The Durable Goods Report

July 2013

Executive Summary of US Economic Activity

TIME COMPRESSION STRATEGIES
MERGER OF TECHNOLOGY AND BUSINESS PROCESS

Manufacturing Data Release of 7/2/2013 (May Preliminary)

Employment Data Release of 7/5/2013 (June Preliminary)

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

Industrial Production Data Release of 6/16/2013 (May Advanced)

Housing Data Release of 6/18 & 25/ 2013 (May 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	231,164	223,003	217,864
12 month moving average	220,381		216,934
% Change from Prior Year	1.6%		
Growth Index - Durable New Orders	1.013	1.014	0.995
Unshipped Orders - Durable	1,004,784	996,628	984,643
% Change from Prior Year	2.0%		
Value of Shipments - Durable	229,760	226,915	225,096
Book to Bill Ratio	1.01	0.98	0.97
Inventory - Durables	377,730	377,362	365,566
% Change from Prior Year	3.3%		
Inv to shipments ratio - Durable	1.64	1.66	1.62
US Economy Key Measures			
	This period	Last period	Change
GDP 2012 Q4 (current $)	15,984.1	15,864.1	0.8%
Industrial Production	2,573.4	2,565.6	0.3%
Capacity Utilization %	77.6	77.7	-0.1
Manufacturing %	76.6	76.6	0.0
Durable Goods %	75.9	75.9	0.0
Primary Metals %	72.6	73.3	-0.7
Autos and Parts %	75.6	75.1	0.5
Machinery %	83.3	83.9	-0.6
Durable Goods ($Mil SA)			
New orders	231,164	223,003	3.7%
Shipments	229,760	226,915	1.3%
Inventory	377,730	377,362	0.1%
Unshipped Orders	1,004,784	996,628	0.8%
Retail ex Food Service ($Mil SA)	375,219	372,716	0.7%
Autos and Parts	72,195	70,842	1.9%
Gasoline	44,886	44,972	-0.2%
Core retail (ex auto, gas)	251,250	250,069	0.5%
Employment (000's SA)			
Civilian employed (Household Survey)	144,058	143,898	160
% of potential workforce (HS)	58.7%	58.6%	0.0%
Civilian not employed (HS)	101,494	101,465	29
Non-Farm (Establishment Survey)	135,902	135,707	195
Private (ES)	114,051	113,849	202
Government (fed, state, local) (ES)	21,851	21,858	(7)
Goods Producing (ES)	18,643	18,635	8
Manufacturing (ES)	11,964	11,970	(6)
Construction (ES)	5,812	5,799	13
Durable Goods Mfg (ES)	7,508	7,511	(3)
Housing (000s of Units SA)			
Total housing starts	914	856	6.8%
Single family starts	546	610	-10.5%
Single family sales (new)	476	466	2.1%
Single family for sale (new)	161	156	3.2%

US Economy – Quick Look:

US GDP

Q1 2013 GDP revised estimate dropped to 1.8% SAAR, down from prior estimates of 2.5% and 2.1% (3.4% Y/Y).

Industrial Production

Industrial production excluding industrial supplies decreased 0.3%. Now stands 2.1% above prior year. Capacity utilization declined in every segment except autos.

Durable Goods

New orders for durable goods increased 3.7% to $231.2 billion. The 12 month moving average stands 1.6% above last year. Growth index is at 1.013 (weak growth).

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 189,000.

Household survey shows: Employed: up 160,000. Not employed: up 29,000. Employed: 58.7% (unchanged) of population. Employed full time: 47% of population.

Establishment survey shows: 195,000 jobs added. Durable goods employment decreased 3,000.

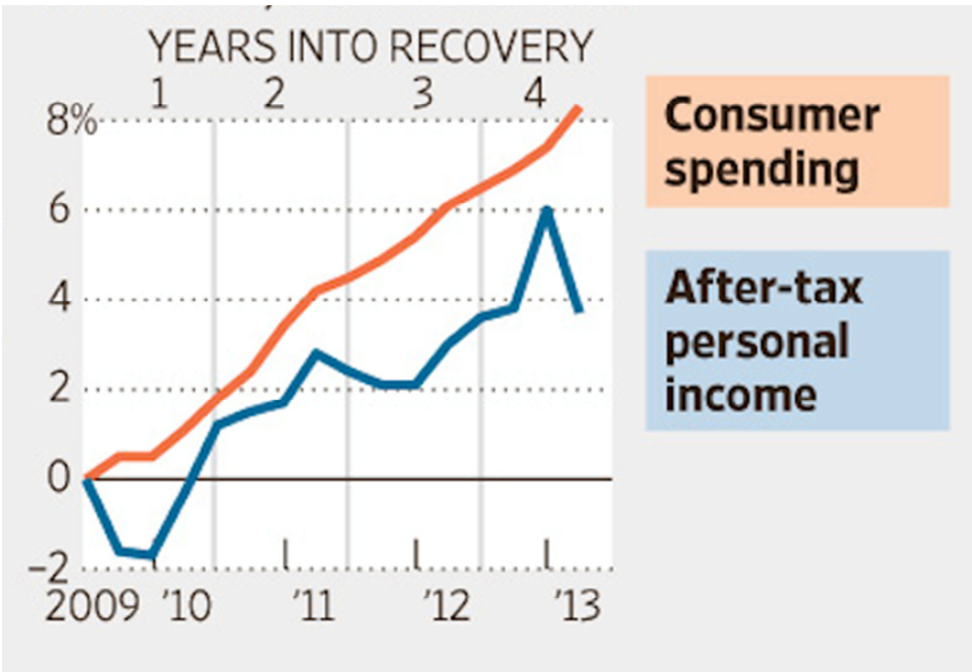
Housing:

Total starts: +6.8% to 914,000 SAAR. Single family starts: -10% to 546,000. Single family sales: +2.1% to 476,000. Median value: increases to $260,800 (3mma) and 11% above prior year. Single family as a % of total starts dropped below 60% for the first time in 30 years.

Random Thoughts, Stray Data and Rants:

Economy

- Two largest Chinese banks suspend lending. The Chinese practice of carrying most of the debt in regional banks makes a precise reading of condition almost impossible. But this isn't a good sign. Forbes reports a recent scramble in the face of a liquidity crisis.
- China also has a large "private" banking sector, also off-book. It looks a lot like payday loans for small companies.
- June - China exports off 3.1%; imports off 0.7%; commodity imports off 5.2%.
- US Consumer spending and after-tax income are flashing yellow.



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- Youth unemployment in Greece – 60%.

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.*

- The US increased crude oil output by 1.2 million barrels per day last year. World demand increased by 1 MBPD in the same period.
- Oil tops $100 per bbl based on the political situation in Egypt. Don't count on it sticking. China growth retreat will drive prices lower (to as low as $70 according to Forbes).

- All this suggests downward pressure on prices (except for temporary instability-driven risk premiums). That would mean reduced incentive for exploration and drilling.
- A new Texas field is gaining attention. The Cline field is estimated at 30 billion bbls compared to Baaken at 11 billion and Eagle Ford at 10 billion. It has the additional advantage of being in the Permian Basin where infrastructure is already in place.
- To repeat: We are awash in oil.

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

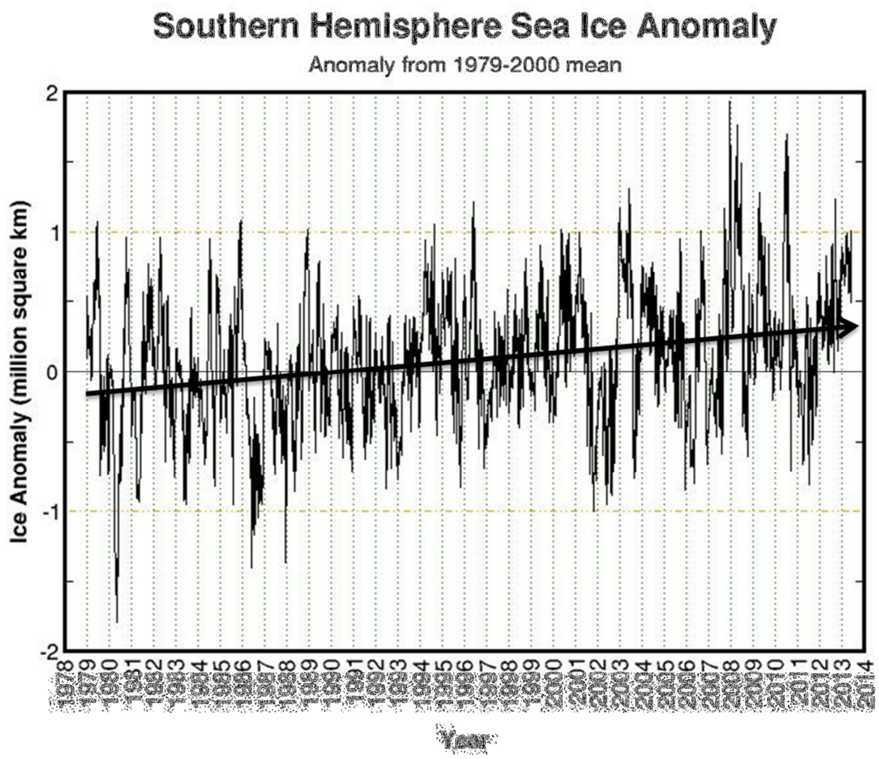
- From Calvin Coolidge: "About the Declaration there is a finality that is exceedingly restful. It is often asserted that the world has made a great deal of progress since 1776, that we have had new thoughts and new experiences which have given us a great advance over the people of that day, and that we may therefore very well discard their conclusions for something more modern. But that reasoning can not be applied to this great charter. If all men are created equal, that is final. If they are endowed with inalienable rights, that is final. If governments derive their just powers from the consent of the governed, that is final. No advance, no progress can be made beyond these propositions. If anyone wishes to deny their truth or their soundness, the only direction in which he can proceed historically is not forward, but backward toward the time when there was no equality, no rights of the individual, no rule of the people. Those who wish to proceed in that direction cannot lay claim to progress. They are reactionary. Their ideas are not more modern, but more ancient, than those of the Revolutionary fathers."
- The Affordable Care Act employer mandates have been postponed until 2015. There is still no clear indication of how they will be administered.
- Many key provisions and assumptions are looking shaky.
- Since it includes a form of price controls it seems a safe bet that one result will be reduced access (rationing) and quality. The basis for this claim is that it has happened every time it's been tried since the beginning of reasonable economic records in about the 13th century.
- Other than the obvious problems it will create the path for durable goods producers remains foggy at best. Expect to see higher cost and possible much higher cost.

