

## **The Durable Goods Report**

June 2013

Executive Summary of US Economic Activity



Manufacturing Data Release of 6/5/2013 (April Preliminary)

Employment Data Release of 6/7/2013 (May Preliminary)

Retail Data Release of 6/13/2013 (May Advanced)

Industrial Production Data Release of 5/16/2013 (April Advanced)

Housing Data Release of 5/19 & 26/ 2013 (April Advanced)

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

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# The Durable Goods Report – A Service of Time Compression Strategies

## By the Numbers

Durable Goods Key Measures			
	Current Mo	Prior Mo	Prior Yr
New Orders-Durable	222,714	215,267	214,666
12 month moving average	219,249		216,084
% Change from Prior Year	1.5%		
Growth Index - Durable New Orders	1.014	1.005	1.008
Unshipped Orders - Durable	995,949	993,372	984,750
% Change from Prior Year	1.1%		
Value of Shipments - Durable	227,385	228,342	222,574
Book to Bill Ratio	0.98	0.94	0.96
Inventory - Durables	377,807	376,534	363,968
% Change from Prior Year	3.8%		
Inv to shipments ratio - Durable	1.66	1.65	1.64
US Economy Key Measures			
	This period	Last period	Change
GDP 2012 Q4 (current \$)	16,010.2	15,864.1	0.9%
Industrial Production	2,565.4	2,580.8	-0.6%
Capacity Utilization %	77.8	78.3	-0.5
Manufacturing %	76.6	77.0	-0.4
Durable Goods %	75.7	76.4	-0.6
Primary Metals %	73.7	74.2	-0.5
Autos and Parts %	74.8	75.9	-1.1
Machinery %	83.9	84.0	-0.1
Durable Goods (\$Mil SA)			
New orders	222,714	215,267	3.5%
Shipments	227,385	228,342	-0.4%
Inventory	377,807	376,534	0.3%
Unshipped Orders	995,949	993,372	0.3%
Retail ex Food Service (\$Mil SA)	373,114	372,736	0.1%
Autos and Parts	71,810	70,443	1.9%
Gasoline	44,966	46,495	-3.3%
Core retail (ex auto, gas)	249,608	248,943	0.3%
Employment (000's SA)			
Civilian employed (Household Survey)	143,898	143,579	319
% of potential workforce (HS)	58.6%	58.6%	0.1%
Civilian not employed (HS)	101,465	101,596	(131)
Non-Farm (Establishment Survey)	135,637	135,462	175
Private (ES)	113,789	113,611	178
Government (fed, state, local) (ES)	21,906	21,933	(27)
Goods Producing (ES)	18,636	18,637	(1)
Manufacturing (ES)	11,967	11,975	(8)
Construction (ES)	5,804	5,797	7
Durable Goods Mfg (ES)	7,467	7,460	7
Housing (000s of Units SA)			
Total housing starts	1021	969	5.4%
Single family starts	623	652	-4.4%
Single family sales (new)	444	419	6.0%
Single family for sale (new)	153	152	0.7%

# **The Durable Goods Report – A Service of Time Compression Strategies**

## **US Economy – Quick Look:**

### **US GDP**

Q1 2013 GDP revised estimate dropped to 2.1% SAAR (3.4% Y/Y).

### **Industrial Production**

Industrial production excluding industrial supplies decreased 0.6%. Now stands 2.5% above prior year. Capacity utilization declined in every segment we track.

### **Durable Goods**

New orders for durable goods increased 3.5% to \$222.7 billion, recovering part of last month's 5.9% decline. The 12 month moving average stands 1.5% above last year.

### **Retail:**

Retail sales (ex food service) remained flat at \$373 billion. Core retail (ex food service, autos, gasoline) increased 0.4% to \$250 billion. Gasoline sales declined 3% despite large price increases.

### **Employment:**

Working-age population increased by 188,000.

Household survey shows: Employed: up 319,000. Not employed: down 131,000. 58.6% of working age population employed (unchanged). Temporary workers accounted for much of the increase.

Establishment survey shows: 175,000 jobs added. Durable goods employment increased 7,000.

### **Housing:**

Total starts: -16.5% to 853,000 SAAR (so much for the magic million last month). Single family starts: -2.1 to 610,000. Single family sales: +2.3% to 454,000. Median value: increases to \$255,100 (3mma).

## Random Thoughts, Stray Data and Rants:

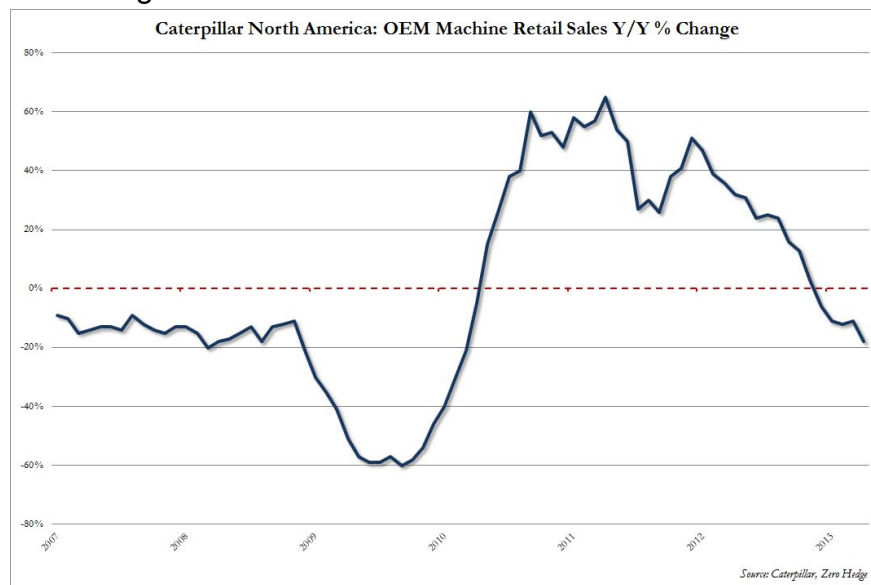
### Economy

- Youth unemployment in Greece – 60%.
- IMF admits that Spain is bankrupt.
- Chinese reporting export growth at 1% compared to a typical 12-18%. The authorities have started to crack down on “exuberant reporting.”
- Best way to see real economic activity in China is power consumption shown below.

### China: Power consumption growth



- Cat is a good bell-weather for the US industrial economy. Their North America retail sales now negative Y/Y.



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- Since 2000 the global population in poverty has dropped from 2 billion to 1 billion. Three things are responsible: 1) the spread of free markets, 2) cheap hydrocarbon energy, and 3) plummeting food cost. The last point is partly supported by the higher CO2 concentrations that resulted in a 20% increase in crop yields.
- But the chatter in most world capitals is still about how to 1) raise taxes 2) restrict hydrocarbon fuels via regulation and carbon taxes, and 3) regulate genetically modified food that is at the heart of the food production revolution.

**Energy:** *this critical commodity drives much of the cost of durable goods. More importantly it is a key driver of wealth, surplus wealth and demand. Used as a labor multiplier it generates wealth and improves living standards.*

- We are awash in oil, so why is gasoline so expensive?
  - o First there are once again maintenance problems at refineries. We need added refinery capacity but politics blocks site selection process for decades.
  - o Second there is an artificial barrier to the free function of markets. OPEC countries have dramatically increased spending. They are reluctant to allow prices to drop and restrict supply to get it to happen. But they are slowly losing control of the global market supply.
- The energy market is a global market, so becoming self-sufficient in North America is not enough. The OPEC cartel can reduce output to keep prices up, but at some point their total revenue begins to decline. At that point the OPEC countries are in big trouble.
- The biggest risk is what happens to political stability in the Middle East under those conditions. It may be difficult to visualize a more unstable place than today. But it is almost assured.
- There is still no “alternate” or “renewable” source of energy. There are only three net producers:
  - o Hydroelectric power generation
  - o Hydrocarbon combustion (wood, coal, oil, gas)
  - o Nuclear fission

**Government:** *“Government is the great fiction through which everybody endeavors to live at the expense of everybody else.” F. Bastiat.*

- Affordable Care Act subsidy: A family of 8 would qualify if their income is below \$158,000. That’s 400% of the poverty level income.

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- “A Socialist State once thoroughly completed in all its details and its aspects—and that is what I am speaking of—could not afford to suffer opposition. . . Socialism is, in its essence, an attack not only upon British enterprise, but upon the right of the ordinary man or woman to breathe freely without having a harsh, clumsy, tyrannical hand clapped across their mouths and nostrils. . . Have we not heard Mr Herbert Morrison descant upon his plans to curtail Parliamentary procedure and pass laws simply by resolution of broad principle in the House of Commons, afterward to be left by Parliament to the executive and to the bureaucrats to elaborate and enforce by departmental regulations?” . . . Winston Churchill, June 1945 election campaign that he lost in a landslide. Read more at the link. <http://www.powerlineblog.com/archives/2013/05/the-weekly-winston-irs-scandal-edition.php>
- Adam Smith, author of “The Wealth of Nations”, 1776: “The statesman who should attempt to direct private people in what manner they ought to employ their capitals, would ... assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.”
- The Senate held hearings where Apple was called in to explain their [completely legal] moves to avoid paying taxes in the US. Last year they paid \$6 billion. This year estimated at \$7 billion. But Sen. Levin ranted that no company had the right to decide how much tax they would pay.
  - o Really? So is everyone now a slave to their government?
- Paraphrase of the engineer’s standard response to impossible management demands: “There are three variables – cost, scope and schedule. You get to pick two. I get to vote last.”
  - o Congress is free to pass any tax law they want.
  - o No company is required to pay that tax as long as there is another country that more highly values their jobs.
- Irish Deputy PM Gilmore says he’s sorry he’s not sorry that Ireland’s 12.5% corporate tax rate is more competitive than most other nations. Almost 2/3 lower than the US.
- Reminds us of the response of Vaclav Havel, then president of the Czech Republic when asked what their capital gains tax rate was: he replied “We’re not stupid. It’s zero.”

