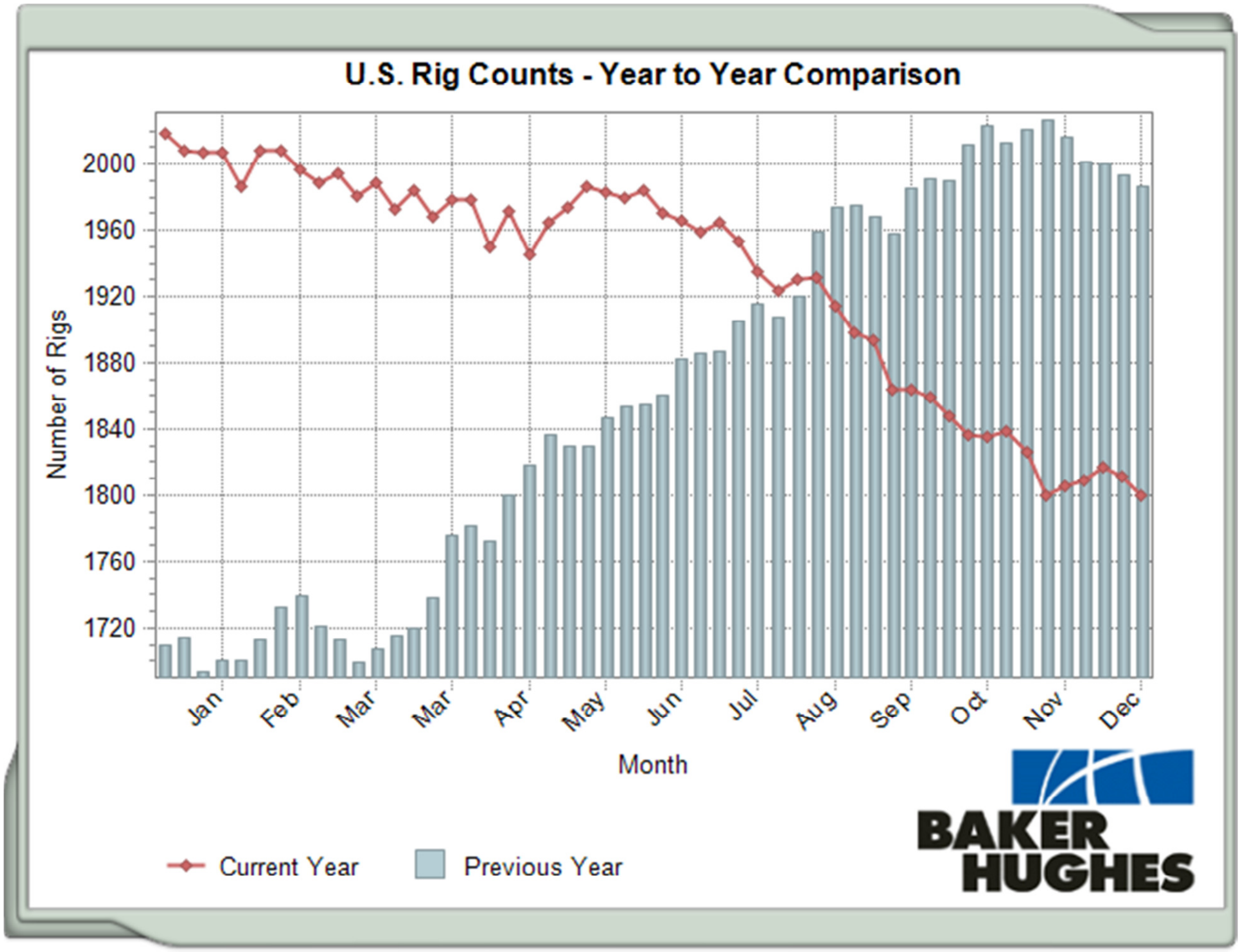
Capacity utilization (below) decreased 0.4 points. All major sectors declined in October. Machinery showed the biggest drop at 1.8 points. (see Durable Goods Sector below).The hurricane likely had some effect on autos. But other categories should not have been greatly influenced.

The Auto and Primary Metals industries haven't seen November numbers this low since the end of the bankruptcy year of 2009.

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	78.3	76.9	77.5	85.9
2012	5	78.9	77.8	77.7	75.4	76.3	85.3
2012	6	78.8	78.0	78.0	72.9	77.5	87.1
2012	7	79.2	78.2	78.1	74.7	78.8	84.0
2012	8	78.2	77.3	76.8	74.3	75.8	82.8
2012	9	78.2	77.3	76.4	70.8	74.1	82.9
2012	10	77.8	76.6	75.8	70.7	73.7	81.1

Energy:

Drilling activity continues to drift lower. The weak economic activity in North America is resulting lower demand and reduced activity across the board. Gas rigs account for 23% of the most recent week.



The weak global economy is reducing demand and keeping pressure on prices. As prices have weakened the incentive to drill is reduced. Only the low cost projects move forward. Speculative holes go back on the planning shelf.

Unlike many industries the liquid fuels industry supply chain has little inventory capacity. The connection between demand and supply decisions is pretty short.

The following energy density analysis is repeated from prior reports to address the contiuned stream of questions on the viability of various liquid fuels.

The chart below tells the story of energy concentration of various fuel sources, measured in energy per unit weight (mega-joules per kilogram) and energy per unit volume (mega-joules per liter). In the process of searching for an alternate energy source it's important to understand the handling characteristics, and these two measures provide an easy way to rank the options.

For the space shuttle the most important consideration is weight. Putting anything into orbit means fighting gravity. Hydrogen has the highest energy concentration per unit weight by far compared to any other fluid source. But it's energy per unit volume (mega-joules per liter) is terrible. To take advantage of the weight advantage they are willing to go to technical extremes (massive refrigeration) to condense the hydrogen gas to a liquid.

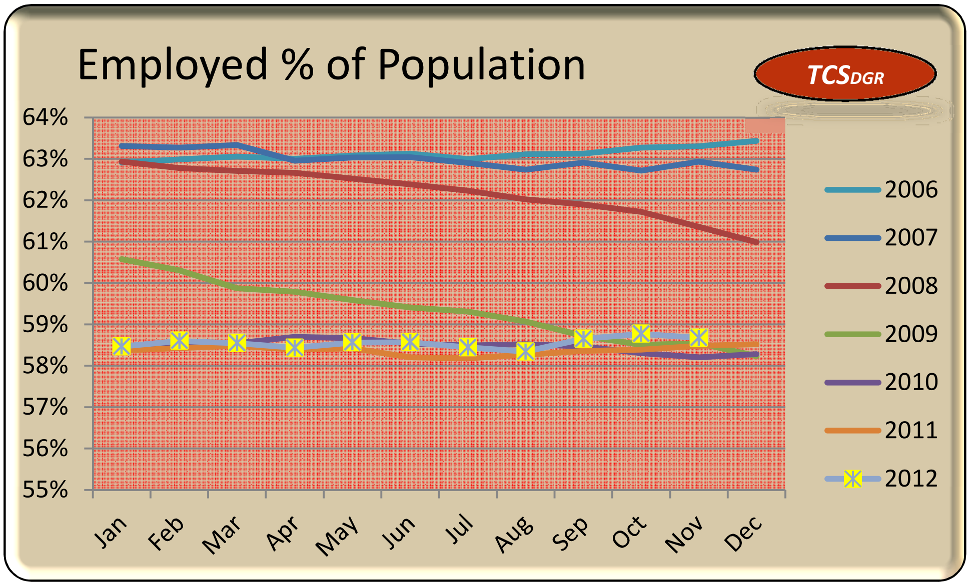
On the other hand, coal is the most concentrated per unit of volume, so it is efficient to transport it by rail.