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

- The good news is the bad news is wrong – again: 40 years ago the Club of Rome used computer simulation to predict with precision the exhaustion of all critical commodities within a decade. They got everything wrong. Since then nothing has been used up and the price of every commodity has dropped (except for brief periods of government insanity). Check it out.

http://www.slate.com/articles/business/project_syndicate/2013/06/climate_panic_ecological_collapse_is_not_upon_us_and_we_haven_t_run_out.html

- As the evidence continues to pile up that we're headed into a new mini-ice age, the warmist industry resorts to increasingly panicked arguments. But they still seem to believe.
- Hard to decide if the president really believes what he says about global warming (threat of the century), or if he's just playing to a base that bought into the junk science.
- What's clear is that there is no longer any refuge for human-caused warming theories. New papers in support are now refuted factually on line within 48 hours. Attempts to cook data, long tolerated in published work, are now tarred and feathered immediately. Too many talented people watching.
- Some interesting data emerging from the new work aimed at more precise measurement.
    - Arctic is expanding its winter ice extent and reducing its summer extent. Best estimate is shifts in ocean currents are causing the summer condition.
    - Arctic temperatures have been below average for the past three months.
    - Record late ice breakup.
    - Antarctic has been growing ice since the beginning of measurements. Best estimate is the periodic shift in the axis of the Earth.
    - Hottest and coldest daily records in the US both occurred in 1933.



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.
  - "Settled Science": Used by someone who has no factual case to make. Science is never settled. Science is defined as continuous challenge.
  - "Water prevents de-hydration": This phrase is banned on bottled water by the EU commission in charge of bottled water after a three year study because they could find no scientific evidence. Don't look at me that way. I'm not creative enough to make up this kind of stuff.
  - "Let me be clear on this…:" When from a politician it means "I'm about to obfuscate." First popularized by President Richard Nixon.
  - "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.
  - "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 estimate for Q1 2013 was again revised downward to 1.8%, down from prior estimates of 2.5% and 2.1%. Based on current $ it comes in at 0.8% QtoQ and 3.3% above prior year same period. At some point in this recovery a 5% growth rate would be expected, but it's nowhere to be found. Cumulative tax rates plus energy prices are the most likely cause.

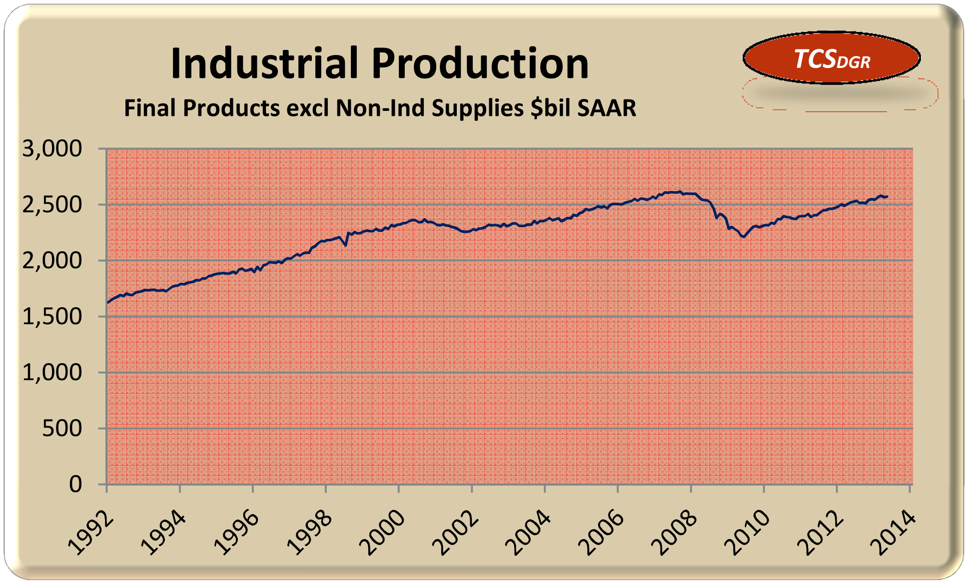
We previously reported a milestone of the first $16+ trillion report. Never mind. The restated results canceled the record.

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	15,984.1	0.8%	3.3%

Industrial Production (excluding industrial supplies)

Industrial production increased 0.3% in May, regaining half of last month's loss. The year to year comparison has now faded to 2.1% above the same month prior year. This measure of industrial production excludes direct energy sales, but not the indirect effect as higher operating costs are passed through the supply chain. This suggests the physical performance is probably lower.

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	2,543.6	-0.2%	2.4%
2013	2	2,567.6	0.9%	2.6%
2013	3	2,581.7	0.5%	3.8%
2013	4	2,565.6	-0.6%	2.5%
2013	5	2,573.4	0.3%	2.1%



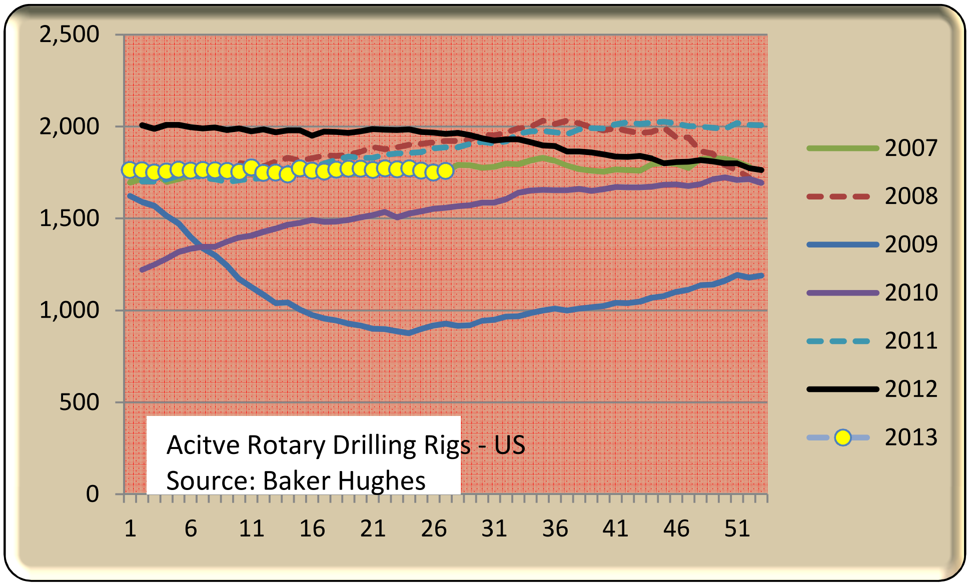
Capacity Utilization:

Industrial capacity utilization decreased 0.1 points. All major sectors except autos were flat or down. Primary metals continues its retreat, off 0.7 points (off 4.8 points since January); Manufacturing was flat; Durable goods was flat; Autos up 0.5; Machinery off 0.6.

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	77.7	76.9	75.9	75.7	73.7	83.0
2013	2	78.1	77.3	76.7	75.2	74.5	83.6
2013	3	78.1	77.0	76.4	73.9	75.5	84.0
2013	4	77.7	76.6	75.9	73.3	75.1	83.9
2013	5	77.6	76.6	75.9	72.6	75.6	83.3
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. Employment is down slightly. Global economic weakness is causing caution to dominate.



Energy Density measured by Heat of Combustion

The following energy density analysis is repeated from prior reports to address the contiuned 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 it's 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.

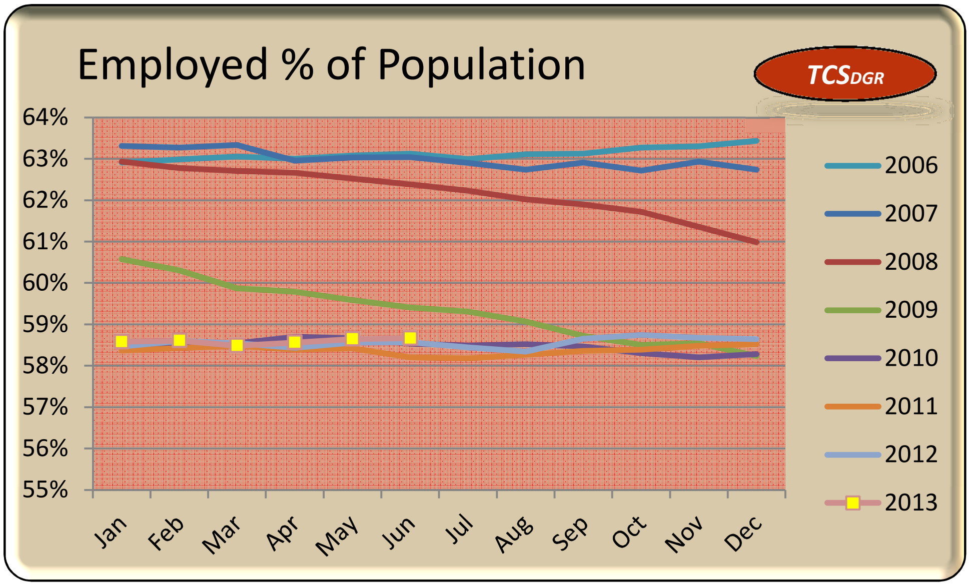
For autos and trucks the ideal is pretty much where we ended up a century ago (gasoline and diesel). If you were going to invent the perfect energy source for transportation it would look like gasoline. But propane isn't too bad. A modest amount of pressure will keep it liquid and it's been a big business 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. We gave up on electric vehicles a century ago because batteries were expensive, heavy and only had a 40 mile range. Today's modern batteries are expensive, heavy and only have a 40 mile range.

