



Economics & Financial Markets

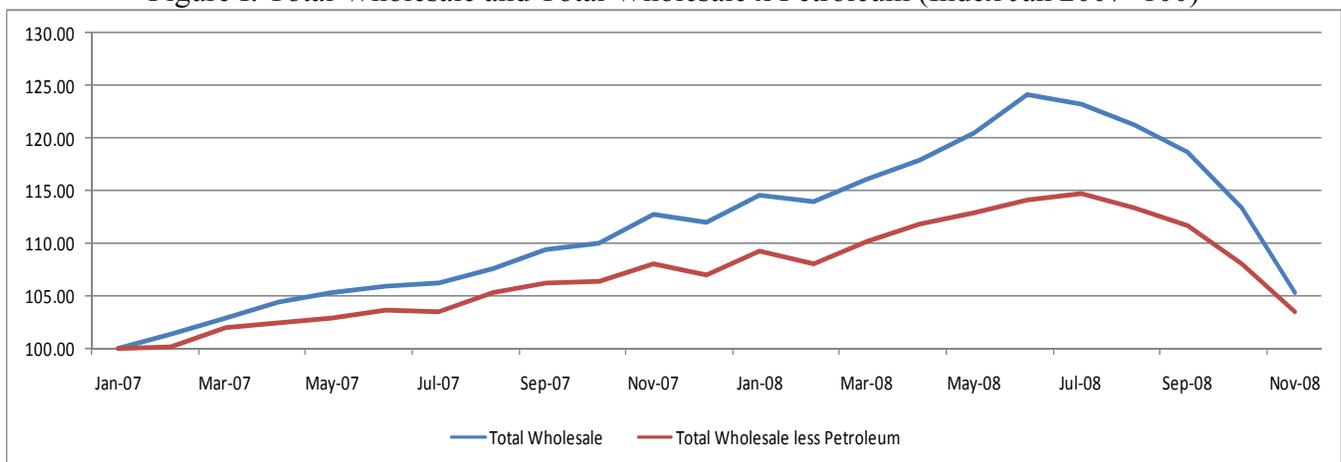
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United States Wholesale Sales

January 10, 2009

Wholesale Trade Sales Down 7.1% x Petroleum Down 3.3%

Figure I: Total Wholesale and Total Wholesale x Petroleum (Index Jan 2007=100)



Source: Department of Commerce: SISR

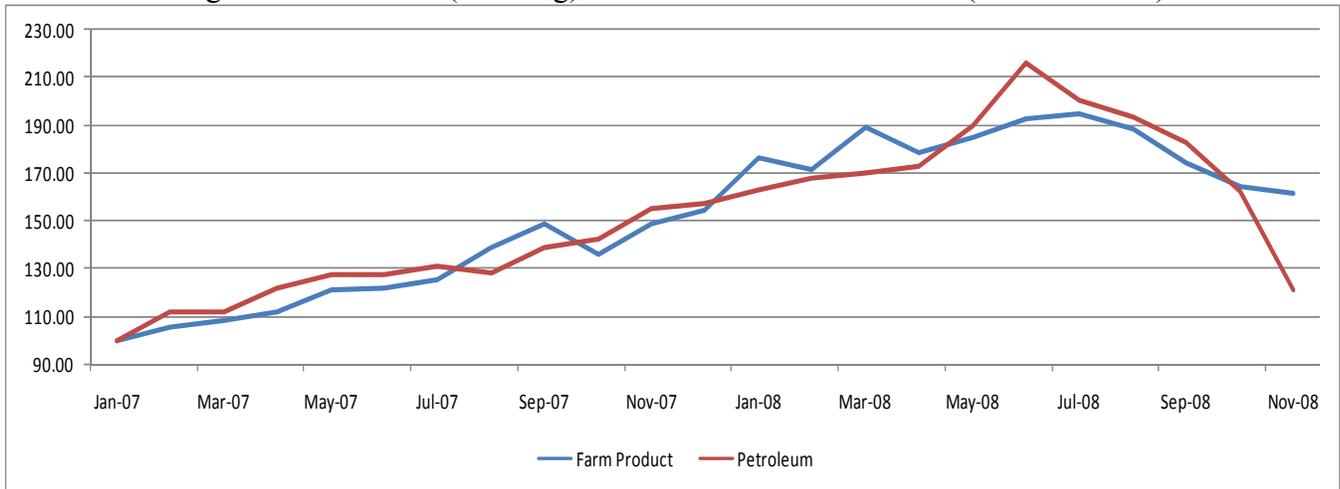
Key Points

- November sales of merchant wholesalers were down 7.1% but x petroleum it was down a lower but still a significant 3.3% (Figure I).
- Durables were down 6.1% and nondurables were down 7.9%.
- Nondurables x Petroleum were down only 2.0%.
- The largest decliners were Petroleum (refining) 25.1%, Automotive (parts) 10.6%, Electrical 8.8%, and Metals 7.3%. These are all categorized as durables.
- The largest decliners of the Nondurables x Petroleum (petroleum is a non durable) were chemicals down 5.0%, Paper down 3.3% and Drugs down 3.4%.
- Apparel was down only 1.7% and Groceries were down 0.6%, both nondurables and the smallest declines of all categories, since every category was negative this past month, even the staples.