For autos and trucks the ideal is pretty much where we are (gasoline and diesel). If you were going to invent the perfect energy source for transportation it would look like gasoline. But propane isn't too bad. A modest amount of pressure will keep it liquid and it's been a big business for 50 years. Methane is harder, but stil viable.

Batteries are not a source of energy. They replace the fuel tank as a storage device. But we included them to give you an idea of what a really bad idea an electric vehicle is.

	M-J/Kg	M-J/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
M-J/Kg = mega-Joule per kilogram		
M-J/L = mega-Joule per liter		

Employment:



The employed % of the non-institutional population decreased to 58.7% in November from 58.8% in the prior month. The real story: no real change since 2009. The supposed improvement in unemployment rate (7.9% to 7.7%) simply didn't happen. The drop-out rate accounted for all of it.

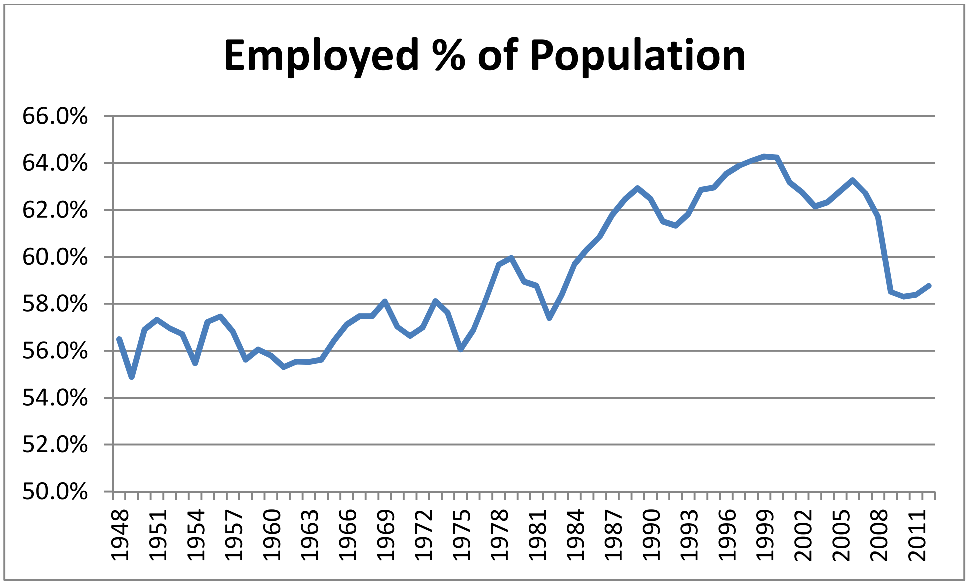
From the household survey the working age population grew by 191,000, total employed dropped by 122,000 and the number not employed grew by 313,000. This story continues to be underreported. It's an embarrassing train wreck.

Compared to January 2007 the number employed is lower by 2,800,000 while the working age population is higher by 13,500,000. Without some fundamental change in economic direction the US is headed for a situation where we cannot provide for our own population.

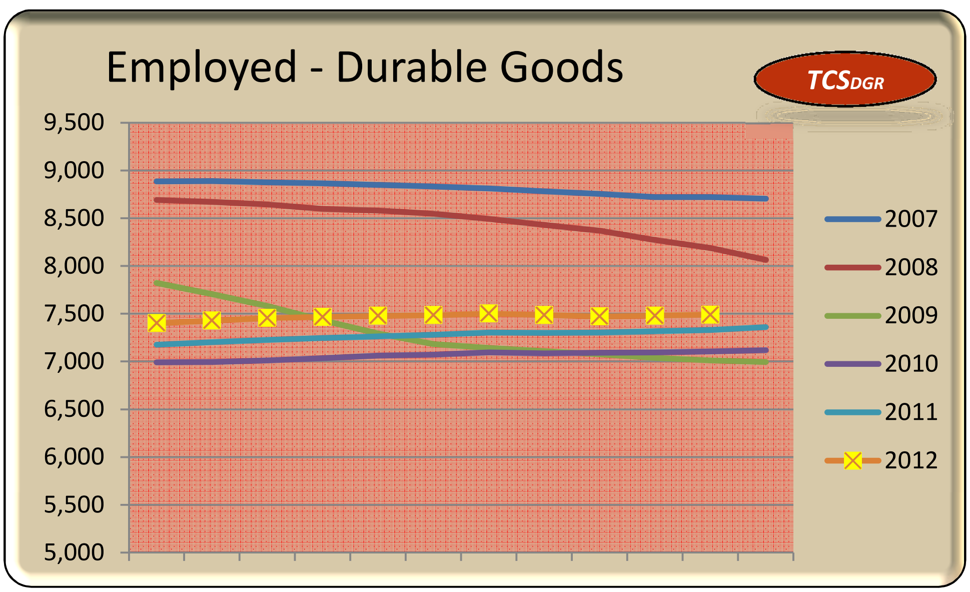
The employer survey showed 146,000 new jobs created (working age population +191,000). Similar to last month the internals were troubling. The three primary sectors showed the following:

- Private - Goods producing: -22,000
- Private - Service providing: +169,000
- Public - Government: -1,000

All industrial economies depend on manufactured goods as a transportable store of wealth. Without robust growth in this sector the economy cannot thrive and produce wealth for the middle class.



November Employed % since 1948



Durable goods employment increased 11,000 in November. The growth of employment in durable goods has been weak through the anemic recovery. Total employment in durable goods is down 1,400,000 since the peak in late 2007. Unless taxes, regulation and energy cost problems are corrected this critical sector will continue to languish. Without a successful durable goods sector no industrial economy can thrive.