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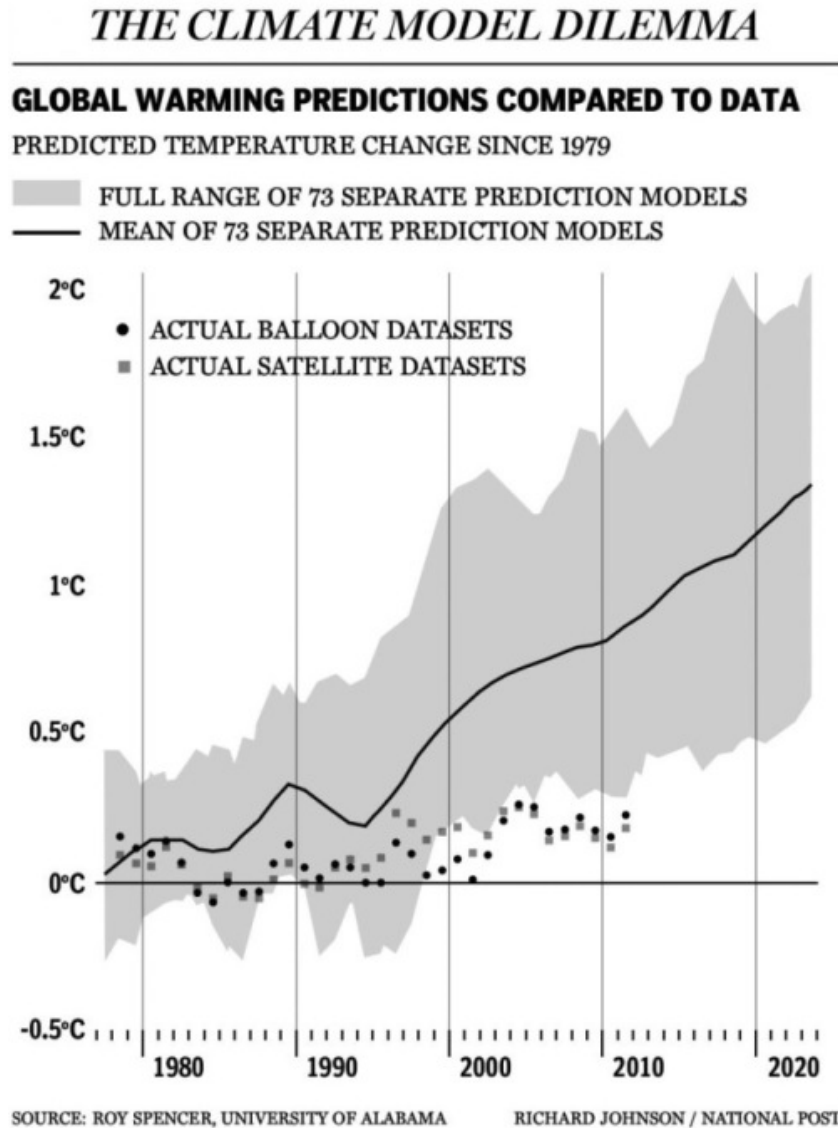
- Sen. Durbin says “hate speech” should not be covered by the first amendment. Republicans have been feeling left out in the war on reality. Sen. Lindsey Graham is working to get them back in contention. He questions whether bloggers are covered by the first amendment.
- Here’s a news flash:
  - o Free speech is not granted by the first amendment or by any law passed by Congress. We owned that right before the constitution. The first amendment says that Congress can’t infringe the right we already own.
  - o “Hate speech” is the only speech protected by the first amendment. Friendly speech has no need of protection.
  - o Any restriction of “hate speech” eliminates free speech. It puts your right to speak in the hands of the other party who can shut you up if they decide to take offense.
- So far it’s not working so well: An 8<sup>th</sup> grader is being prosecuted because he refused to remove his NRA tee shirt. Could get \$500 fine and a year in prison. Charge appears to be the inconvenience to a police officer when he insisted on his constitutional rights.

**Climate & Environment:** *The scare topic du jour (actually, of the last 24 years) is used to justify higher taxes and more regulation.*

- Global warming causes more rain, less rain, extreme rain, drought. Is there anything it can’t do?
- Dr. Roy Spencer offers a challenge to both warmists and skeptics of CO2 induced greenhouse effects. He presents an energy balance model and tells everyone else to “put up or shut up.” Offer your own model using real data. Outputs from computer models doesn’t qualify as data.
- No statistically detectable change in temperature for 17 years 4 months.
  - o There is now grudging admission from the warmists that global warming has “paused.”
  - o There’s another interpretation. We are at the peak of a long term temperature cycle that is in the process of reversing direction. If true we might be headed for another Little Ice Age similar to what drove the Vikings out of Greenland.
- Polar bears are threatened...by the 60 year explosion in polar bear population. Up 500% since 1950.

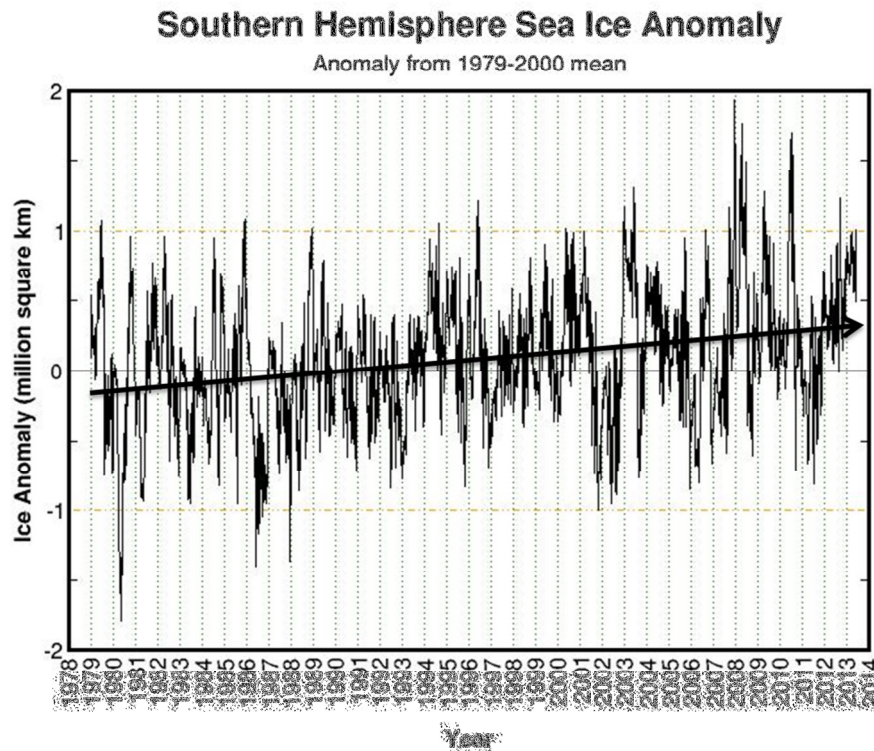
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- “Sen. Sheldon Whitehouse (D-R.I.) said Tuesday those who deny carbon dioxide emissions contribute to climate change are “one step short of insane.”
  - o Sign me up.
- Following chart is from Dr. Roy Spencer, University of Alabama.



- German scientists are headed to the Antarctic to find out why ice is expanding, in blatant defiance of the UN declarations. Expect a strong letter to decry this unauthorized practice.





## **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.
  - “We’re accumulating phone records, not collecting them”: NSA and other bureaucrats claim they compile the records but don’t look at them. Collection only occurs when they look. Really?
  - “Common sense gun-control”: Today it means “Disarm the victims.” If you need to point out that your proposal is “common sense” it probably isn’t.
  - “...post- industrial economy”: Means that math and science was too hard and my self-esteem coach told me that soon no one would need them. Sorry, your self-esteem coach was happy-talking you. There’s no such thing as the “Post-industrial economy.” Only failed economies.
  - “Obstructionist” is anyone who refuses to cave in and do it my way.
  - “Fair and Balanced”: means talking heads concurrently reciting opposing talking points no matter how unbalanced. (thanks to Rollie in Austin)
  - “Security”: now means the absence of civil rights (thanks to Rollie in Austin).
  - “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.

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- “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.

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## US GDP

GDP estimate for Q1 2013 was reported at 2.1% (chained \$). Based on current \$ it comes in at 3.4% above prior year same period. Pretty weak performance, overall.

Interesting milestone. First time above \$16 trillion.

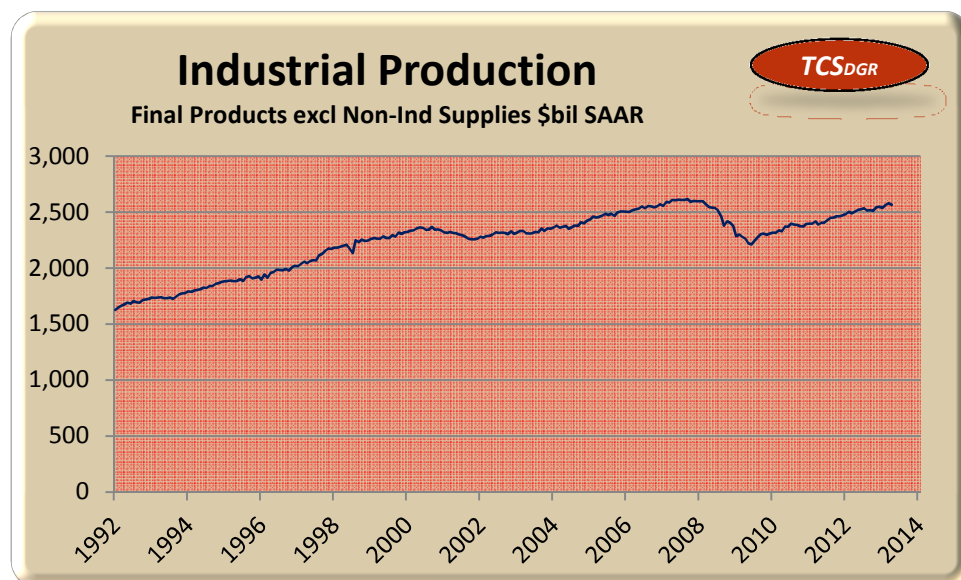
Gross Domestic Product				
Year	Qtr	GDP \$b (SAAR)	Chg from Prior Pd	Chg from Prior Year
2008	1	14,273.9	0.1%	3.7%
2008	2	14,415.5	1.0%	3.1%
2008	3	14,395.1	-0.1%	1.9%
2008	4	14,081.7	-2.2%	-1.2%
2009	1	13,893.7	-1.3%	-2.7%
2009	2	13,854.1	-0.3%	-3.9%
2009	3	13,920.5	0.5%	-3.3%
2009	4	14,087.4	1.2%	0.0%
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	15,811.0	1.4%	4.3%
2012	4	15,864.1	0.3%	3.5%
2013	1	16,010.2	0.9%	3.4%

## Industrial Production (excluding industrial supplies)

Industrial production decreased 0.6% in April. The year to year comparison is now 2.5% above the same month prior year. A reversal from the generally solid performance of the prior 6 months. Note that this measure excludes direct energy sales, which have been increasing. However energy costs are accumulated through the entire supply chain as the higher costs are passed on. This suggests the physical performance is lower than reported.