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, CH4	56	0.04
Ethane, C2H6	52	29.7
Propane C3H8	50	29.2
Butane C4H10	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

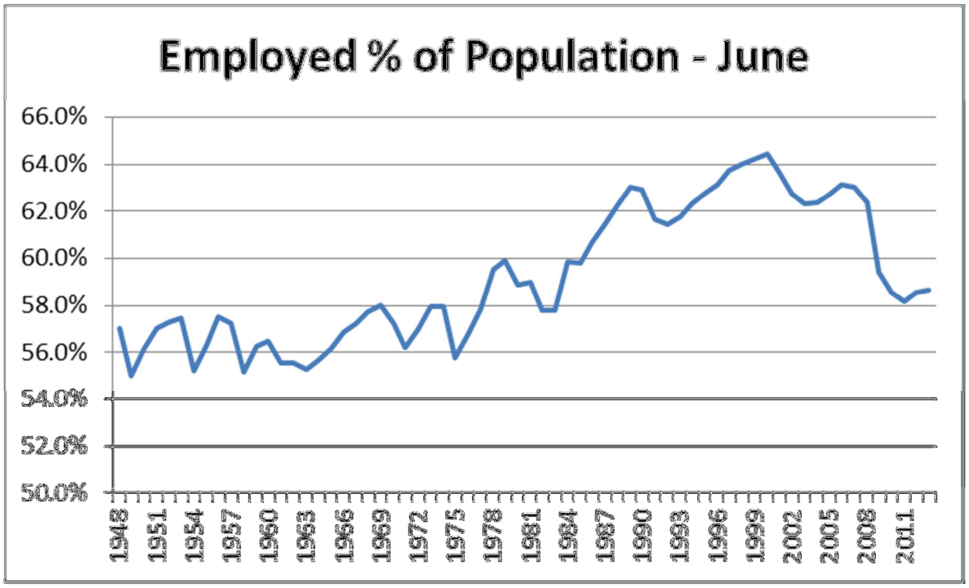
Employment:



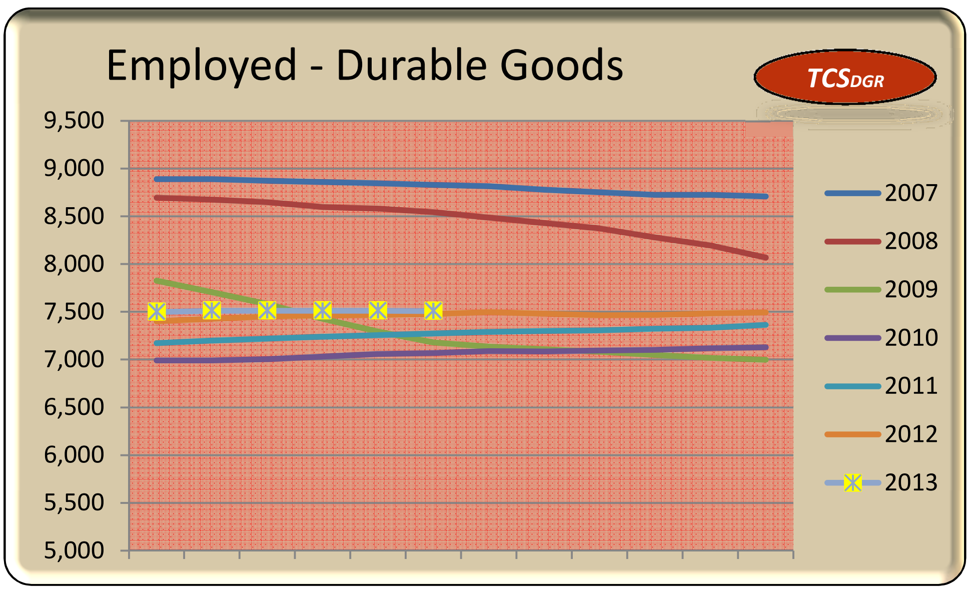
The June employment report exposed major structural problems. The employed % of the non-institutional population was unchanged at 58.7%. This key measure has been stagnant since the beginning of the recession. But the most serious problem is that only 47% are employed full time (it only takes one hour's work in the prior week to qualify as employed in this survey). The surge in temporary employment is being driven in part by the new Obamacare regulations. Work hours are being cut to avoid the coming regulations. The second largest employer in the US is now Kelly Services (Wal-Mart is #1).

The number not employed increased by 61,000 to 101.5 million. Most of the improvement was at temporary help firms.

The establishment survey showed 195,000 new jobs. The household survey showed 160,000 more employed and 1.6 million more employed than one year ago. But the number not working also stood 750,000 higher than last year. We're not keeping up with population growth. The working age population grew by 189,000 from the prior month.



June Employed % since 1948

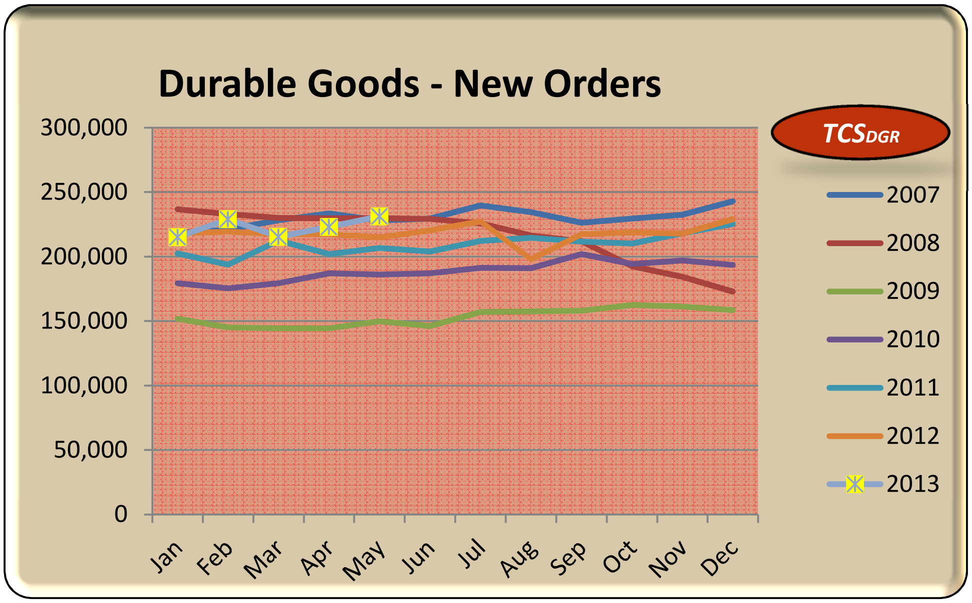


Durable goods employment decreased 3,000 in June.

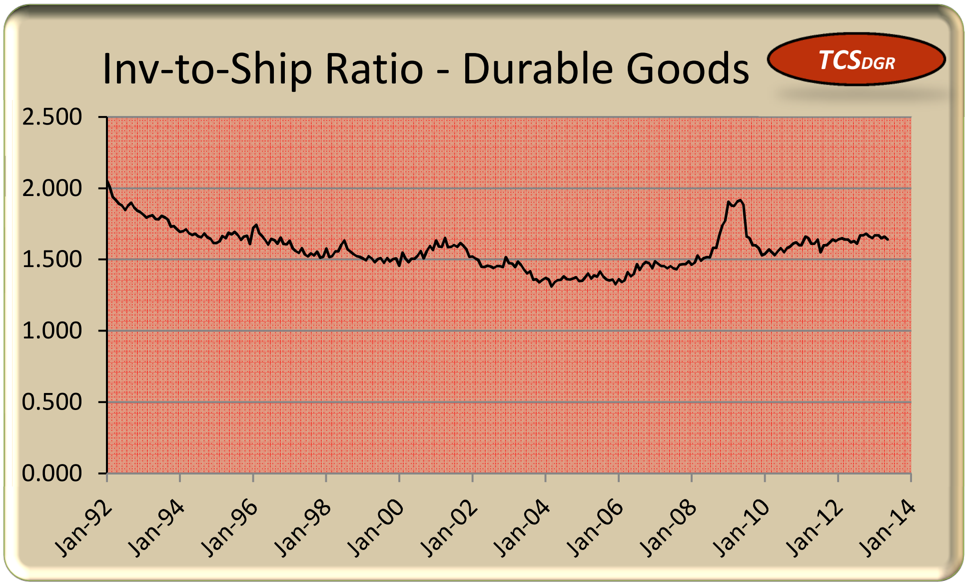
Sector Detail

The Durable Goods Sector:

New Orders: Durable new orders increased 3.7% to $231.1 billion in May recovering to February levels. Overall the durable goods sector looks stable and in good control. There are no signs of the pending "collapse" some are predicting, but more like stagnation or slow retreat. But the overall performance is relatively stagnant showing financial growth about equal to inflation.

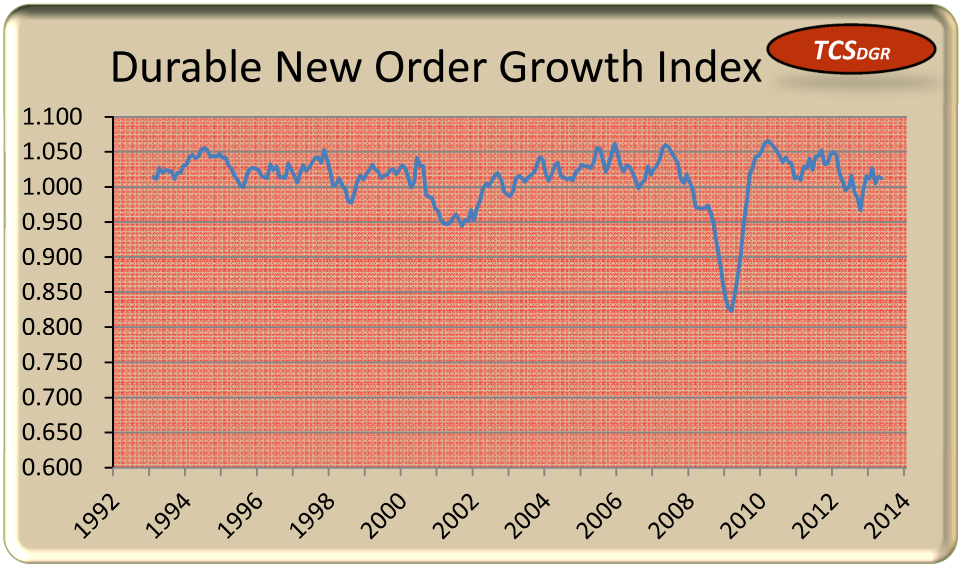


Inventory to shipments ratio eased slightly to 1.64. The Book to Bill ratio remained stable at 1.01. Long term average is 1.00.