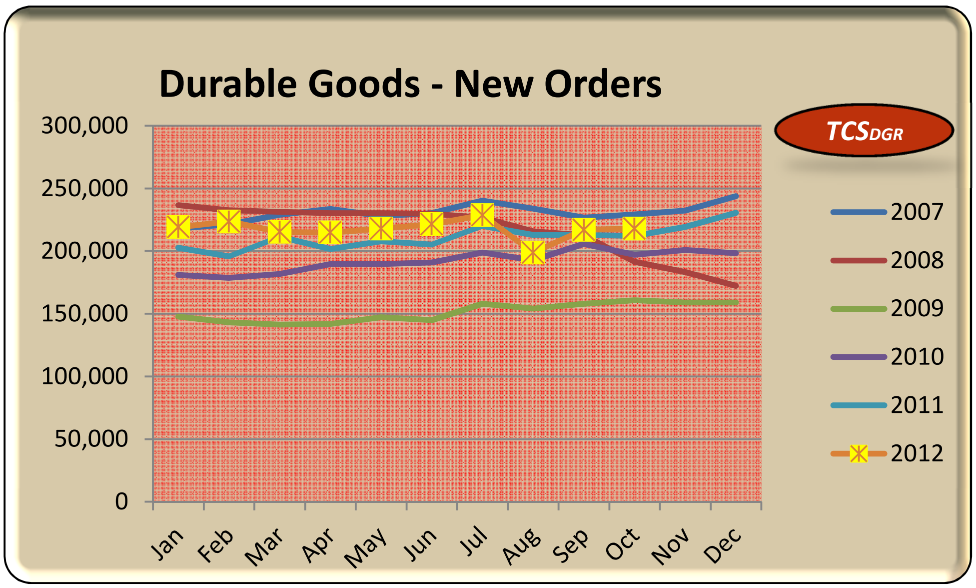
Sector Detail

The Durable Goods Sector:

New Orders: Durable new orders increased 0.5% to $217.9 billion after a downward revision in last month's numbers.

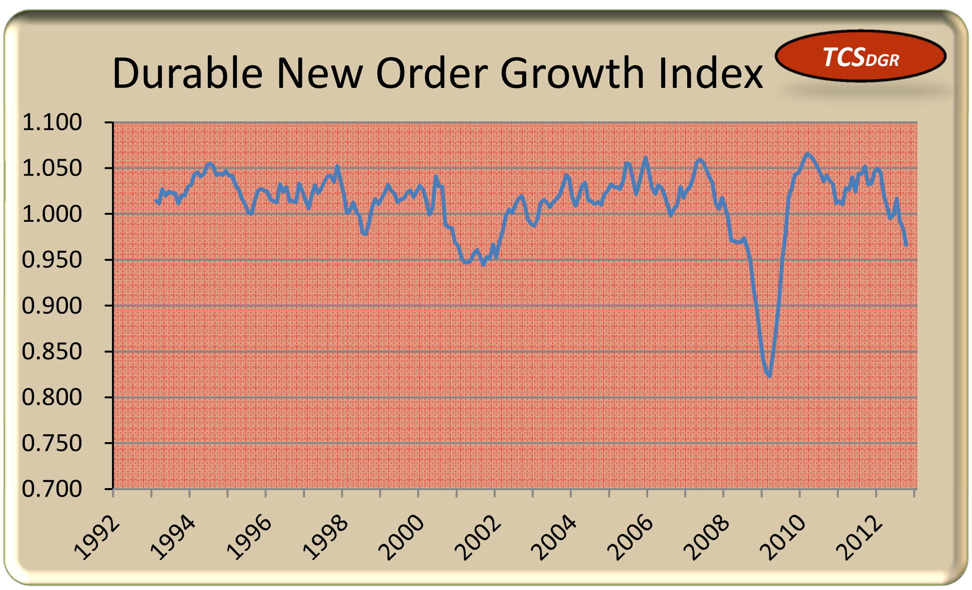
The new order growth index dropped further into contraction territory at 0.966 (see detail below). Last year's comparable number was 1.044. Inventory to shipments ratio increased to 1.68.

The Book to Bill ratio also signals contraction at 0.98. Shipments exceeded orders by $5 billion.

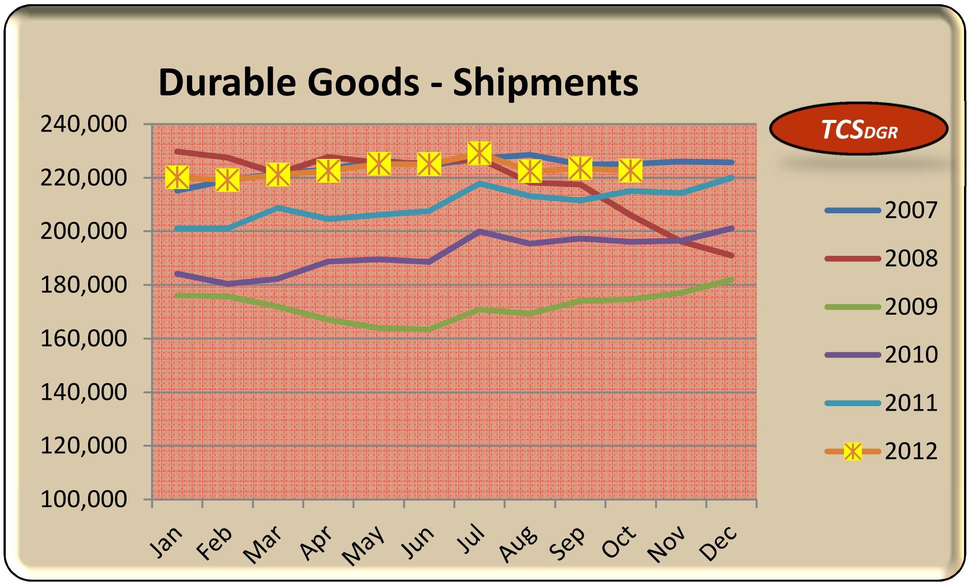


The long term chart below provides added perspective. All of the signals are projecting further pullbacks ahead.

Growth Index for new orders (3mma/12mma = slope of the order curve) continues on its downward spiral. From a peak of 1.05 in January it has dropped to 0.966 in October. It has been signaling contraction since April. Only twice before in the last 20 years have we seen levels this low.