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Industrial Production - Final products \$bil SAAR				
Year	Mo	Ind Prod - Value of Prod	Chg from Prior Pd	Chg from Prior Year
2011	1	2,396.6	0.1%	3.3%
2011	2	2,399.0	0.1%	3.7%
2011	3	2,416.4	0.7%	3.4%
2011	4	2,387.9	-1.2%	2.5%
2011	5	2,405.3	0.7%	1.4%
2011	6	2,405.2	0.0%	1.5%
2011	7	2,427.9	0.9%	1.2%
2011	8	2,447.9	0.8%	2.5%
2011	9	2,452.1	0.2%	2.8%
2011	10	2,463.1	0.4%	3.7%
2011	11	2,462.6	0.0%	3.9%
2011	12	2,473.3	0.4%	3.3%
2012	1	2,483.6	0.4%	3.6%
2012	2	2,502.3	0.8%	4.3%
2012	3	2,488.1	-0.6%	3.0%
2012	4	2,502.9	0.6%	4.8%
2012	5	2,521.5	0.7%	4.8%
2012	6	2,527.6	0.2%	5.1%
2012	7	2,533.8	0.2%	4.4%
2012	8	2,516.1	-0.7%	2.8%
2012	9	2,518.8	0.1%	2.7%
2012	10	2,510.8	-0.3%	1.9%
2012	11	2,544.4	1.3%	3.3%
2012	12	2,548.1	0.1%	3.0%
2013	1	2,539.0	-0.4%	2.2%
2013	2	2,563.7	1.0%	2.5%
2013	3	2,580.8	0.7%	3.7%
2013	4	2,565.4	-0.6%	2.5%



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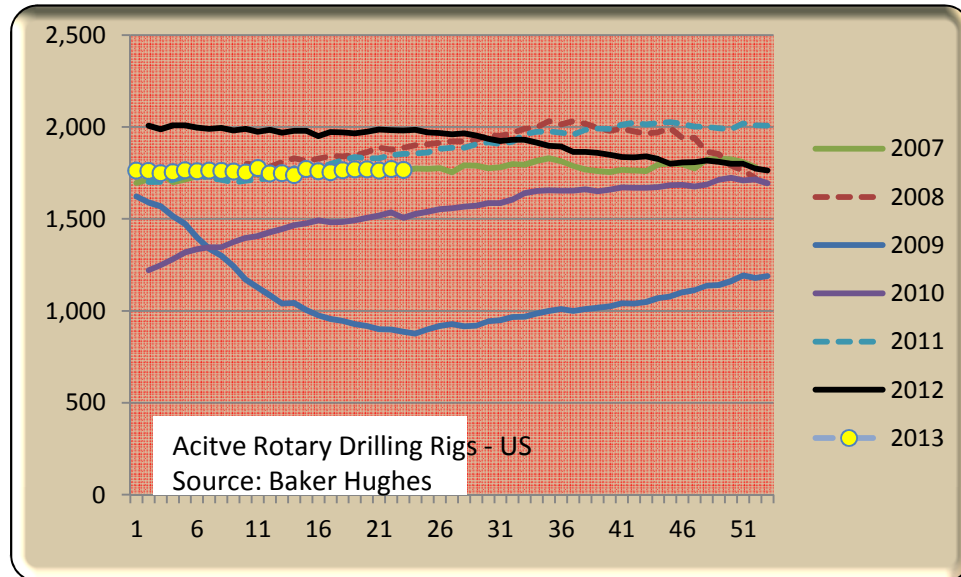
## Capacity Utilization:

Capacity utilization decreased 0.5 points. All major sectors declined. Primary metals was off 0.5 points (off 3.7 points since December); Manufacturing off 0.4; Durable off 0.7; Autos off 1.1; Machinery off 0.1.

Capacity Utilization %							
Year	Month	Ind Prod	Mfg	Durable	Primary Metals	Auto	Mach-inery
2011	1	76.1	73.8	71.6	72.8	61.0	78.8
2011	2	75.7	73.8	71.9	72.3	63.3	79.0
2011	3	76.5	74.3	72.2	73.7	65.7	78.5
2011	4	76.0	73.7	71.2	73.0	60.9	77.4
2011	5	76.1	73.9	71.7	72.7	61.9	78.2
2011	6	76.2	73.9	71.6	72.7	61.7	78.8
2011	7	76.5	74.4	72.0	73.0	63.5	79.3
2011	8	76.8	74.5	72.4	73.2	65.2	79.1
2011	9	76.7	74.7	72.6	74.1	65.5	79.4
2011	10	77.0	75.1	73.1	75.1	67.7	79.7
2011	11	77.0	74.9	73.2	75.9	66.6	80.1
2011	12	77.3	75.6	74.0	76.6	69.4	81.7
2012	1	77.7	76.3	74.9	76.8	72.2	83.0
2012	2	77.9	76.7	75.4	77.4	71.9	83.6
2012	3	77.3	76.2	75.2	74.8	72.4	84.0
2012	4	77.7	76.6	75.7	76.3	74.0	83.9
2012	5	77.8	76.3	75.4	74.9	73.4	83.3
2012	6	77.7	76.5	75.8	73.5	74.4	85.0
2012	7	77.9	76.6	75.9	75.4	75.3	82.3
2012	8	77.2	76.0	75.0	75.1	72.5	81.4
2012	9	77.2	75.9	74.7	71.7	71.2	81.6
2012	10	77.0	75.5	74.5	72.6	71.1	79.6
2012	11	77.9	76.4	75.8	74.6	74.6	80.2
2012	12	77.8	77.0	76.4	77.4	76.3	80.4
2013	1	77.6	76.8	75.8	75.6	73.1	83.0
2013	2	78.2	77.3	76.7	75.9	74.3	83.6
2013	3	78.3	77.0	76.4	74.2	75.9	84.0
2013	4	77.8	76.6	75.7	73.7	74.8	83.9
Year	Month	Ind Prod	Mfg	Durable	Primary Metals	Auto	Mach-inery

## Energy:

Drilling activity remains stable at year end levels. Rig counts dropped 13% during CY 2012 to the current level of 1,765.



## Energy Density measured by Heat of Combustion

*The following energy density analysis is repeated from prior reports to address the continued stream of questions on the viability of various liquid fuels. Before you write about your latest wonder-scheme, check out these numbers.*

The table 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 picking a fight with gravity. Hydrogen has the highest energy concentration per unit weight by far compared to any other fluid source. But its energy per unit volume (mega-joules per liter) is terrible. To take advantage of the low weight engineers are willing to go to technical extremes (high pressure, 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 by rail.

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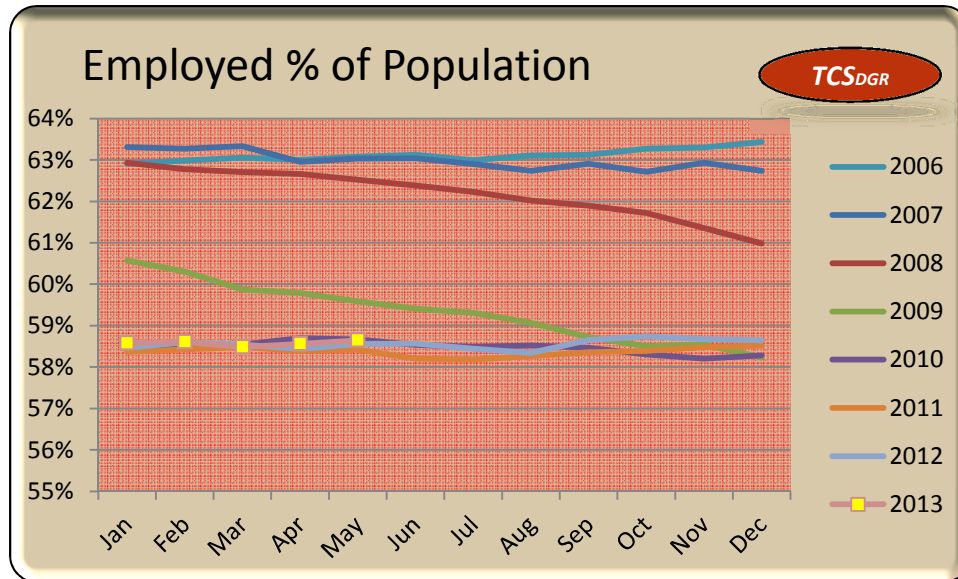
For autos and trucks the ideal is pretty much where we ended up a century ago (gasoline and diesel). If you were going to invent the perfect energy source for transportation it would look like gasoline. But propane isn't too bad. A modest amount of pressure will keep it liquid and it's been a big business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

Measurements are in mega-Joules per kilogram (energy per unit weight) and mega-Joules per liter (energy per unit volume).

Heat of Combustion		
	MJ/KG	MJ/L
Hydrogen	143	0.01
Methane, CH <sub>4</sub>	56	0.04
Ethane, C <sub>2</sub> H <sub>6</sub>	52	29.7
Propane C <sub>3</sub> H <sub>8</sub>	50	29.2
Butane C <sub>4</sub> H <sub>10</sub>	50	30.0
Gasoline	47	34.0
100LL AvGas	47	34.0
Jet fuel - Kerosene	47	38.0
Diesel	46	39.0
Paraffin Wax	46	
Kerosene	46	36.0
Pentane	45	28.2
Body fat metabolism	38	35.0
Gasahol e85	33	26.0
Coal, Anthracite	32	72.0
Ethanol	31	24.0
Wood	22	
Methanol	20	18.0
Carb metabolism	17	26.0
Coal, Lignite	15	
Peat - damp	6	
Battery Lithium Ion	0.72	2.20
Battery, NiMH	0.25	0.50
Battery, NiCd	0.14	1.08
Battery, Lead Acid	0.14	0.36

## Employment:



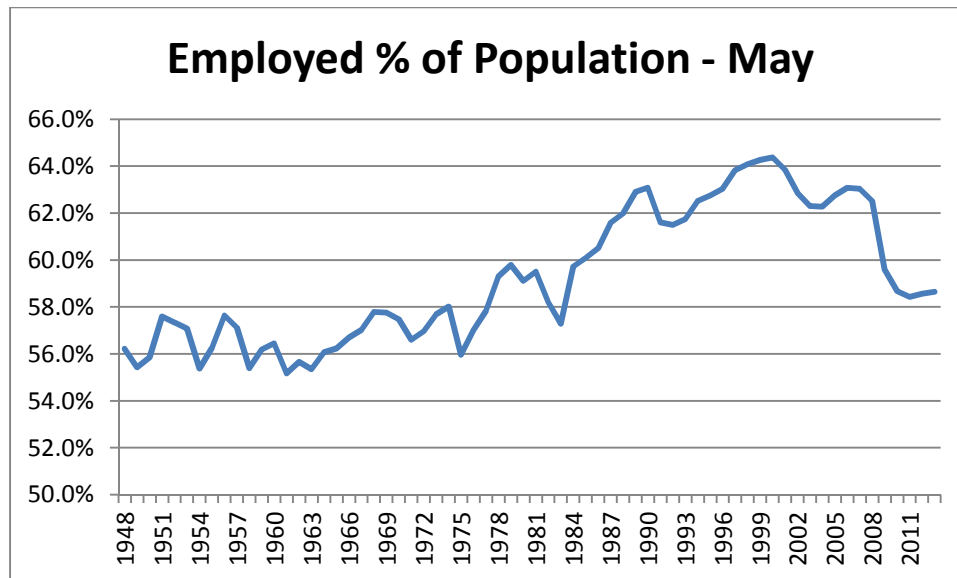
The May employment report was unremarkable. Once again, nothing happened. The employed % of the non-institutional population was at 58.6% in April. This key measure has been stagnant since the beginning of the recession in late 2008. The now-irrelevant unemployment rate measure increased to 7.6% from 7.5%, after the reverse maneuver in the prior month.