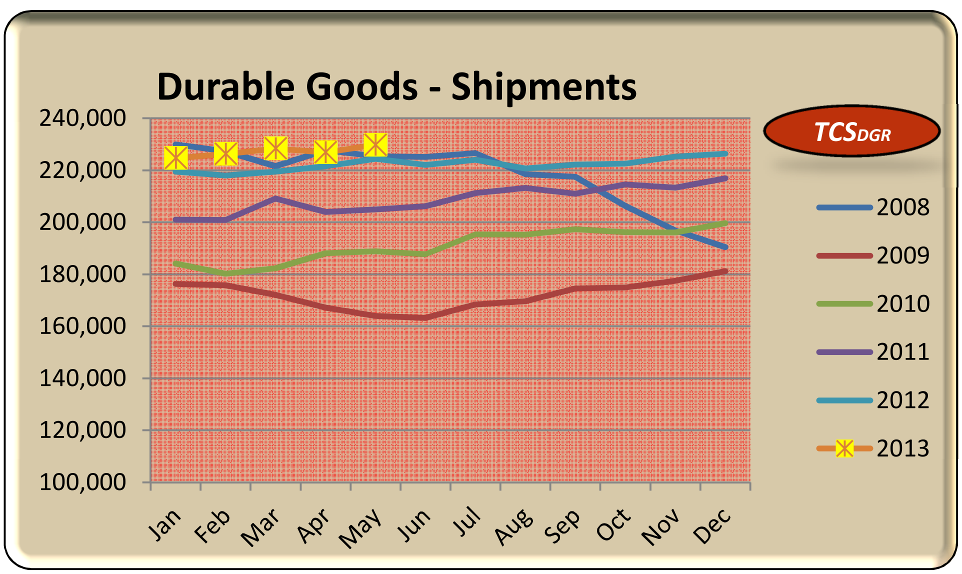


The long term chart for new orders below provides added perspective. The growth in new orders is within the range of variability of the past 18 months. Well below the $244 billion of July 2007.

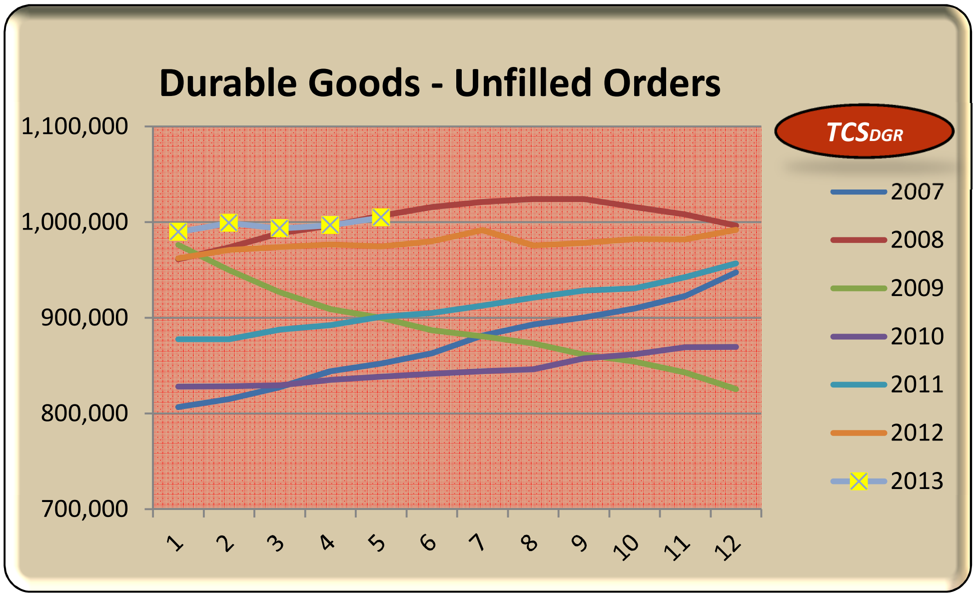
Growth Index for new orders (3mma/12mma = slope of the order curve) remains weak at 1.013, not much above the 1.008 last year.



Shipments increased 1.3% to $229.8 billion. Book to bill ratio is still ok suggesting no short term pressure for changes in production rates.

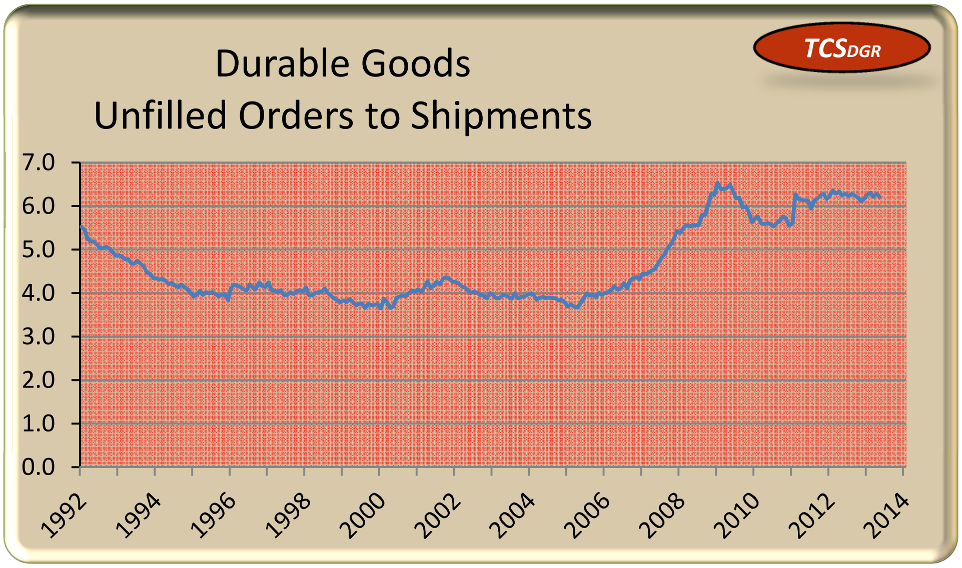


Unfilled Orders increased 0.8% to $1 trillion for the first time since 2008.



The long term chart of May unfilled orders (above) shows an interesting pattern. From 1992 to 2002 the “normal” value operated in a narrow range. When normalized to shipments, the unfilled orders to shipments ratio (below) showed the same pattern.

In 2005 there was a clear shift upward in both the $ value and the ratio to shipments. It has now stabilized at a new plateau. There was a clear and systematic shift in the behavior of backlogs in durable goods manufacturing.



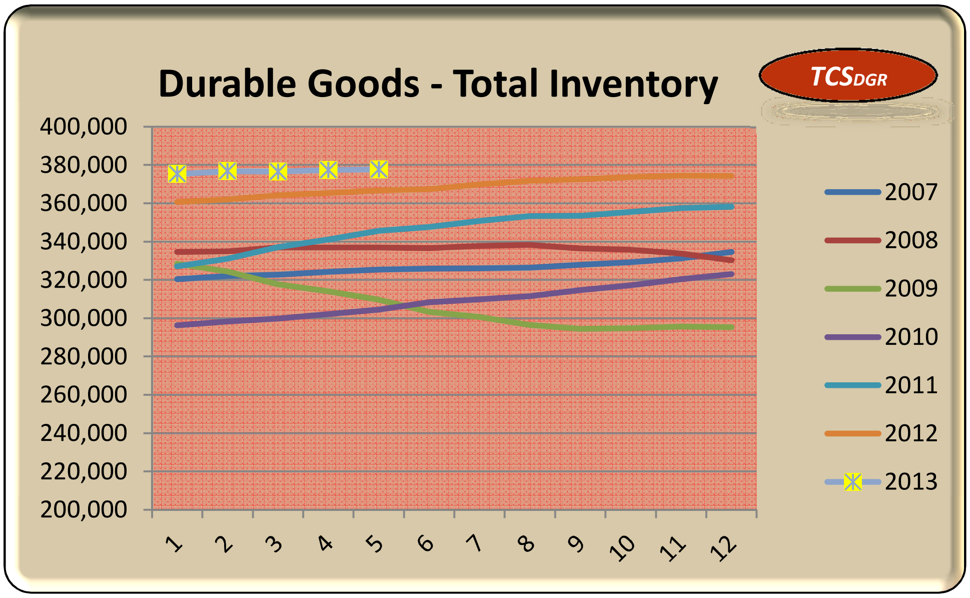
We believe there are two reasons for this shift – one positive and one negative:

1. The wider acceptance of Advanced Planning and Scheduling (APS) and supply chain management (SCM) systems. These systems appeared on the market in 1992 and began broad implementation over the next decade. SAP, Infor and Oracle have been the largest players in this market.