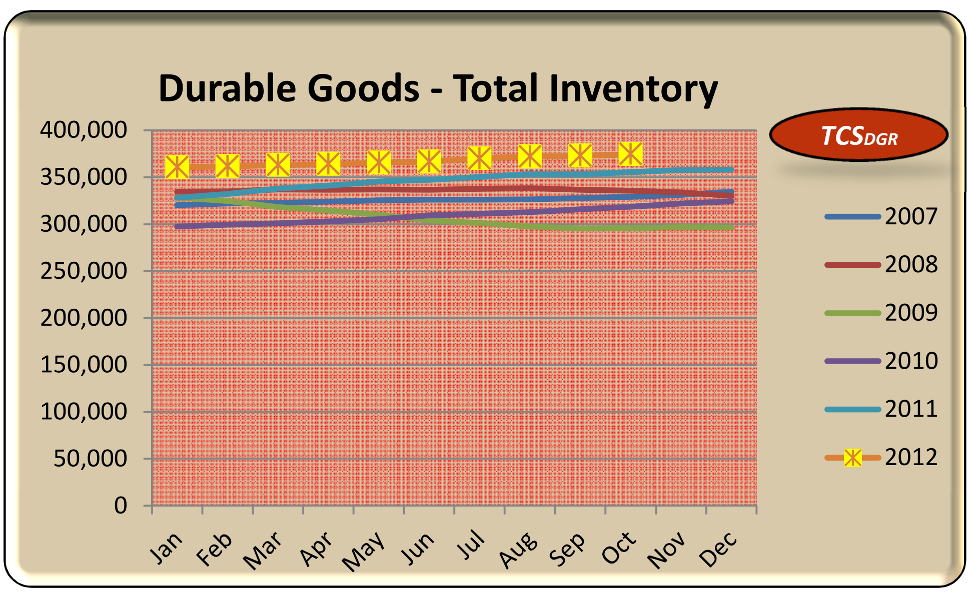


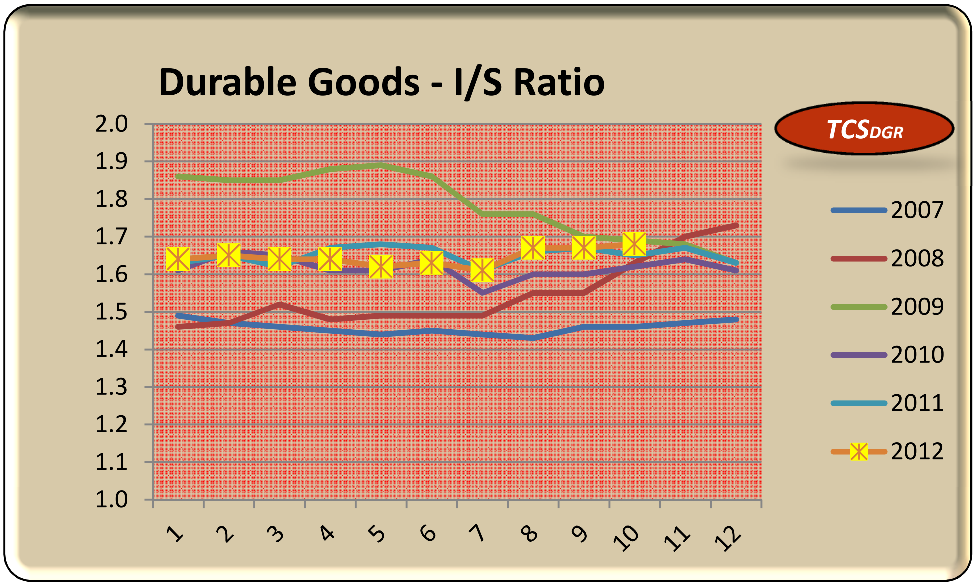
Shipments decreased 0.4% to $222.7 billion after an upward revision to last month's number

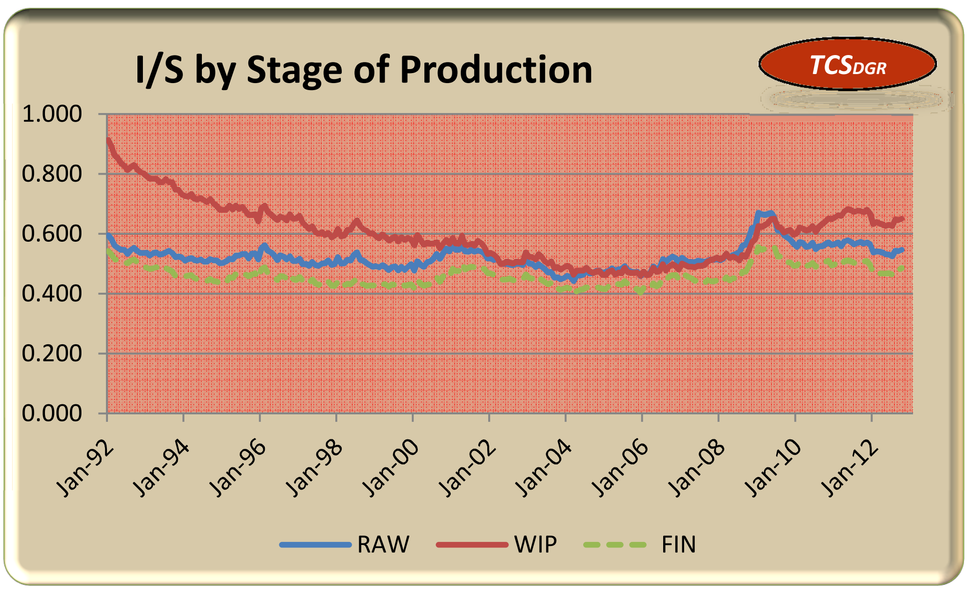


Unfilled Orders increased 0.3% to $983 billion.

Inventory: Total inventory increased by 0.4% to $374.5 billion, another record high. The relatively high inventory to shipments ratio at 1.68 will keep pressure to reduce incoming raw materials and supplies. Signs of that are reflected in the drop in capacity utilization in primary metals.