The reason unemployment is a poor measure is that it tries to determine intent. You are unemployed if you are out of work, want to work, and looked for work. These are volatile distinctions. Further the economy doesn't care about your intent. Only whether you made a contribution or not. To avoid this issue we track total employed and total not employed. The former category supports the latter.

The number not employed improved by 131,000 from 101.6 million to 101.5 million. Most of the improvement was at temporary help firms.

The establishment survey showed 175,000 new jobs. The household survey showed 391,000 more employed and 1.6 million more employed than one year ago and 2.0 million fewer than 2007. The working age population grew by 188,000 from the prior month.





May Employed % since 1948

The long term history (above) of the employed % shows the situation more dramatically. Employment is stuck at 1984 levels and has been since the start of the current recession. In terms of employment there has been no serious recovery. In terms of hours and income the picture continues to erode. Wal-Mart is hiring mostly temporary workers.



Durable goods employment increased 7,000 in May. Between 2007 and 2010 employment dropped from 8.8 million to 7 million. About 0.5 million of those jobs have been recovered. The other 1.3 million jobs may be permanently gone. Manufacturers

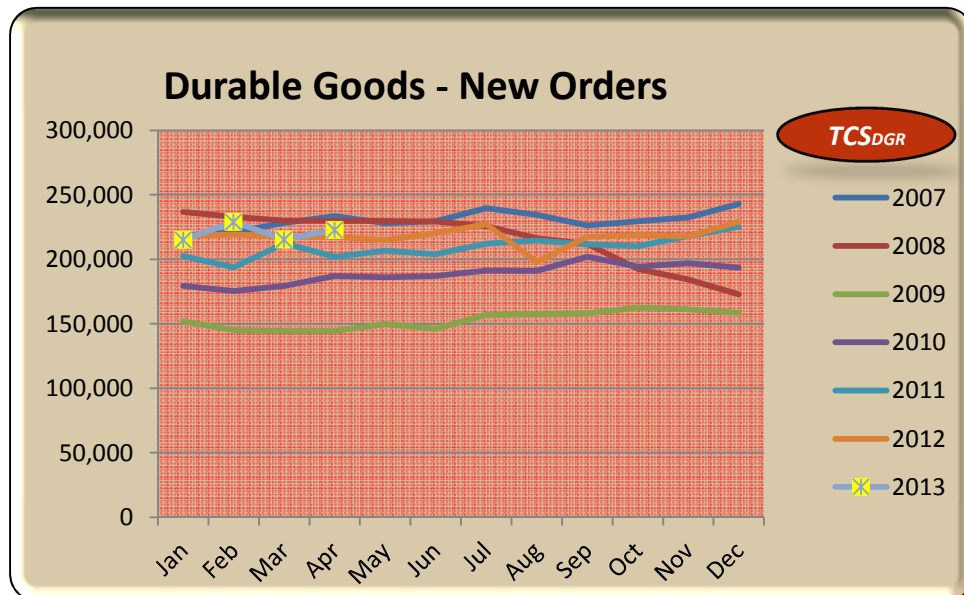
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continue to look for ways to avoid hiring because the cost of full time employees continues to surge due to Congressional and bureaucratic mandates.

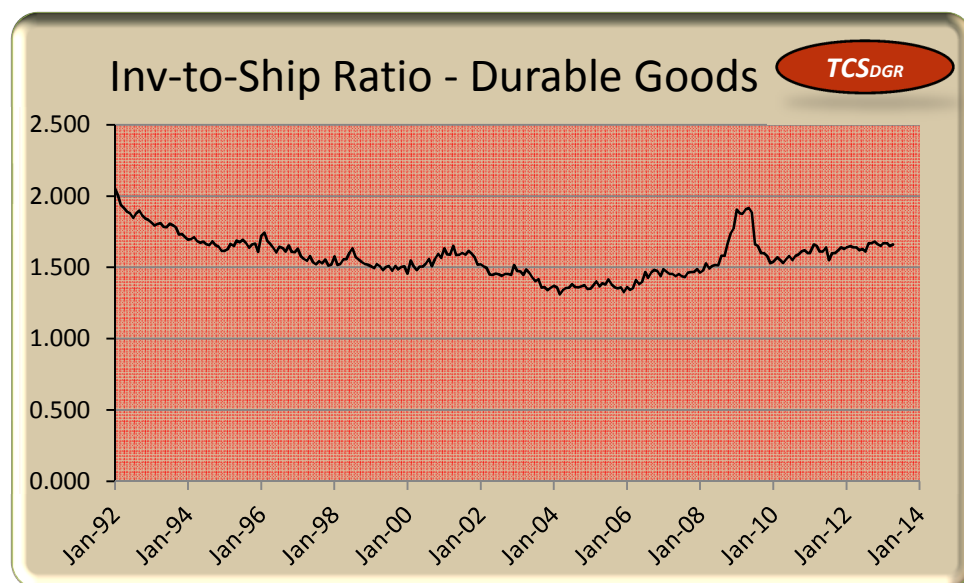
## Sector Detail

### The Durable Goods Sector:

**New Orders:** Durable new orders increased 2.5% to \$222.7 billion in April. This recovered some of last month's 5.8% loss. There are multiple signals of a slowing durable economy.

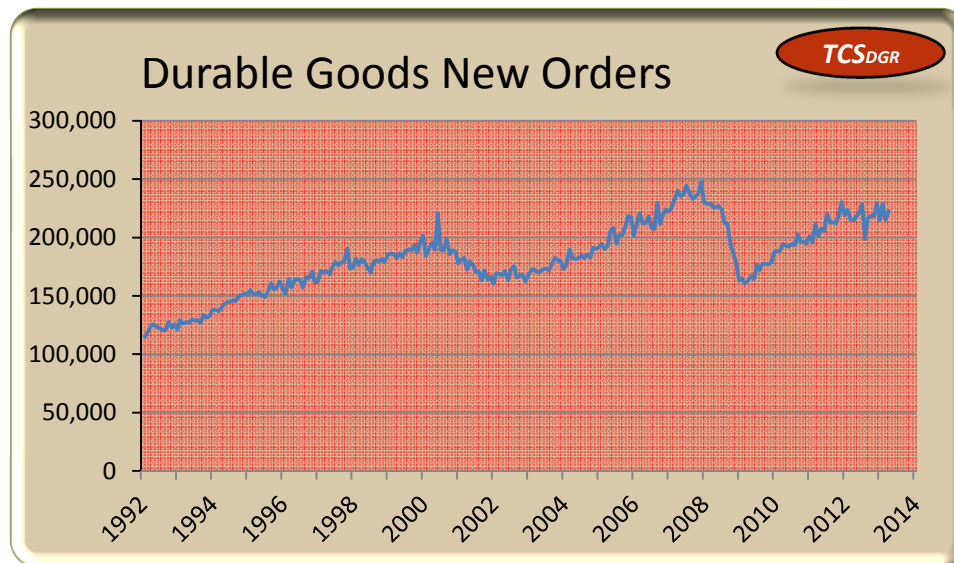


Inventory to shipments ratio climbed slightly to 1.66. The Book to Bill ratio dropped to a slightly negative 0.98 (order/shipments). Long term average is 1.00.

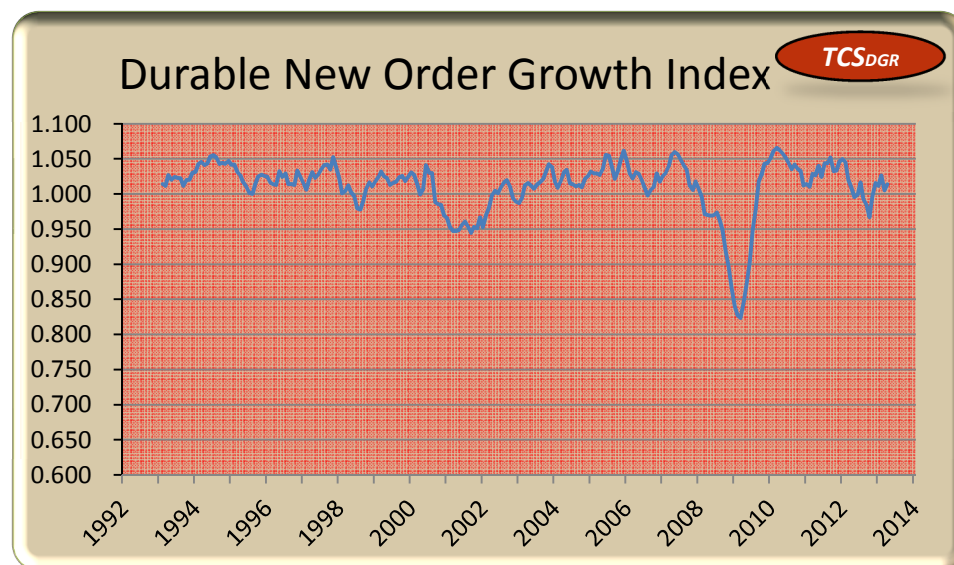


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The long term chart for new orders below provides added perspective. The growth in new orders has been stalled for more than a year.

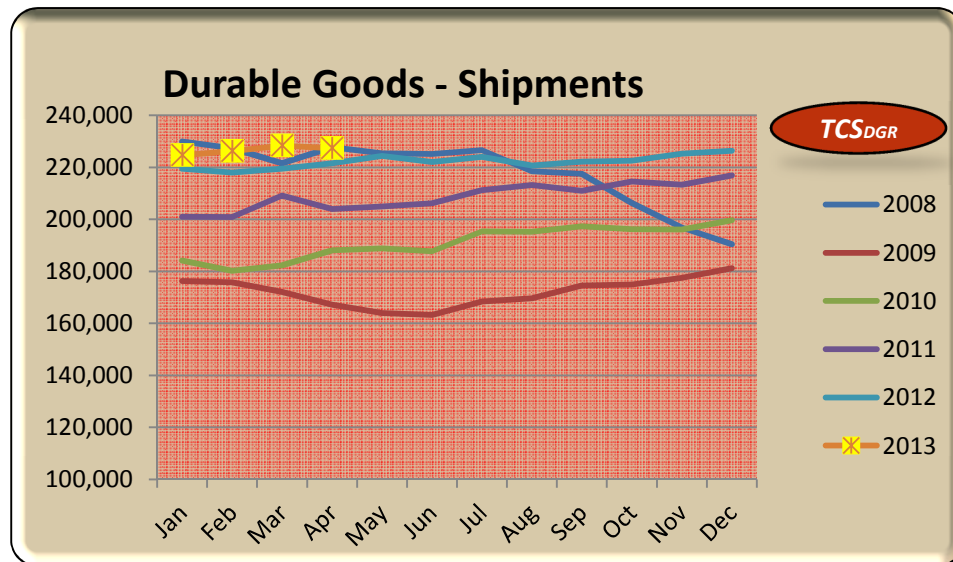


**Growth Index** for new orders ( $3\text{mma}/12\text{mma}$  = slope of the order curve) remains weak at 1.014, up from 1.005 last month and 1.008 last year. It was one year ago that we called the stall of growth rates in durable goods. All of these numbers suggest little or no growth.