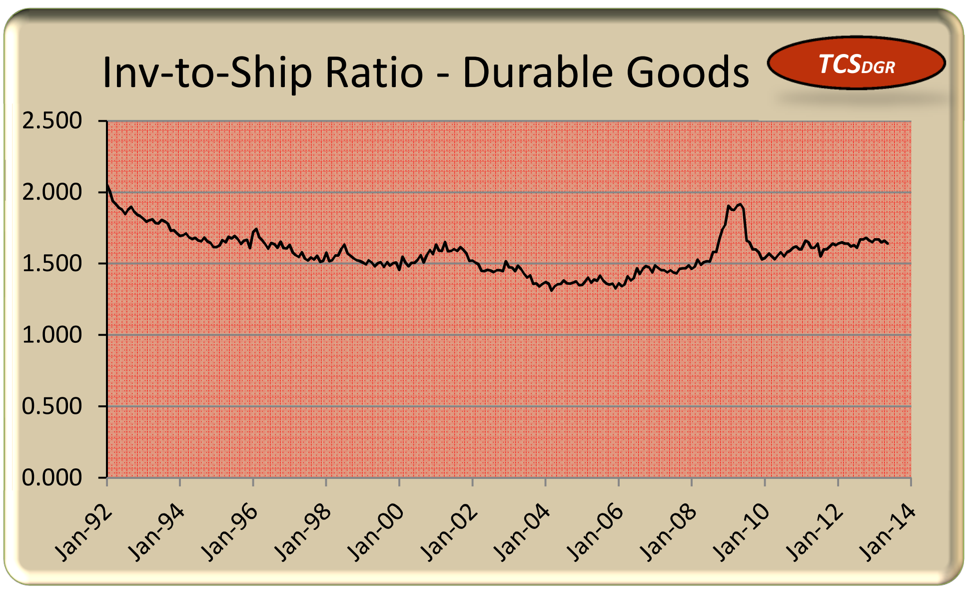
   This led to agreements between customers and suppliers to extend the planning horizon. This is usually implemented with an industrial supply chain anchor providing a full year's worth of "planned" orders to the supplier which usually get counted in the suppliers "backlog" even though they are not yet committed.

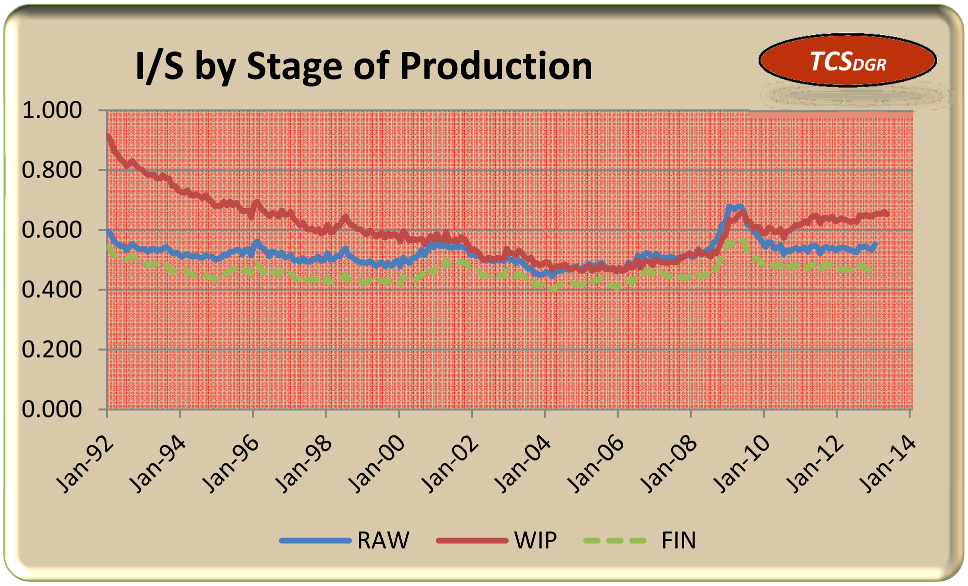
2. As this technology shift has played out a large number of older systems have been re-branded as "advanced" in order to stay competitive. But they still operate on the old concepts and they require the old business processes. The continued use of scheduling systems based on queuing theory has tended to drive inventories up (see the discussion below). This makes the supply chain much less efficient in both delivery response and in the appropriate use of capital.

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 I/S ratio as occurred before the 2009 collapse in orders (see below).



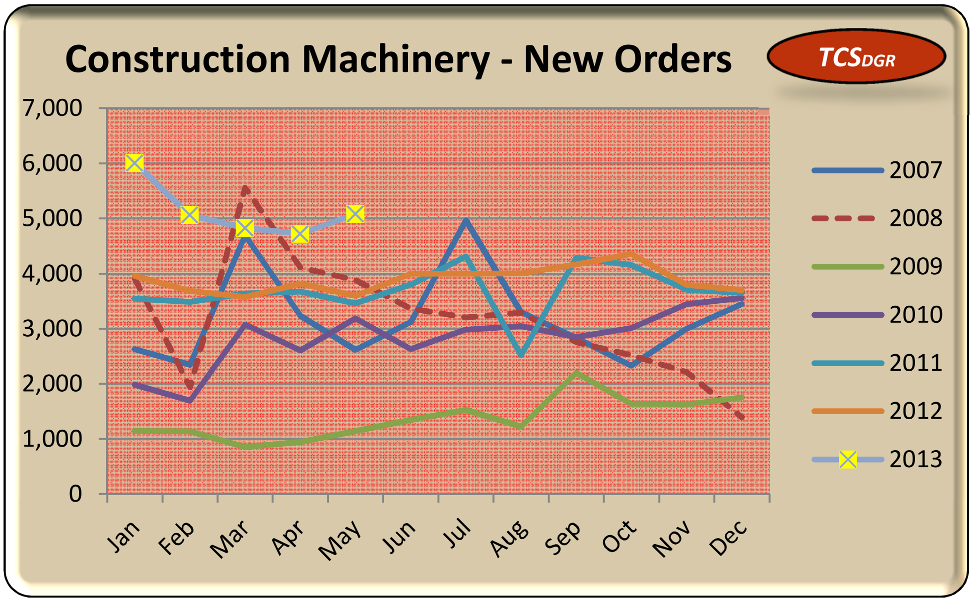


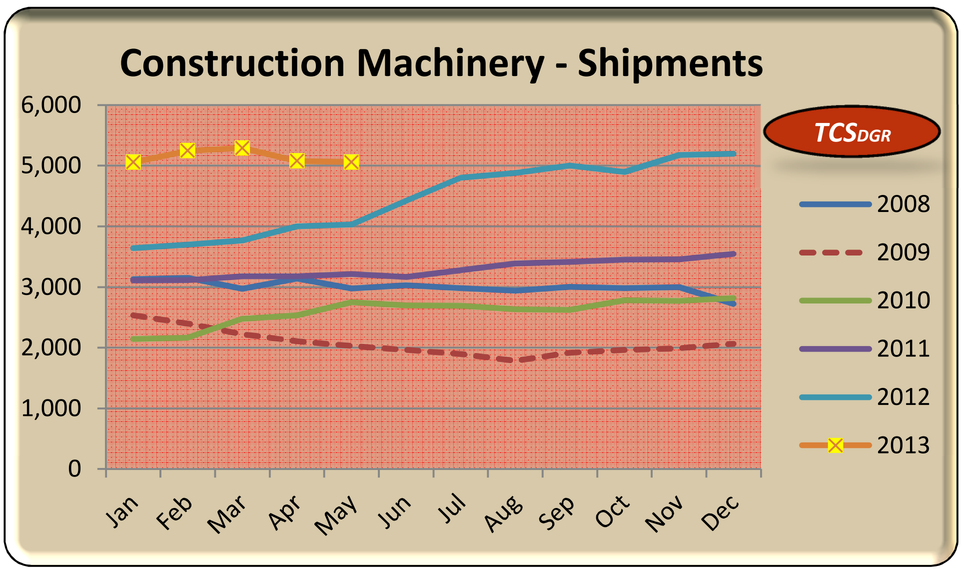
The I/S ratio by stage of production (a DGR exclusive) showed no dramatic signs of change. Note the long term trend. In the earlier discussion we discussed business processes in factory and supply chain operation. The upward trend in WIP (red line) suggests a loss of velocity in the factory. This makes supply chains less stable and less responsive. Not an especially good mix.

For a detailed analysis and recommendation on this subject check out our regular webinars on tracking and traceability. www.tcsdb.com

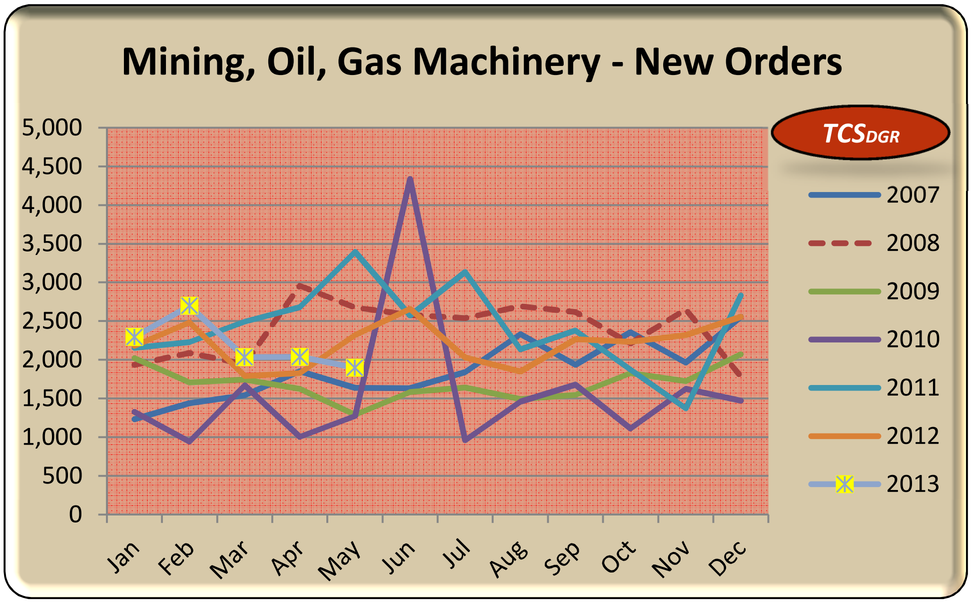
Durable goods sub sectors:

Construction machinery (NAICS 33C) new orders increased 7.6% to $5.1 billion. Shipments decreased 4.1% to $5.1 billion. Book to Bill ratio is neutral at 1.0. (long term average 1.01). Unfilled orders held steady at about $10.2 billion, down from $17 billion a year ago. Despite the retreat from the January peak, orders remain 41% above last years pace.