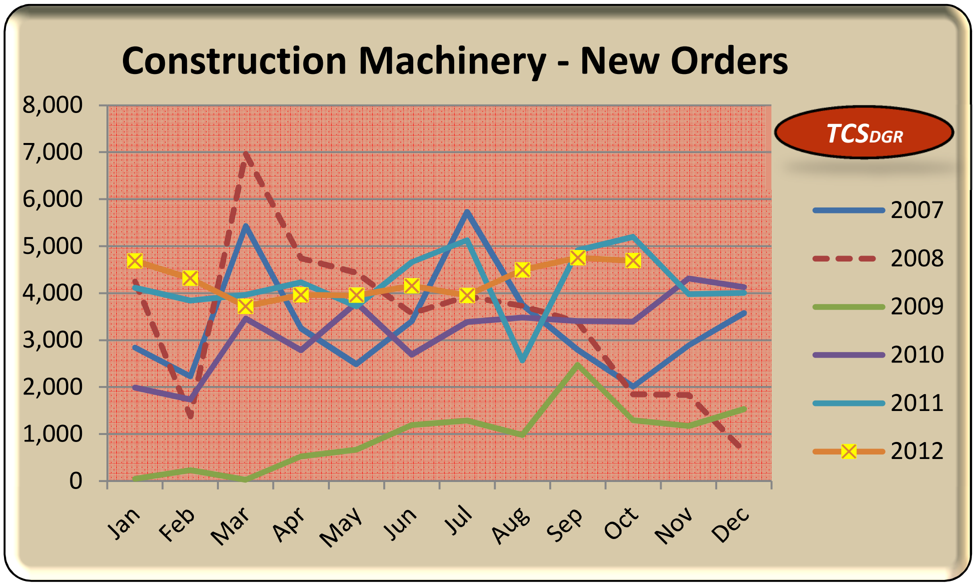




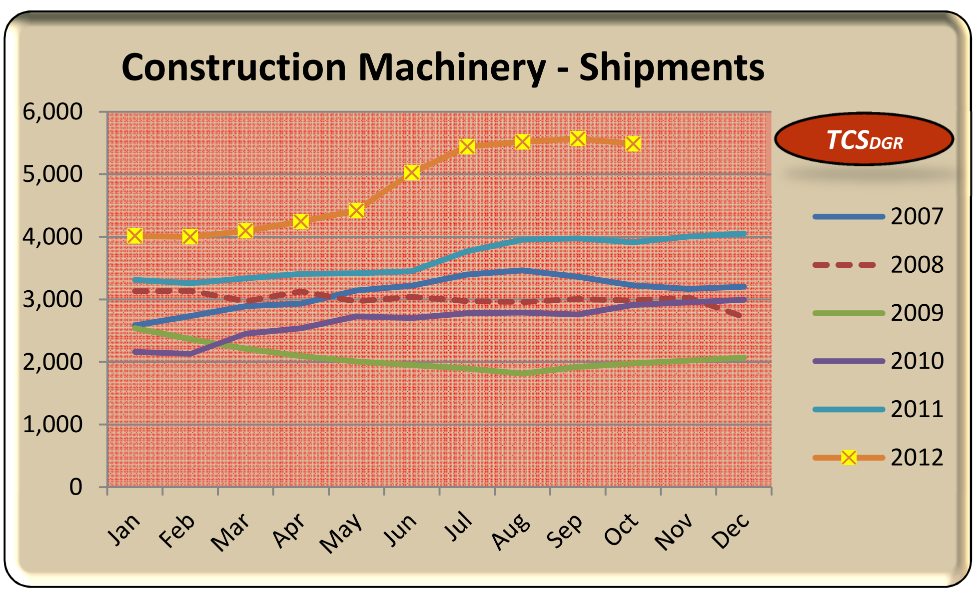
The I/S ratio by stage of production (a DGR exclusive) remains weak. The overall weakening of durable goods performance is happening gradually enough to prevent the serious control problems of 2009. But the shift to higher WIP inventory is not a positive sign.

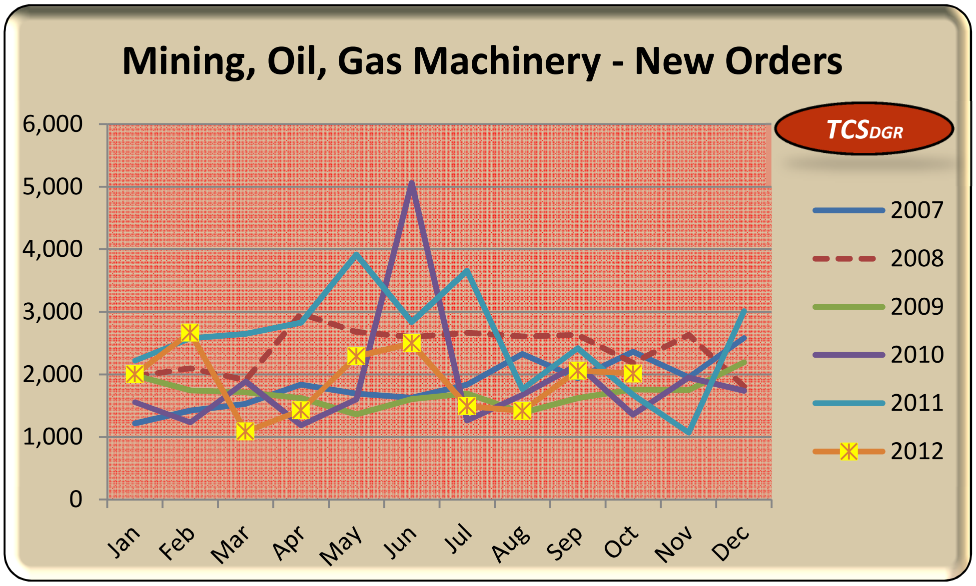
WIP goes up when order velocity goes down. Value creation depends on velocity. Systems that focus on velocity break the cycle. Systems and processes that focus solely on improved accounting degrade performance.

Durable goods sub sectors:



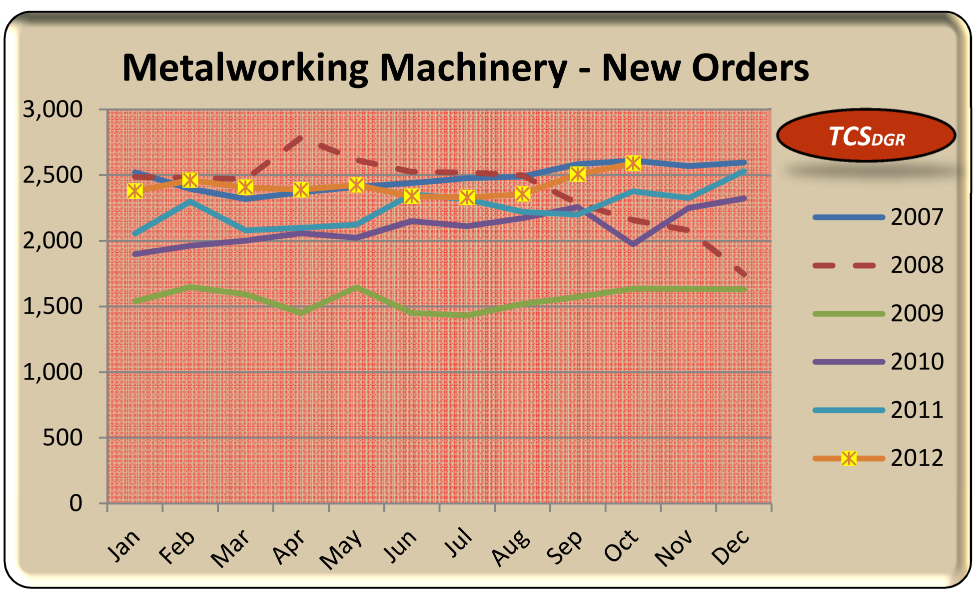
Construction machinery new orders decreased by 1.4% to $4.7 billion after a downward revision to last month's numbers. Shipments were much higher at $5.5 billion. Book to Bill ratio is badly upside down at 0.85 (long term average 1.01). After a really good run for 2011-2012, look for the industry to settle back to Earth.



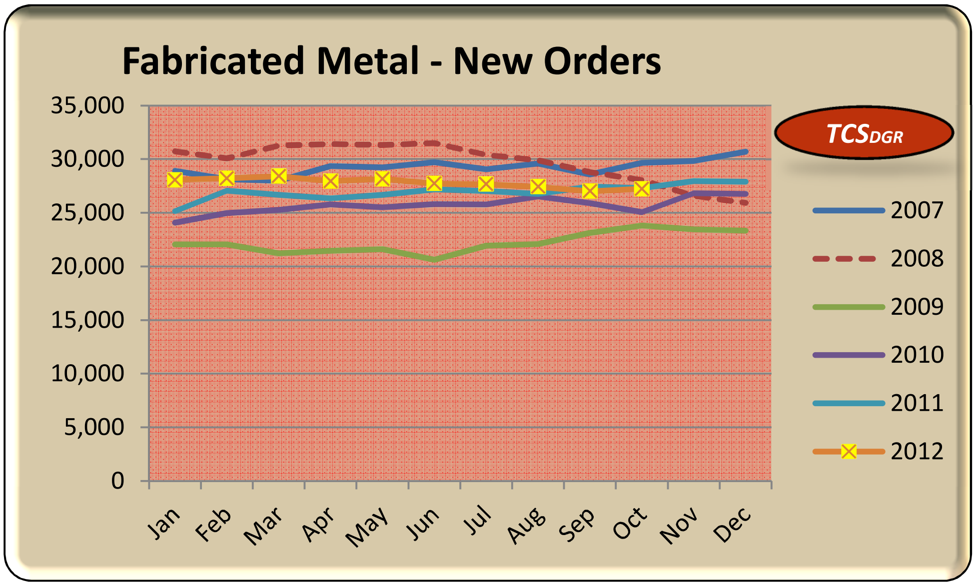


Mining, oil and gas machinery new orders decreased 2.3% to $2 billion. Book to bill ratio improved to 0.95 but remained upside down. (long term average = 1.03). The slowing economy and the shift to less capital-intensive natural gas will restrain growth for the sector.