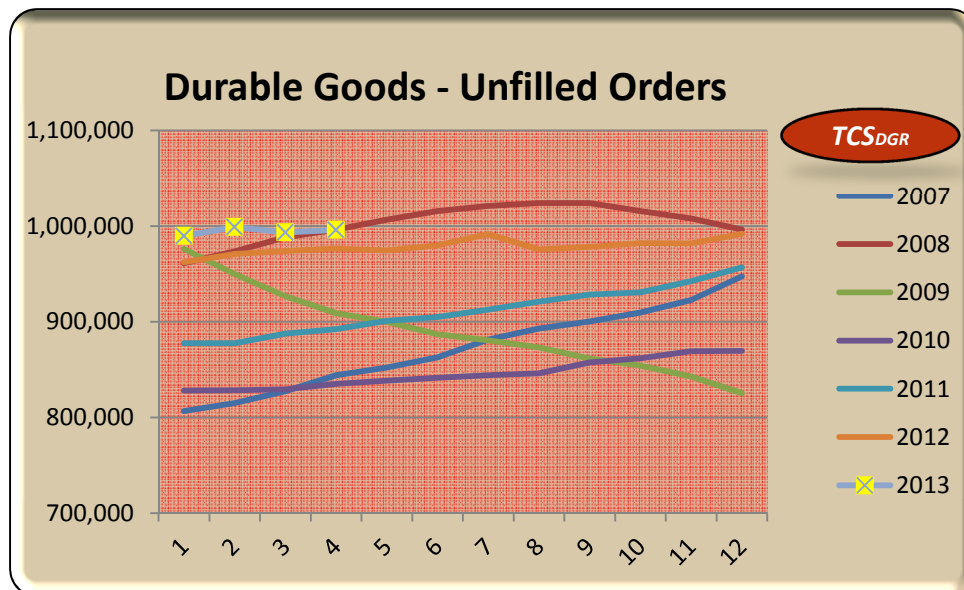


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**Shipments** decreased 0.4% to \$227.4 billion.

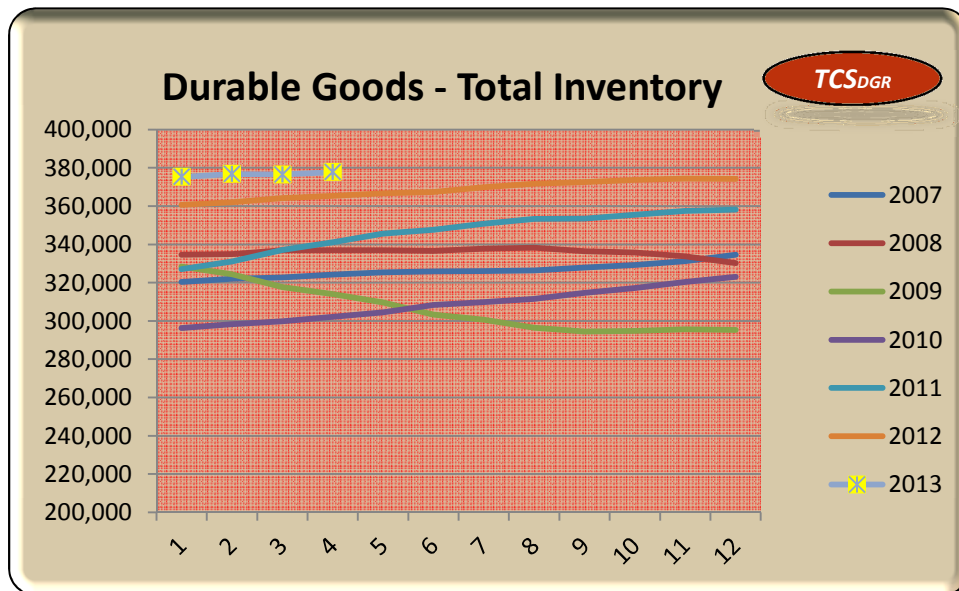


**Unfilled Orders** increased 0.3% to \$996 billion.

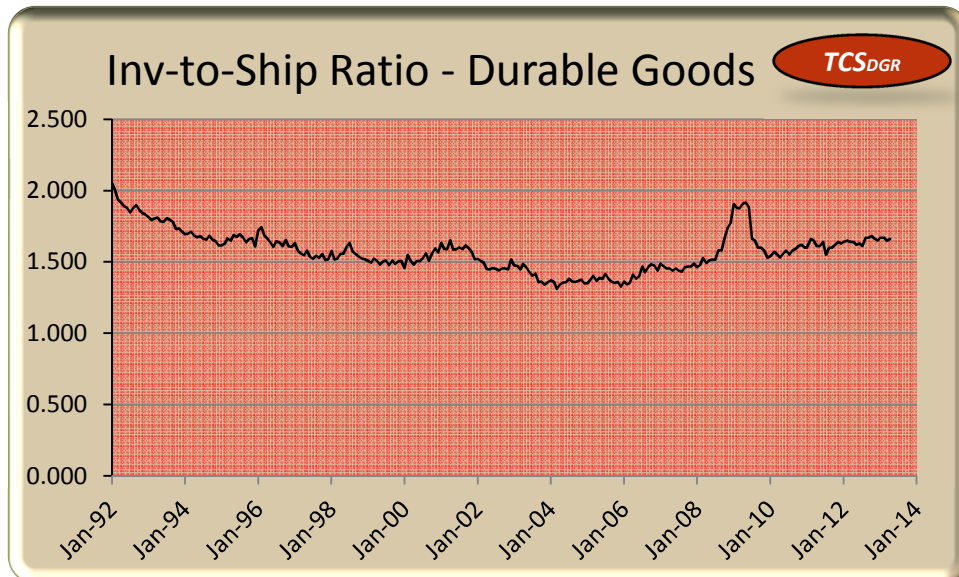


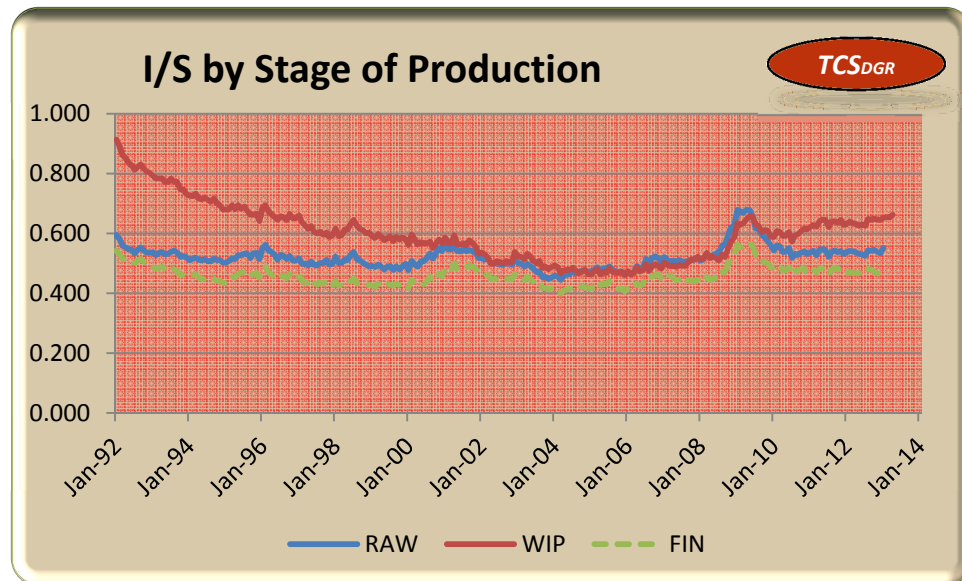
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**Inventory:** Total inventory increased 0.3% to \$378 billion. Inventories are above the levels of the best years, but seem in reasonable control relative to shipments.



Note that we are not seeing a surge in the I/S ratio as occurred before the 2009 collapse in orders.

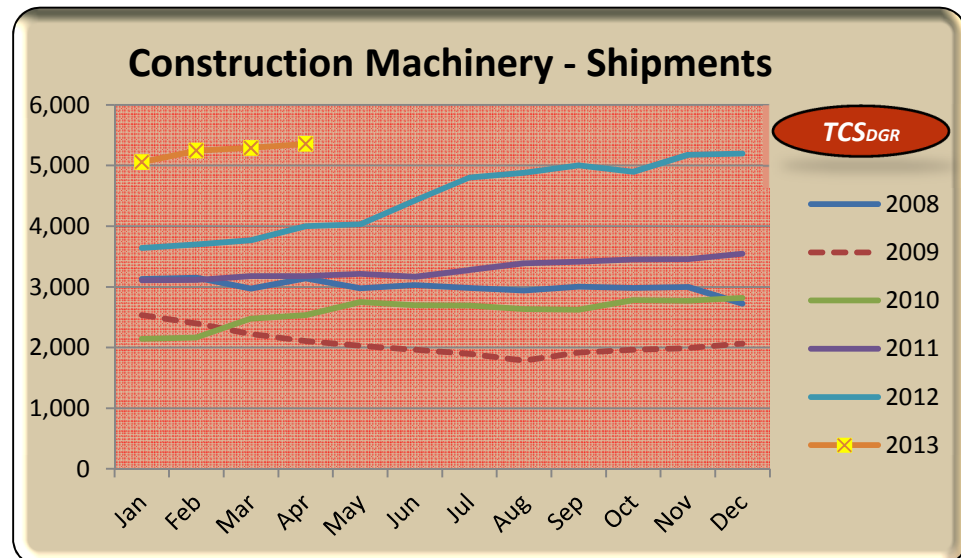
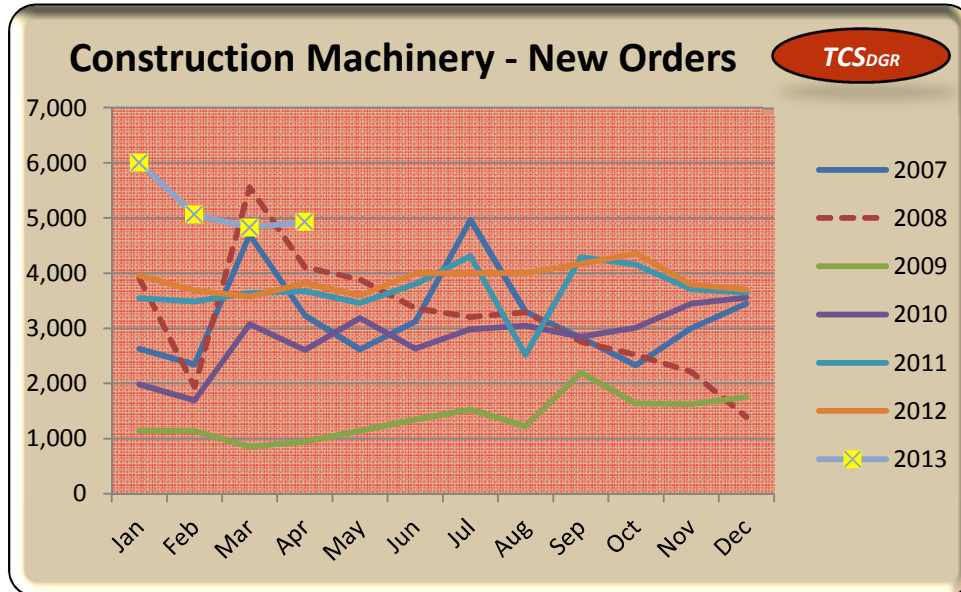




The I/S ratio by stage of production (a DGR exclusive) showed no dramatic signs of change. A subtle indicator is the two month decline in RAW inventory and the increase in WIP inventory. This suggests that manufacturers are making gradual cuts to production rates. If this remains controlled the current slowdown will likely prove to be orderly, rather than the spasm that sometimes occurs during a transition.