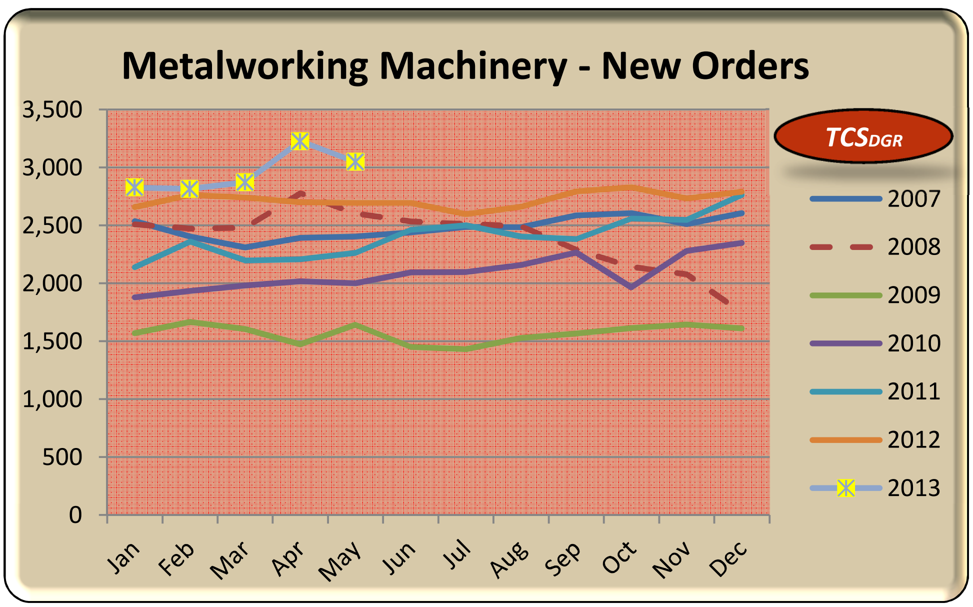




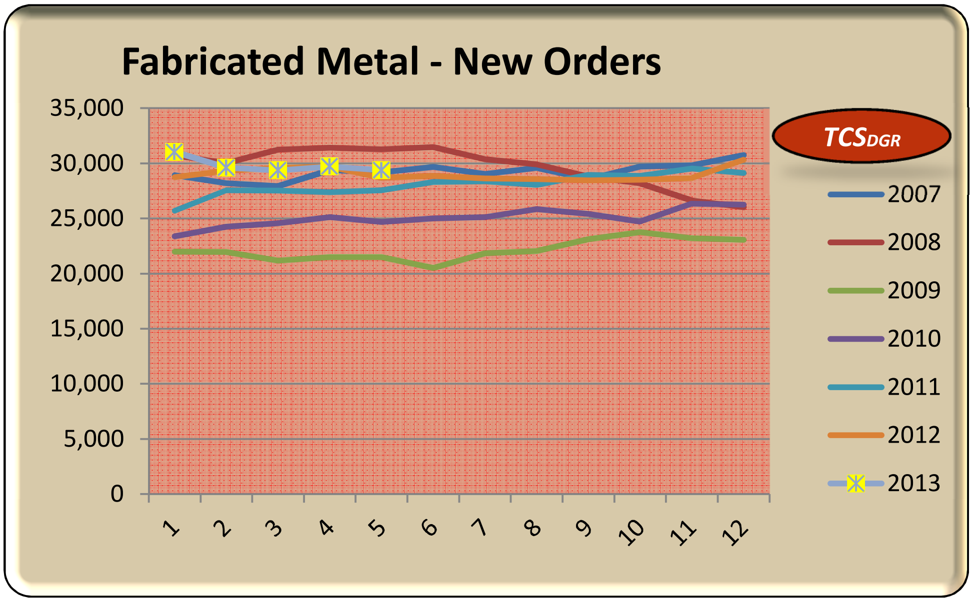
Mining, oil and gas machinery (NAICS 33D) new orders decreased 6.9% to $1.9 billion. Now 18% below last year. Book to bill ratio dropped further to 0.87. (long-term average = 1.03).



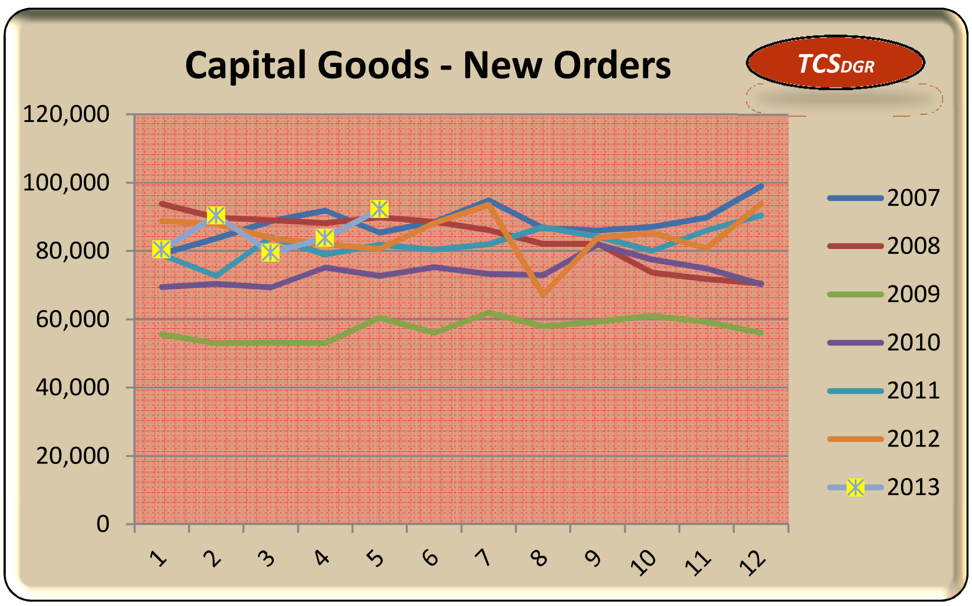
Metalworking machinery new orders decreased 5.5% to $3 billion. Remains 13% above last year. Book to bill ratio decreased to 1.02 (long term average = 1.00).



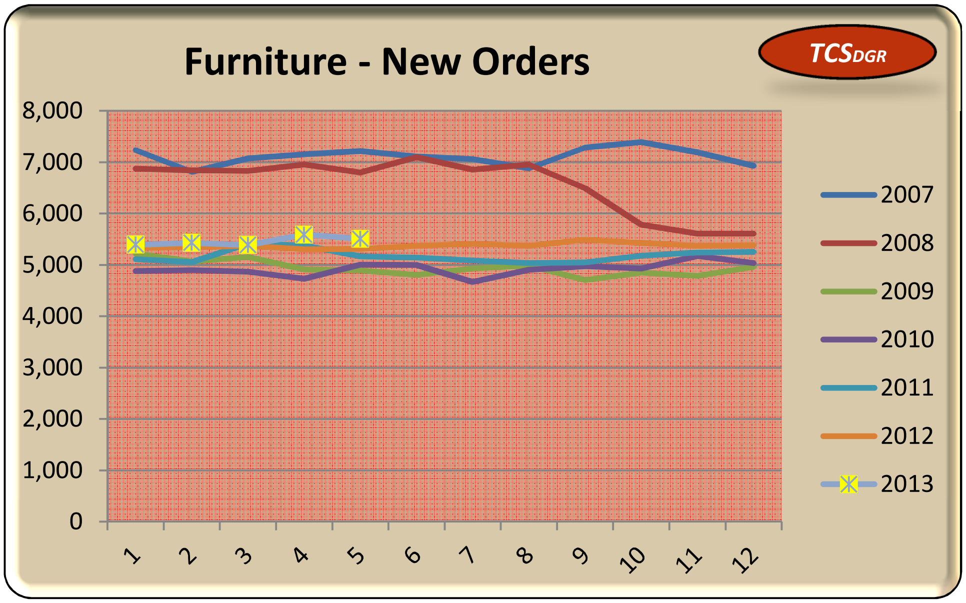
Fabricated metal new orders decreased 1% to $29.4 billion. Remains 2.5% above last year. Book to bill ratio declined to 1.01 (long term average = 1.00).



Capital goods climbed by 10% to $92.2 billion. Book to bill ratio surged to 1.12 (long term average = 1.01). Strong growth at 14.4% above last year.



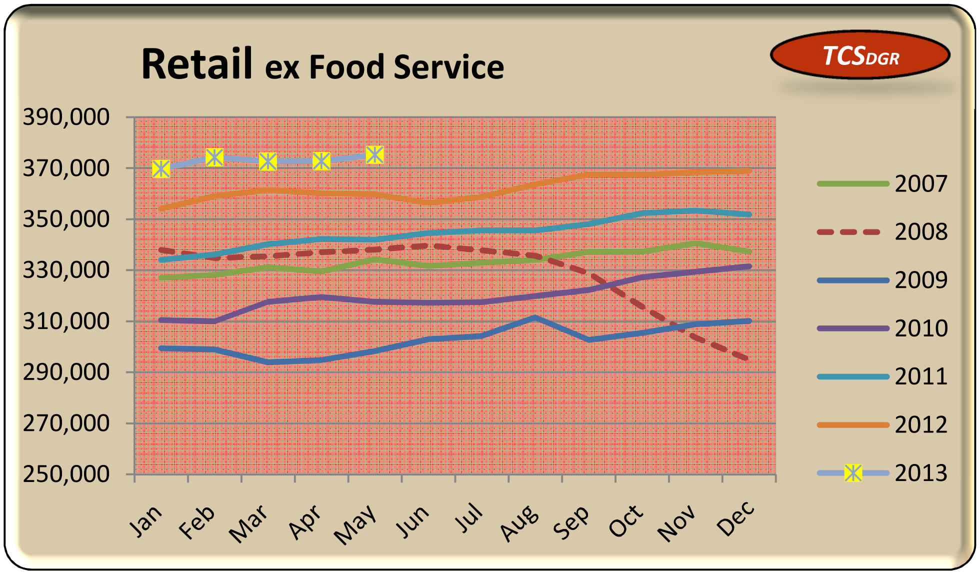
Furniture: New orders decreased 1.4% to $5.5 billion. The book to bill ratio is neutral at 1.01. Improved slightly over recent years but well off the pre-recession levels.