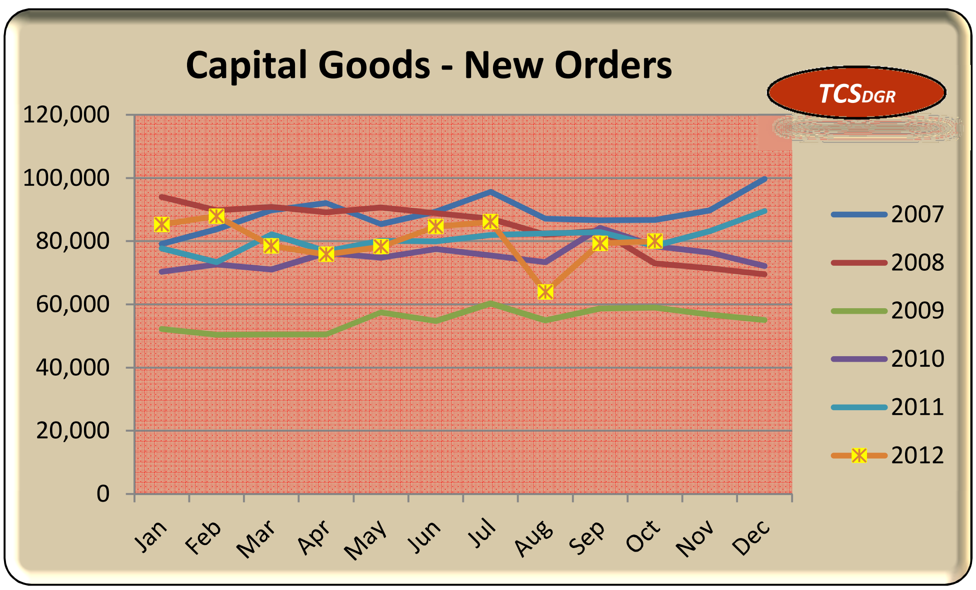
Metalworking machinery new orders increased 3.3% to $2.6 billion. Book to bill ratio held at a solid 1.07 (long term average = 1.00). Industry pattern remains solid. Orders remain strong. With strong balance sheets metal-mutilators continue to upgrade capital stock. Aggressive pricing by vendors also helps keep the run going.



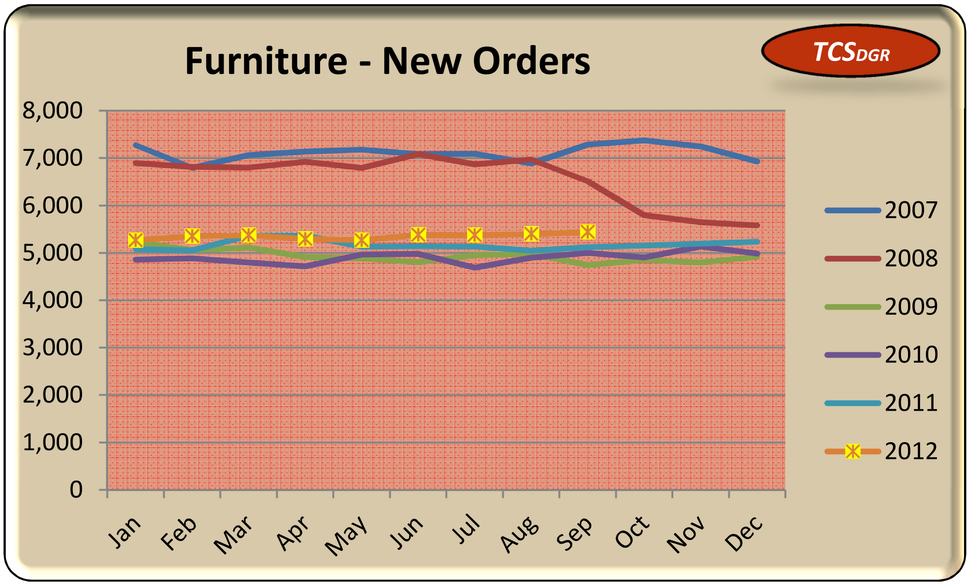
Fabricated metal new orders decreased 0.8% to $27.2 billion after a downward revision of last month's data. This follows 6 months of gradual declines for the sector. Book to bill ratio remained steady at 1.00 (long term average = 1.00).



Capital goods increased by 0.8% to $80 billion after a downward revision to last month's numbers. Book to bill ratio improved to 1.03. (long term average = 1.01).

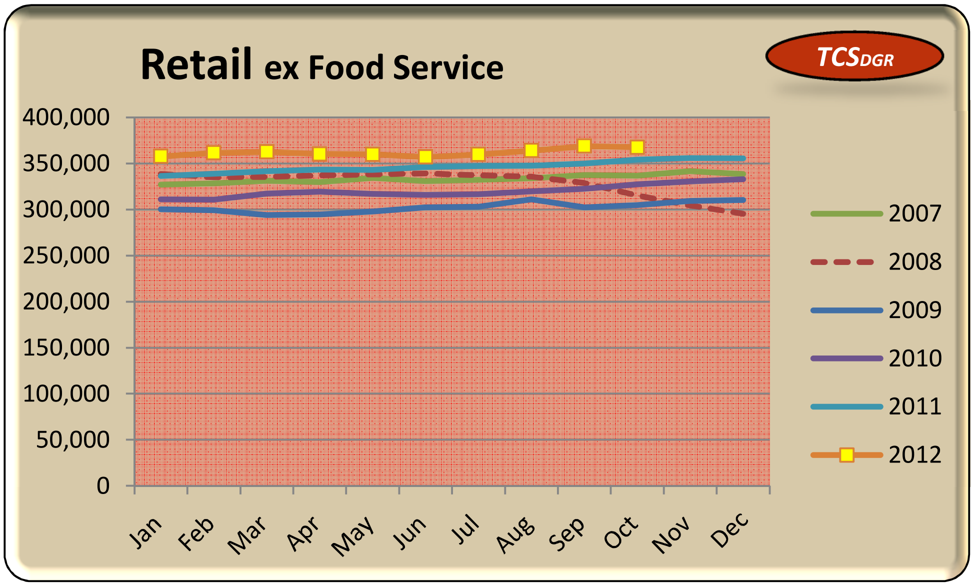


Furniture: New orders decreased 0.8% to $5.4 billion. The book to bill ratio remained steady at 1.00. Growth index remained at 1.019 (slow growth).