## Durable goods sub sectors:

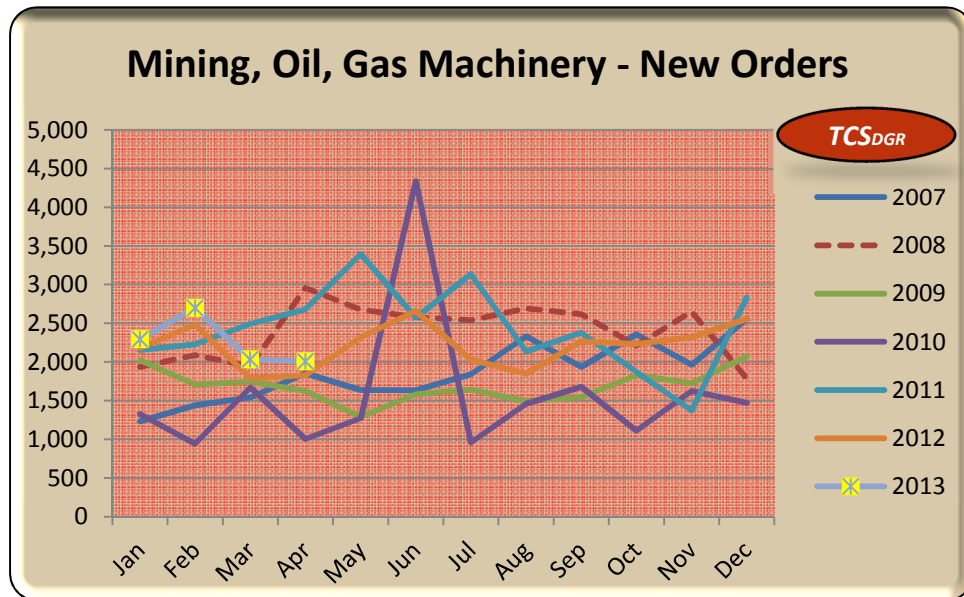
**Construction machinery** new orders increased 2.1% to \$4.9 billion. Shipments increased 1.2% to \$5.4 billion. Book to Bill ratio is negative at 0.92 (long term average 1.01). Unfilled orders held steady at about \$10 billion, down from \$17 billion a year ago. There are increasing signs of a slowdown across the globe with few exceptions. Despite remaining well above last year's order pace, caution is the order of the day.



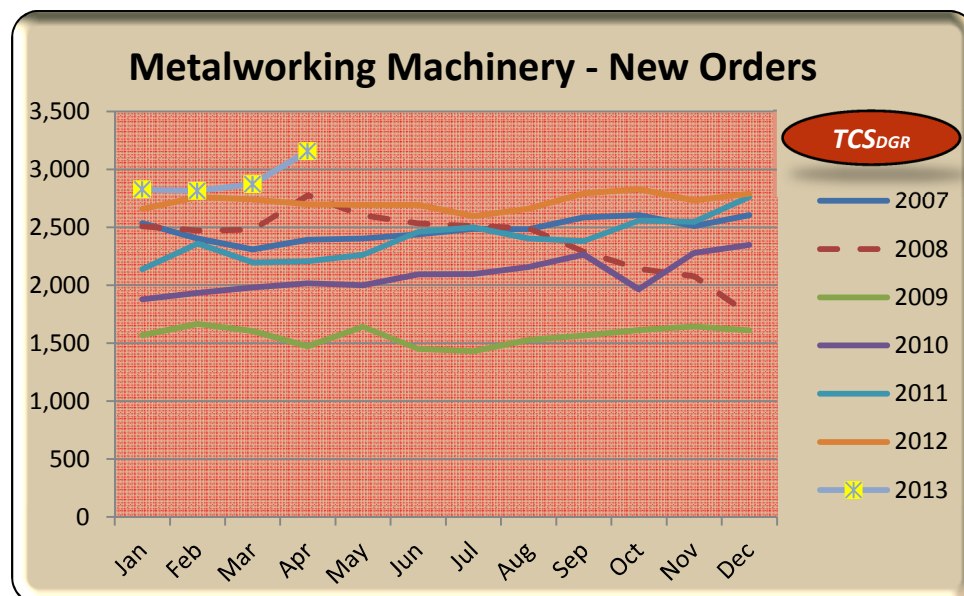


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**Mining, oil and gas machinery** new orders remained steady with a decrease of 1.3% to \$2 billion. Book to bill ratio remained negative at 0.92. (long-term average = 1.03).

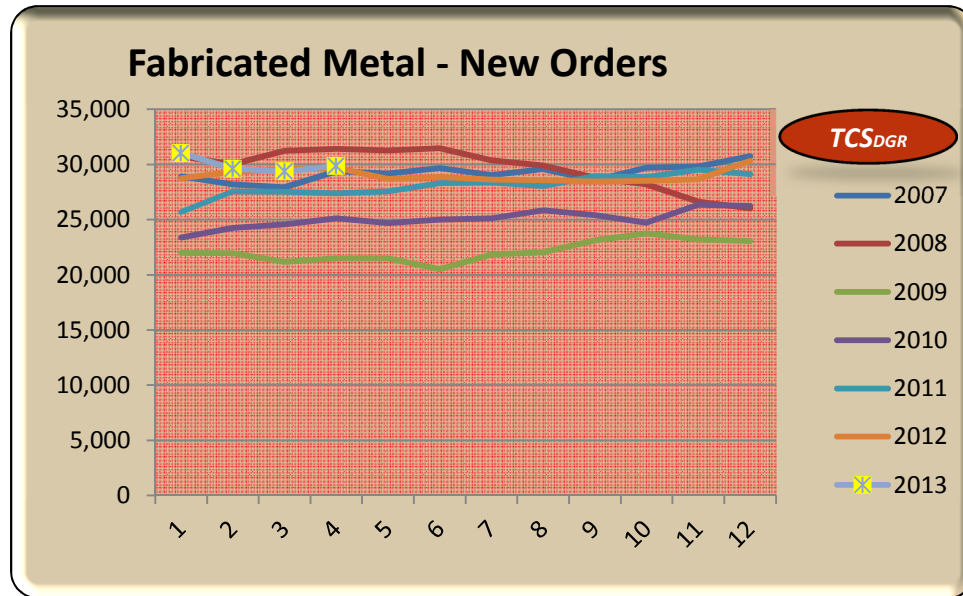


**Metalworking machinery** new orders jumped 9.9% to \$3.2 billion, Book to bill ratio increased to 1.06 (long term average = 1.00).

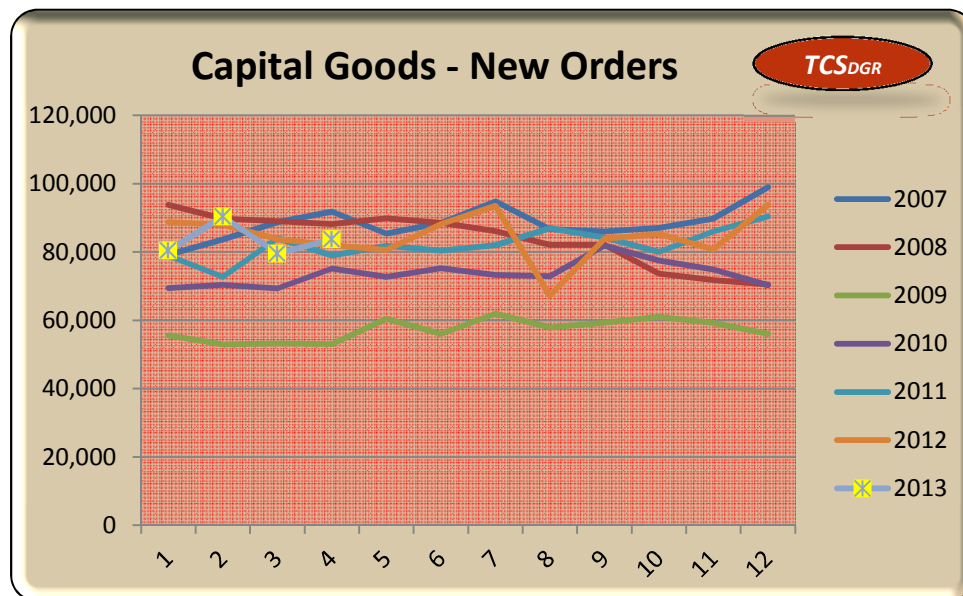


**Fabricated metal** new orders increased 1.7% to \$29.9 billion. Book to bill ratio improved to 1.03 (long term average = 1.00).

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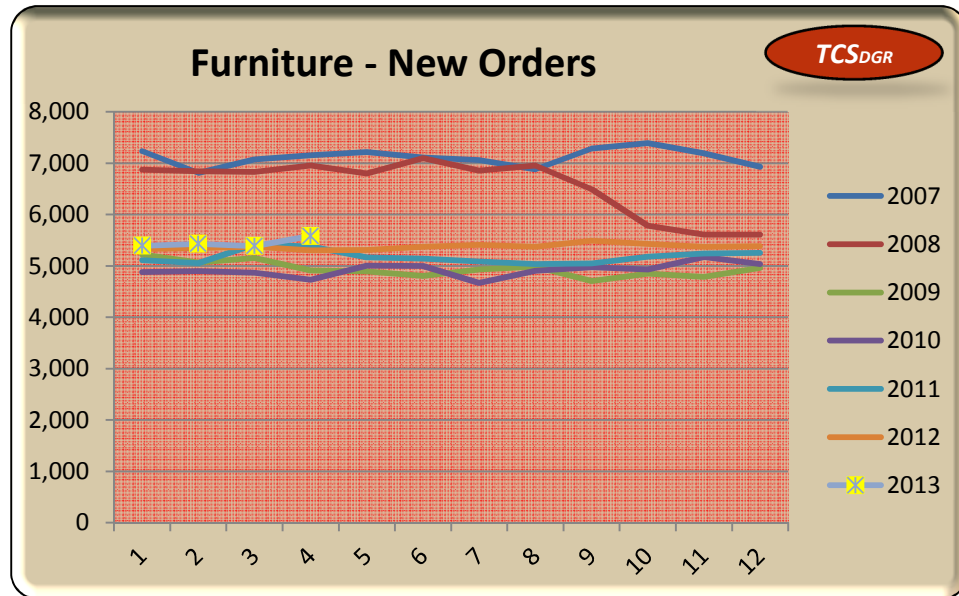