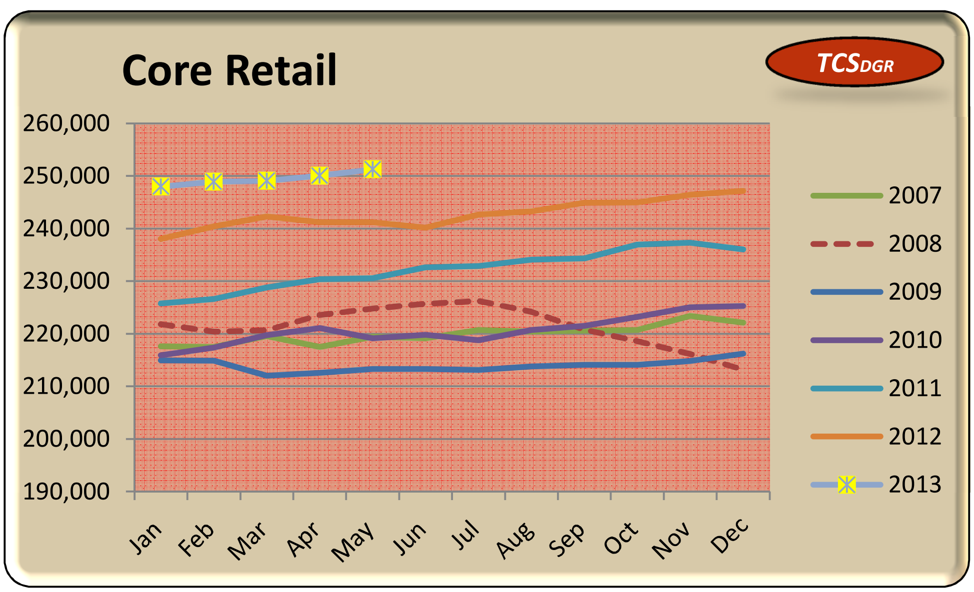
Furniture - New Orders
TCSDGR
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
1
2
3
4
5
6
7
8
9
10
11
12
2007
2008
2009
2010
2011
2012
2013

Retail Data (Advanced Release for May)

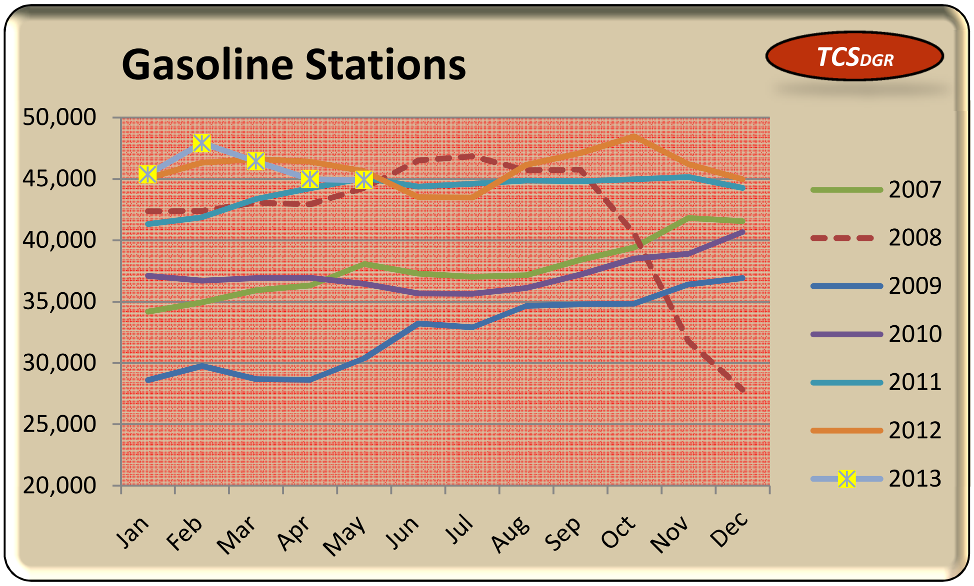
Retail Sales (excluding food service) increased 0.7% to $375.2 billion. Current sales are 4.3% above prior year.



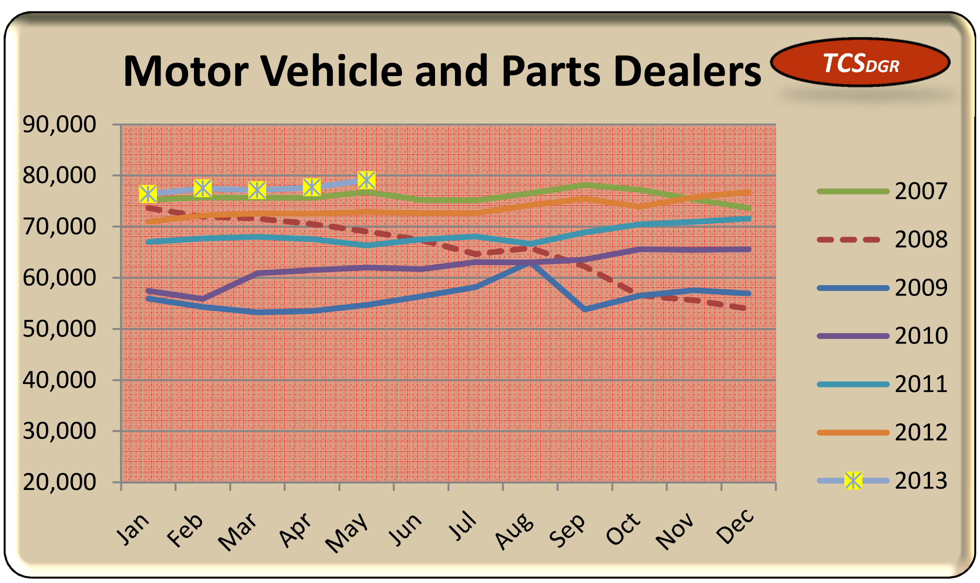
Core retail (excludes food service, gasoline, autos and parts) increased 0.5% to $251.2 billion. Current sales are 4.2% above prior year. About 2.5% to 3% of this number can be attributed to inflation.



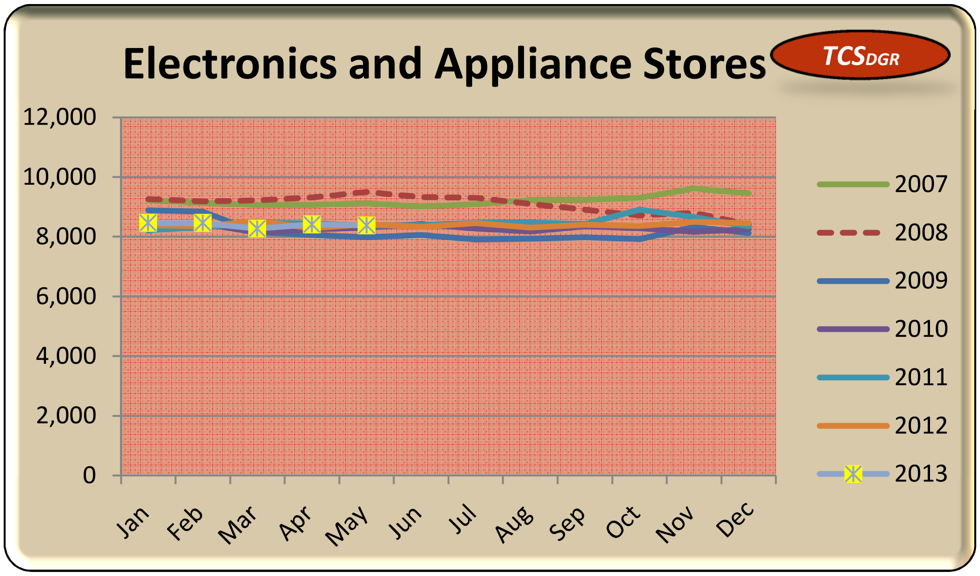
Gasoline sales decreased 0.2% to $44.9 billion. Current sales are 1.2% *below* prior year despite steady price increases. Gasoline consumption continues to decline as the economy slows.



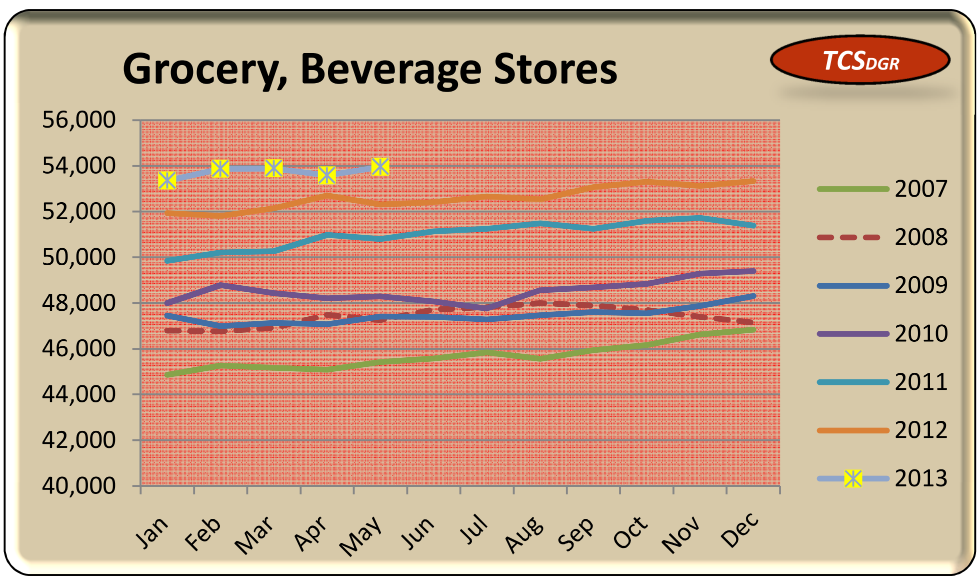
Auto sales increased 1.8% to $79.1 billion. Current sales are 8.5% above prior year. This suggests full recovery for the auto industry.



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.