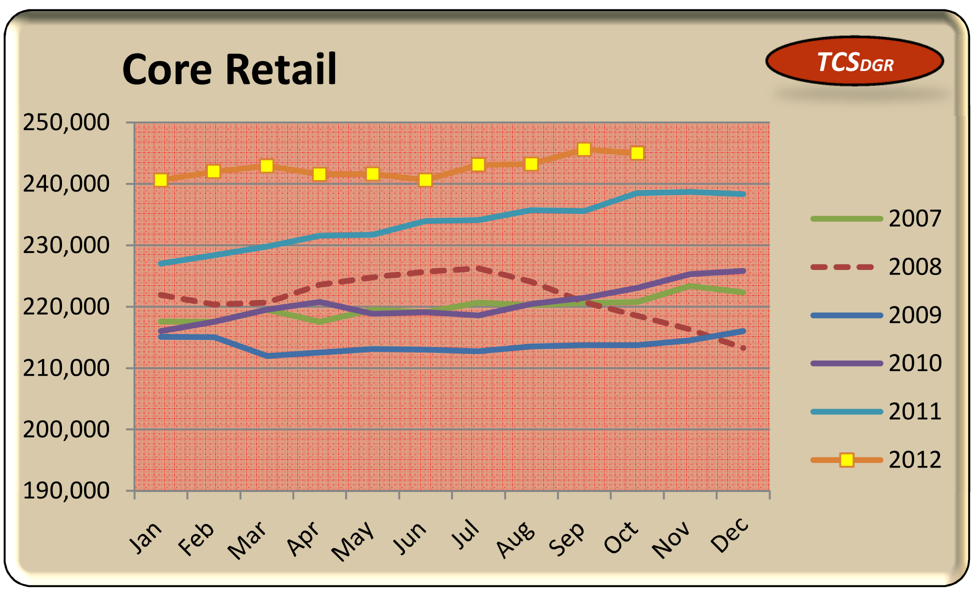

Furniture - New Orders
TCSDGR
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2007
2008
2009
2010
2011
2012

Retail Data (Advanced Release)

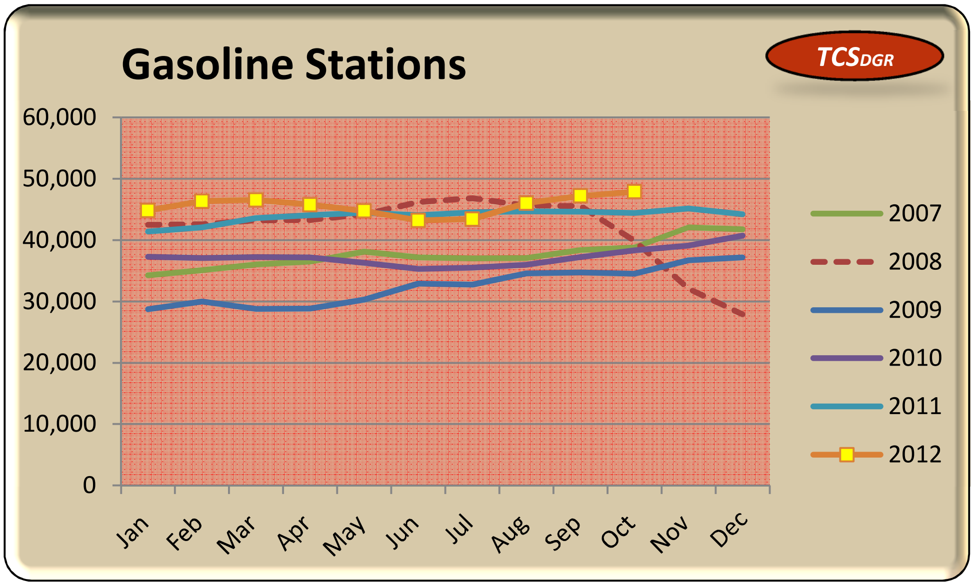
Retail Sales (excluding food service) decreased 0.3% to $367.6 billion.



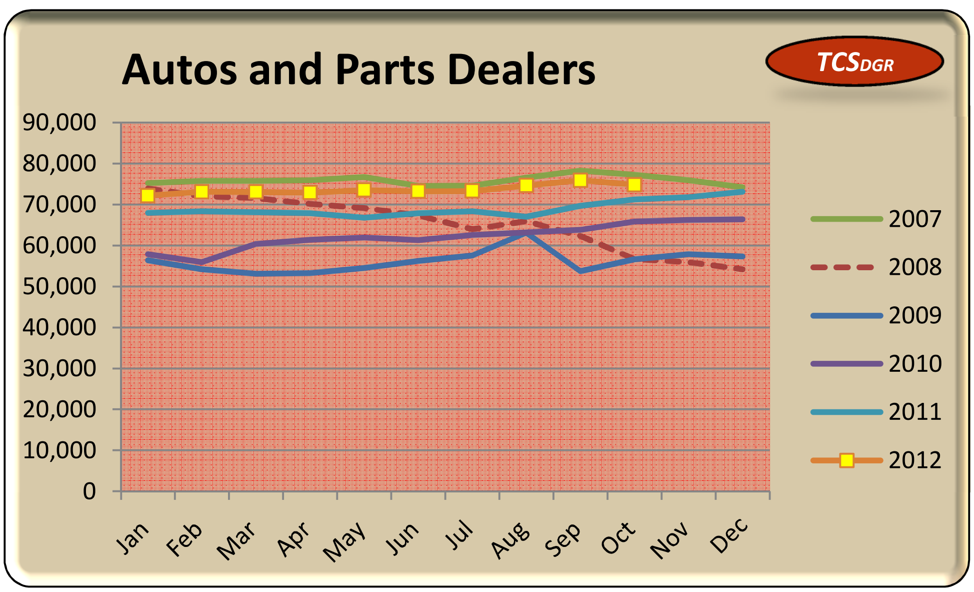
Core retail (excludes food service, gasoline, autos and parts) decreased 0.3% to $244.9 billion.



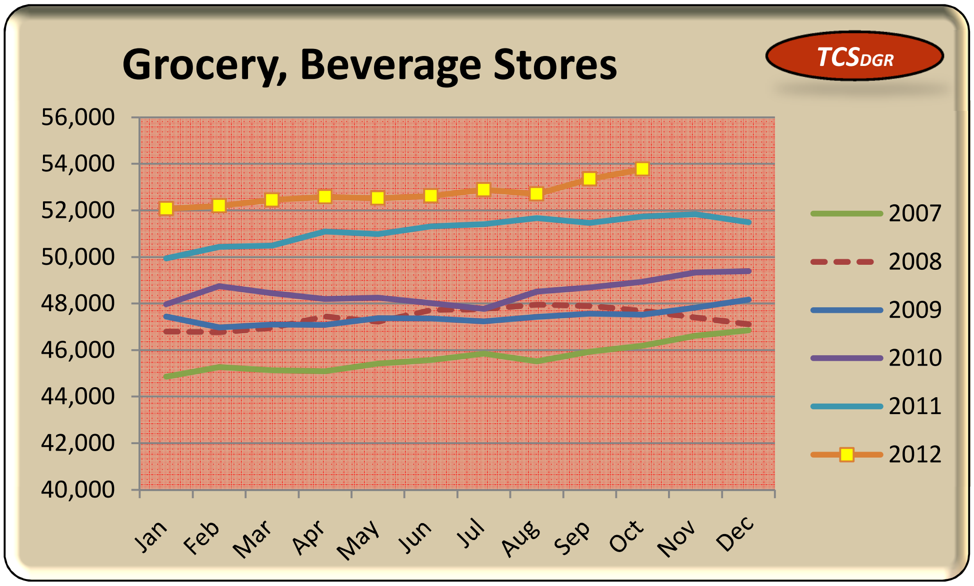
Gasoline sales increased 1.4% to $47.8 billion.