**Capital goods** increased by 5.2% to \$83.7 billion. Book to bill ratio improved to 1.02 (long term average = 1.01).



**Furniture:** New orders increased 3.7% to \$5.6 billion. The book to bill ratio improved to 1.02.

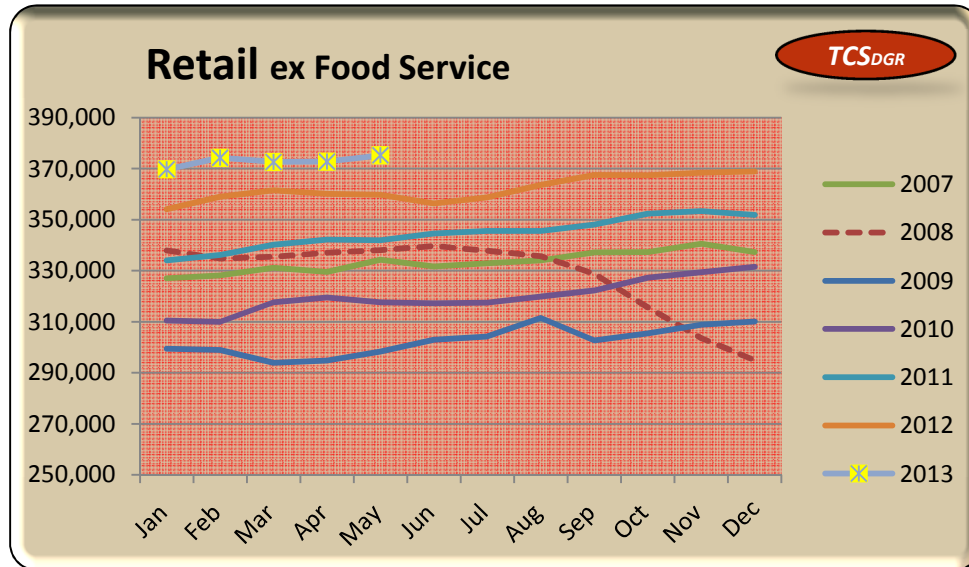
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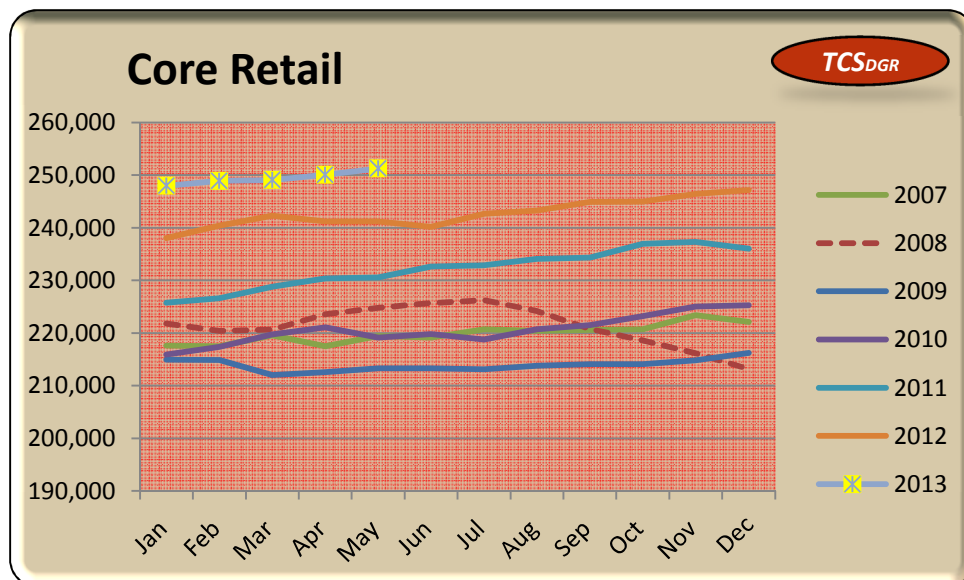
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## Retail Data (Advanced Release for May)

**Retail Sales** (excluding food service) increased 0.7% to \$375.2 billion. Current sales are 4.3% above prior year.

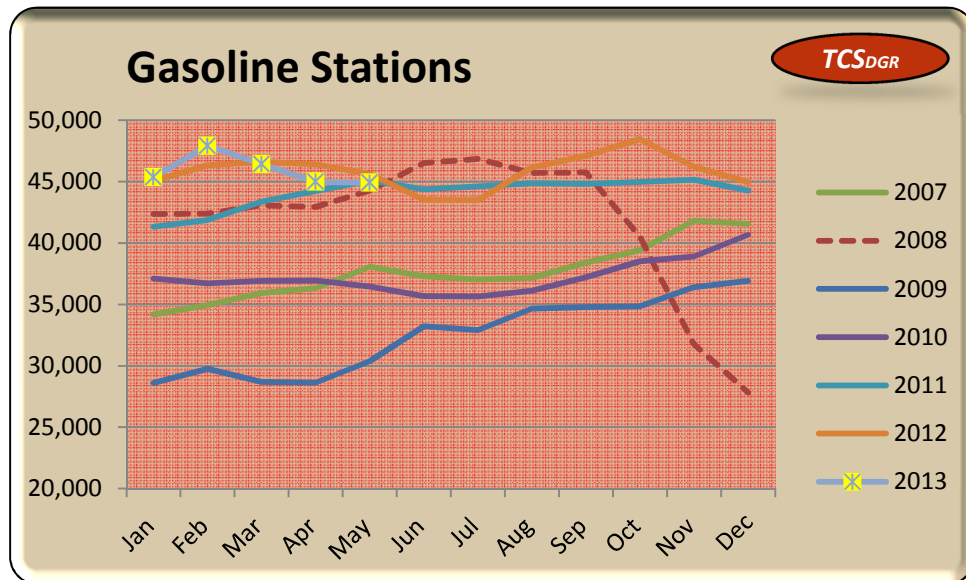


**Core retail** (excludes food service, gasoline, autos and parts) increased 0.5% to \$251.2 billion. Current sales are 4.2% above prior year. About 2.5% to 3% of this number can be attributed to inflation.

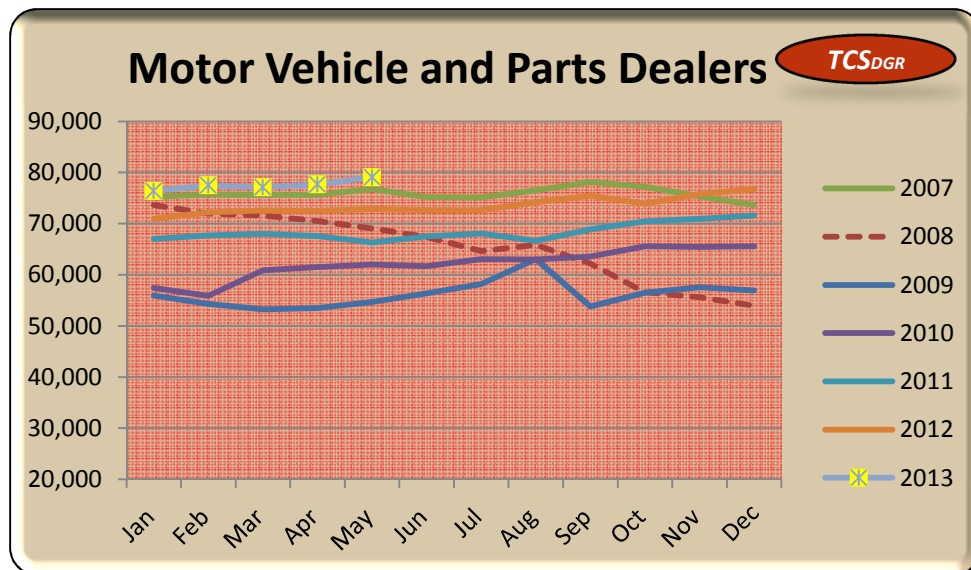


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**Gasoline sales** decreased 0.2% to \$44.9 billion. Current sales are 1.2% below prior year despite steady price increase. Gasoline consumption continues to decline as the economy slows.

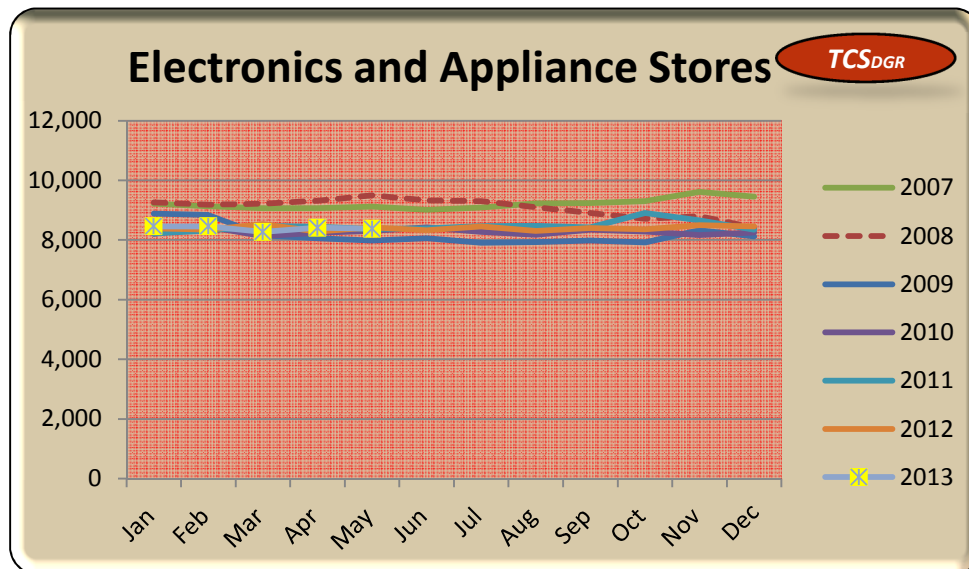


**Auto sales** decreased 1.8% to \$79.1 billion. Current sales are 8.5% above prior year. This suggests full recovery for the auto industry.