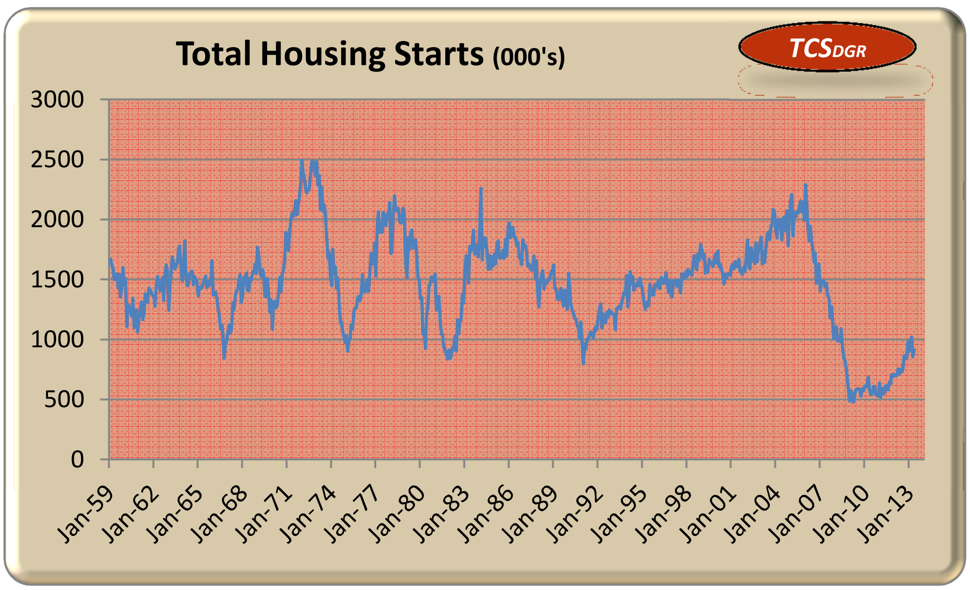


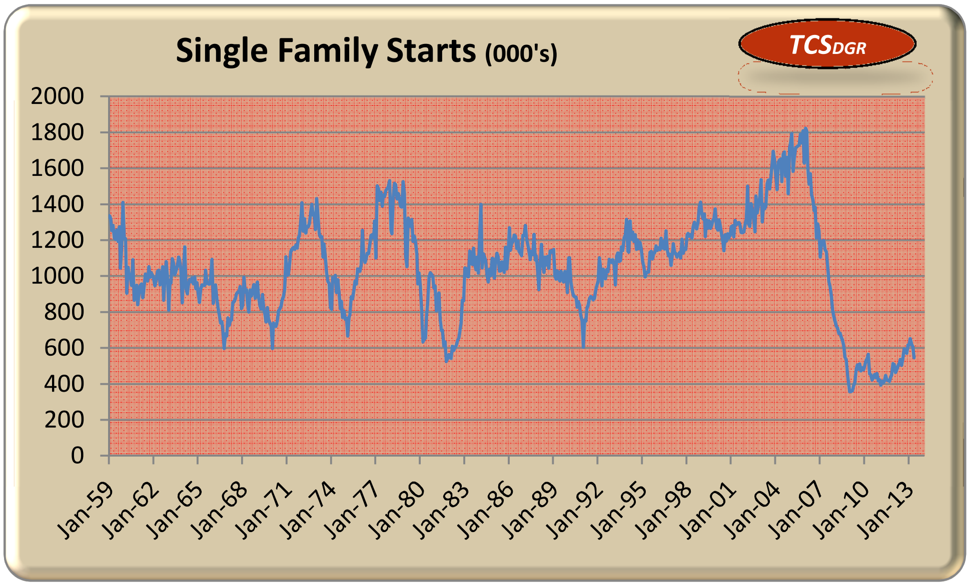
Housing:

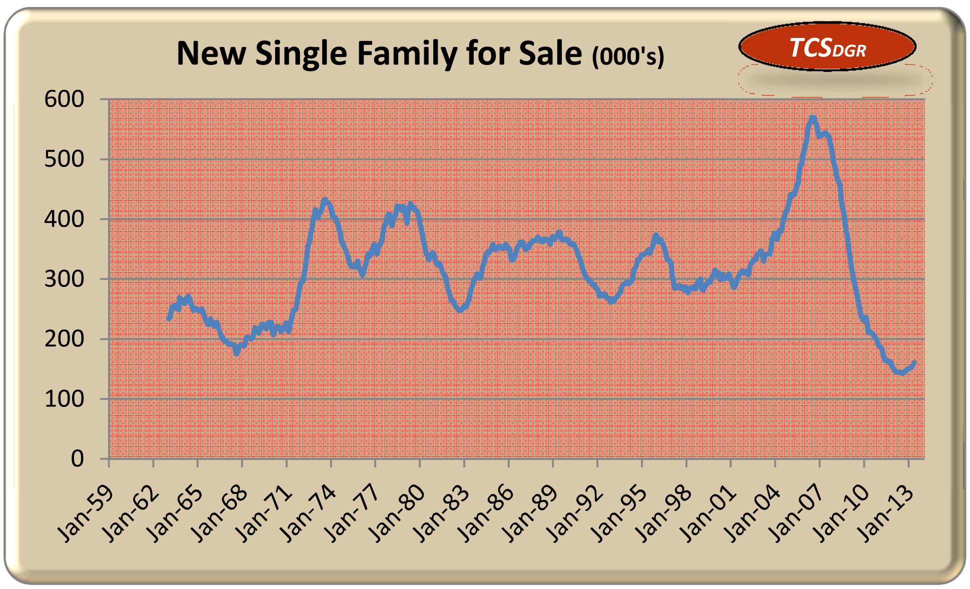
Total housing starts climbed 6.8% to 914,000 in May, after a 16% drop in April. Single family starts decreased 10.5% to 546,000. Single family starts are off 17% in the past three months. New single family sales increased 2.1% to 476,000 units. Inventory of new single family homes increased slightly to 156,000, still well below "normal" levels.

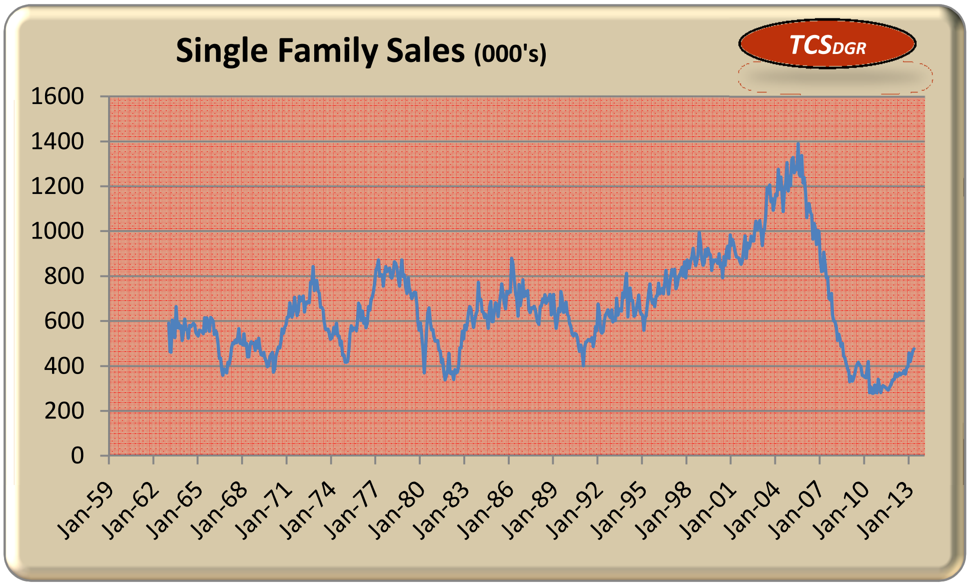
Median sales price (3MMA) jumped to $260,800, 11% above last year. The Case Schiller index suggests the run up in median prices is being driven in large cities.

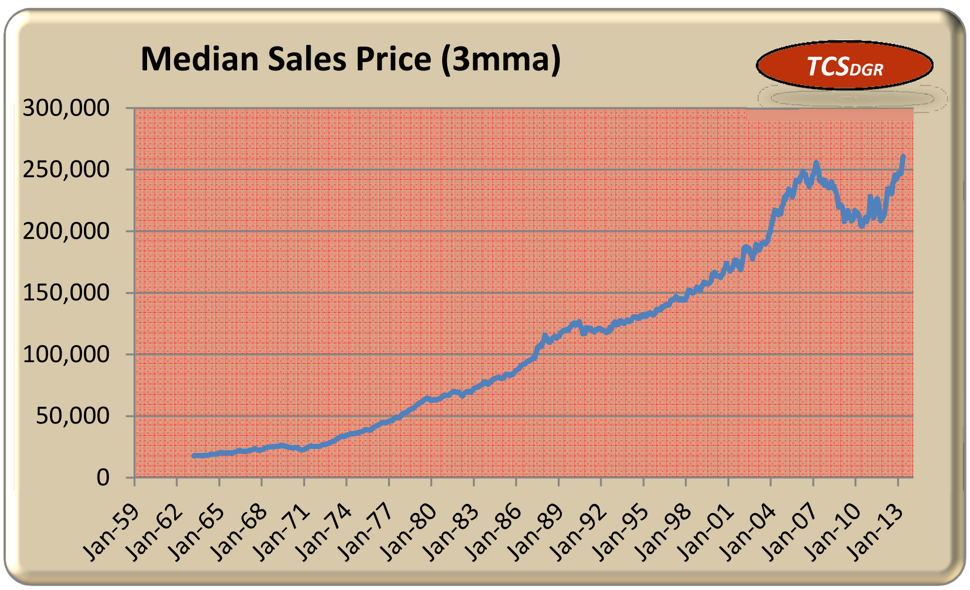
Rates of housing starts suggest a recovery to a low-normal. But the share of single family housing in the mix continues to decline. Single family share of total dropped below 60% for the first time since 1980. Single family units are a signal of economic health as well as a driver of activity since more material and labor go into single family units. The US population is being pushed back economically.




Single Family Starts (000's)
TCSDGR
2000
1800
1600
1400
1200
1000
800
600
400
200
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


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


Single Family Sales (000's)
TCSDGR
1600
1400
1200
1000
800
600
400
200
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 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

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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