Auto sales decreased 1.5% to $74.8 billion. Capacity utilization (see Industrial Production above) show continued cutback at the auto factories. Interesting to note that factory capacity utilization showed the decline in autos two months before dealer sales. The factories must have been responding to downstream inventory positions.



Grocery and Beverage stores sales increased 0.8% to $53.8 billion. This is a rough measure of retail inflation since it tends to track with population. Anything above 0.2% is likely due to food inflation.

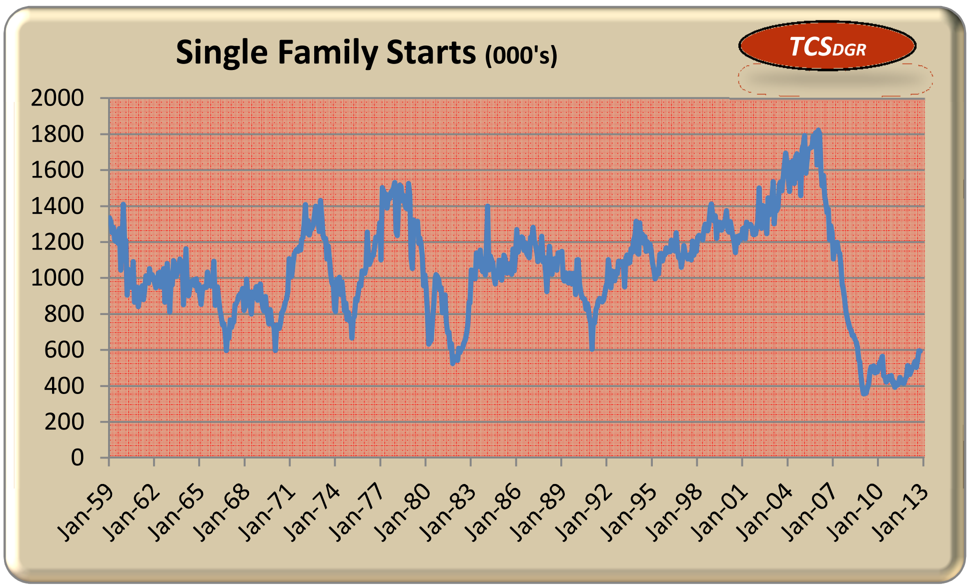

Grocery, Beverage Stores
TCSDGR
56,000
54,000
52,000
50,000
48,000
46,000
44,000
42,000
40,000
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2007
2008
2009
2010
2011
2012

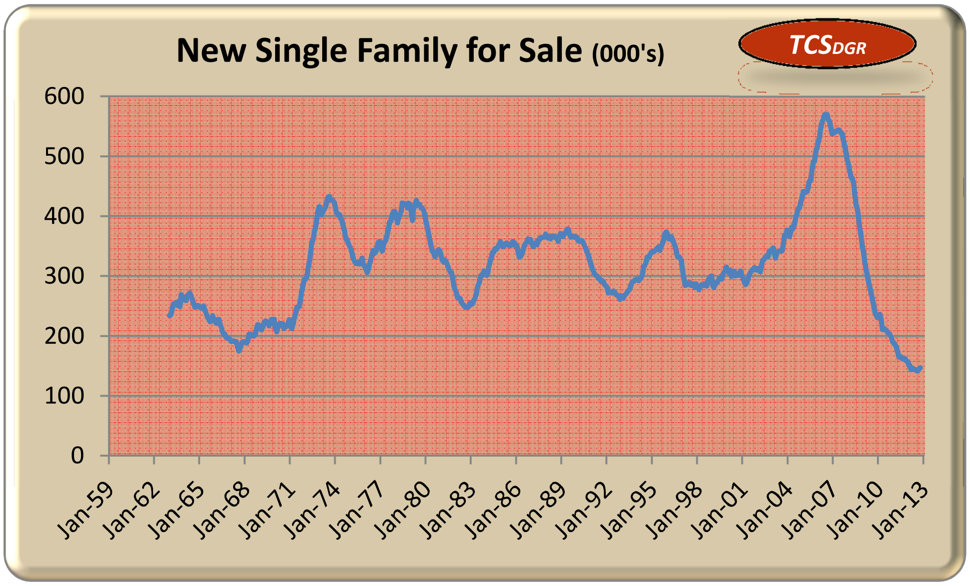
Housing:

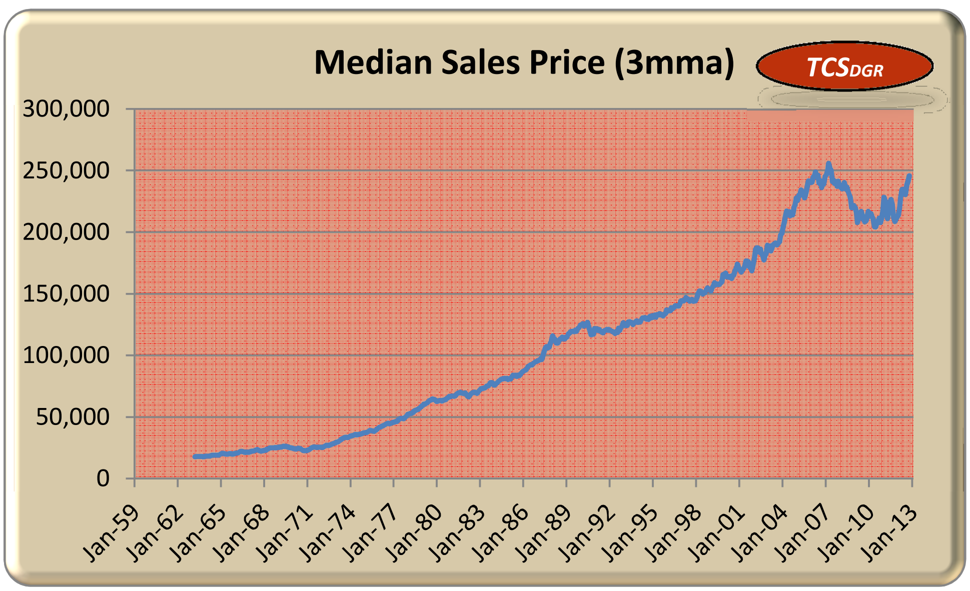
Single family starts decreased 0.2% to 594,000. New single family sales decreased 0.3% to 368,000 units. Inventory of unsold new single family homes increased slightly to 147,000.

Median sales price (3MMA) increased 18% to 245,667, returning to levels not seen since early 2007. The current value is only 4% below the peak in March of 2007. The return to normal values signals a potential beginning for a turnaround. But it won't be a return to the previous state. The employment picture will continue to depress the "recovered" state.

The last two months show declines, so the average will retreat a bit, but the weak pricing is mostly gone from the market (with local market exceptions).




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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