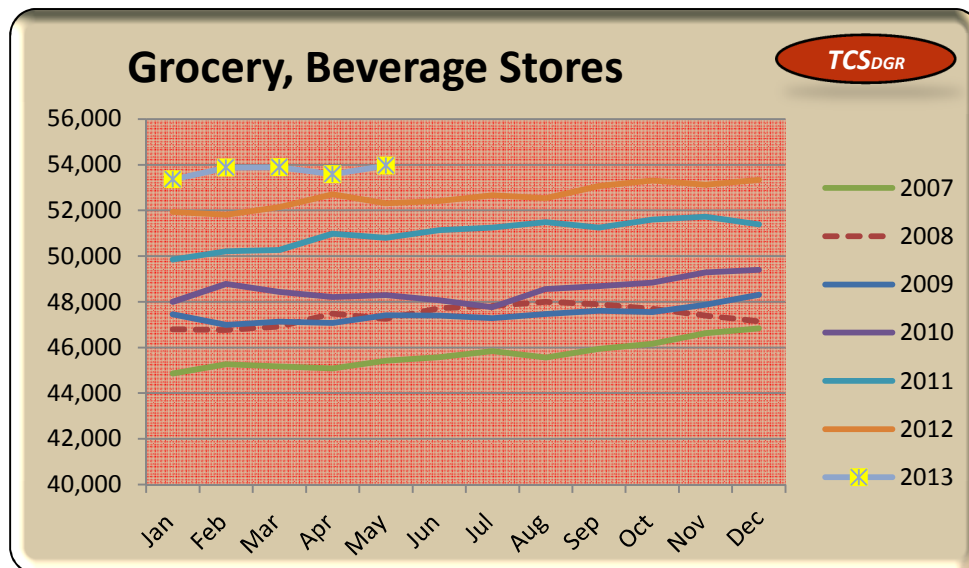


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**Electronics and Appliance Stores** sales decreased .4% to \$8.4 billion. Current sales are 0.5% below prior year.



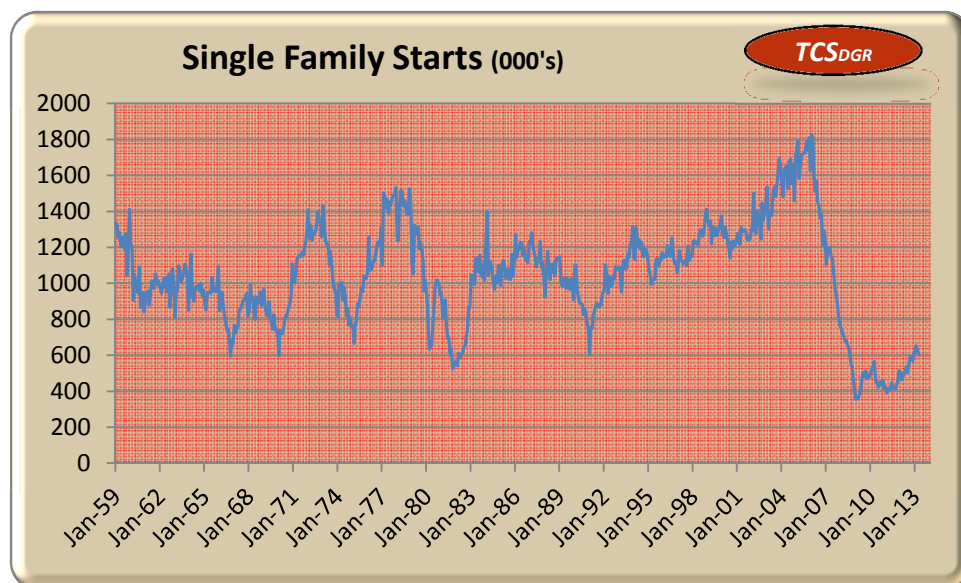
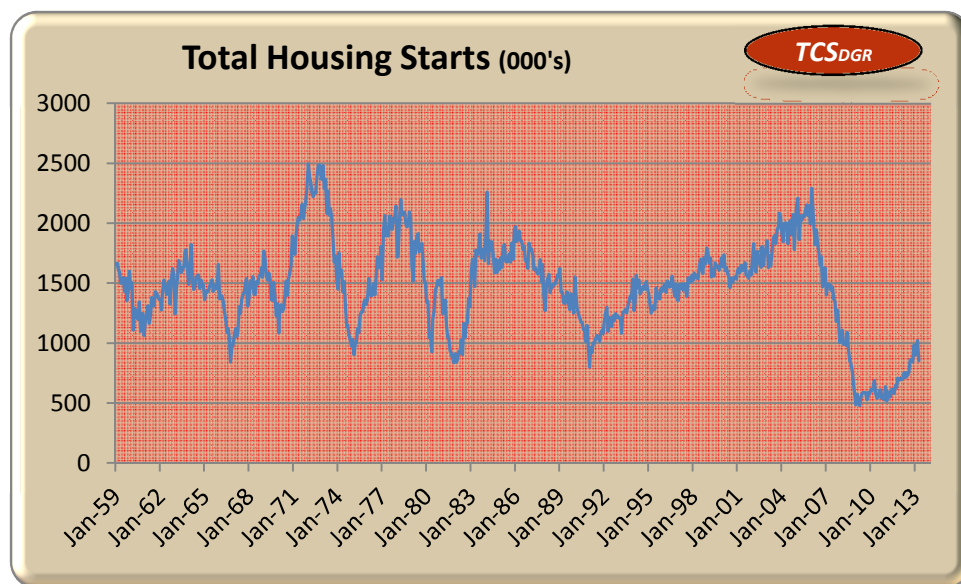
**Grocery and Beverage stores** sales increased 0.7% to \$54 billion. Grocery sales are 3.1% above prior year.



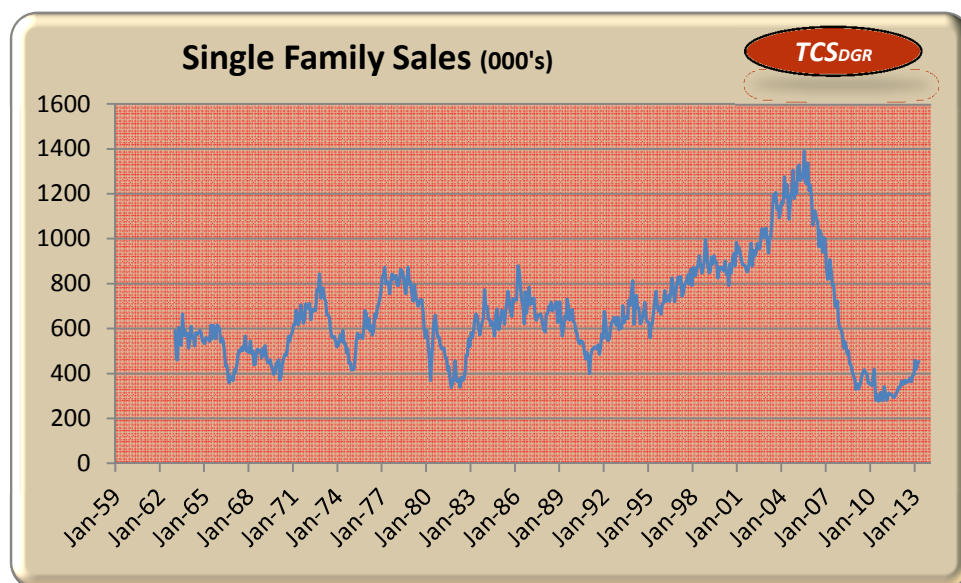
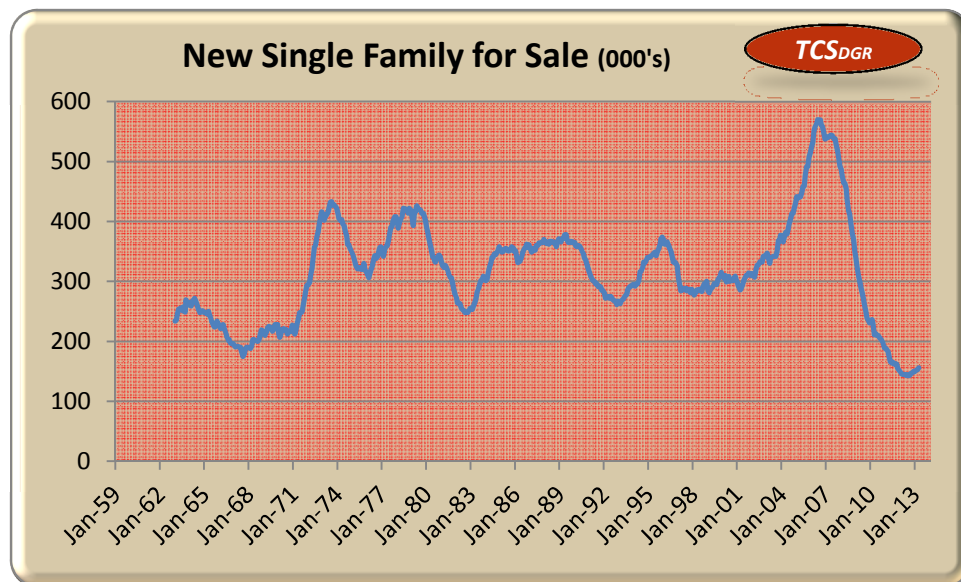
## Housing:

Total housing starts plummeted 16.3% to 853,000 in April. The seeming recovery to 1 million + territory (celebrated in last month's DGR) was short lived. Single family starts decreased 2.1% to 610,000. New single family sales increased 2.3% to 454,000 units. Inventory of new single family homes increased slightly to 156,000.

Median sales price (3MMA) jumped to \$255,133, 9% above last year. Note the slope of the median value chart and compare it to the slope just prior to the collapse. We may be seeing another bubble, but more likely caused by short supply. A more ominous signal is the 11% jump in foreclosures.

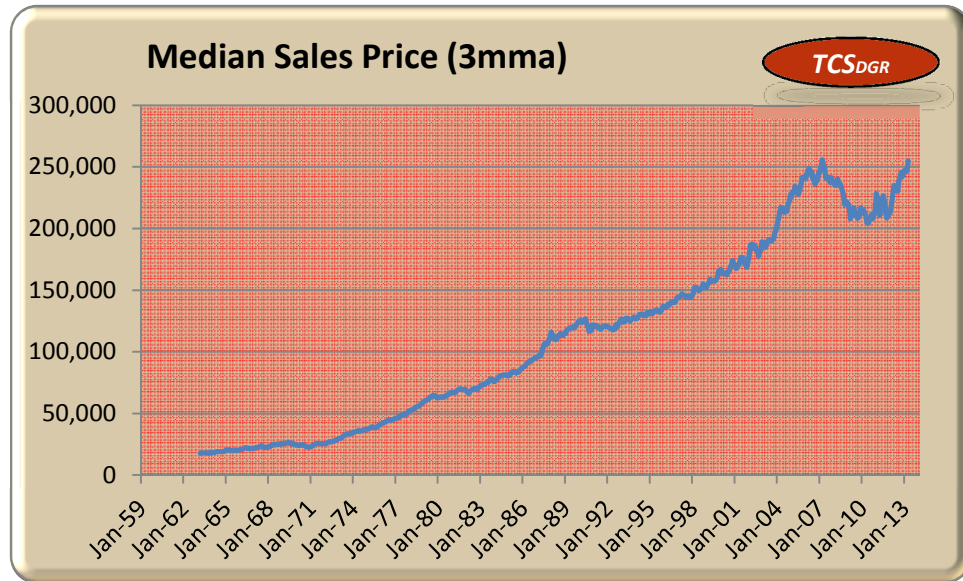


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## **About Time Compression Strategies and the Durable Goods Report**

TCS provides information technology and business process 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 historic 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 except for retail. 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), an information technology and process improvement company serving manufacturing, distribution, and related infrastructure companies. 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

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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 a “founding father” 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 analysis method for supply chain pricing, 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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