Implications

- The declining price of gasoline has been helping the nondurable sector, as has the decline in the price of farm products, providing the consumer with greater discretionary income. Sales of petroleum (wholesale shipments of refiners to gasoline stations), and farm wholesale products (going to food manufactures), have shown significant declines, since the summer of 2008 (Figure II).

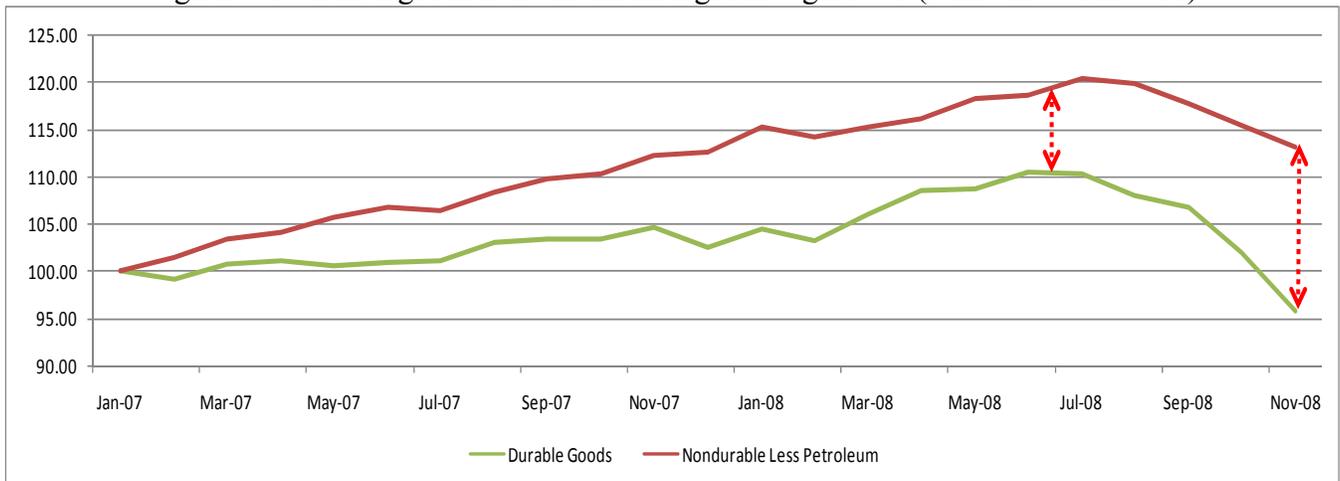
Figure II: Petroleum (Refining) and Farm Products - Indexed (Jan 2007=100)



Source: Department of Commerce: SISR

- This has been our thesis for the past several months that as gasoline prices have come down despite the recession worsening, individuals will purchase smaller ticket items as opposed to larger priced items with their additional disposable income. The arrows show the extent of the drop in Durables as contrasted to Nondurables x gasoline.

Figure III: Durable goods and Nondurable goods x gasoline (Index Jan 2007=100)

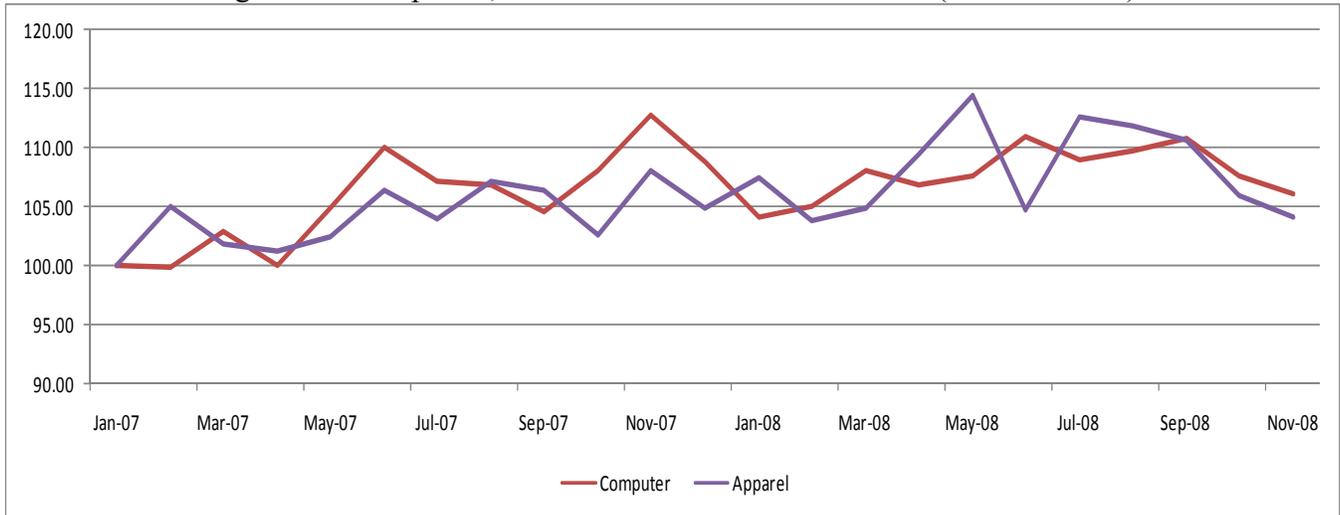


Source: Department of Commerce: SISR

A. Non-Durables

- Computers and Apparel have held up better than most of the other sectors. While they are down about 5% since September most of the other sectors are down much more significantly. In fact since January they have been rather flat as opposed to being down like most other sectors.

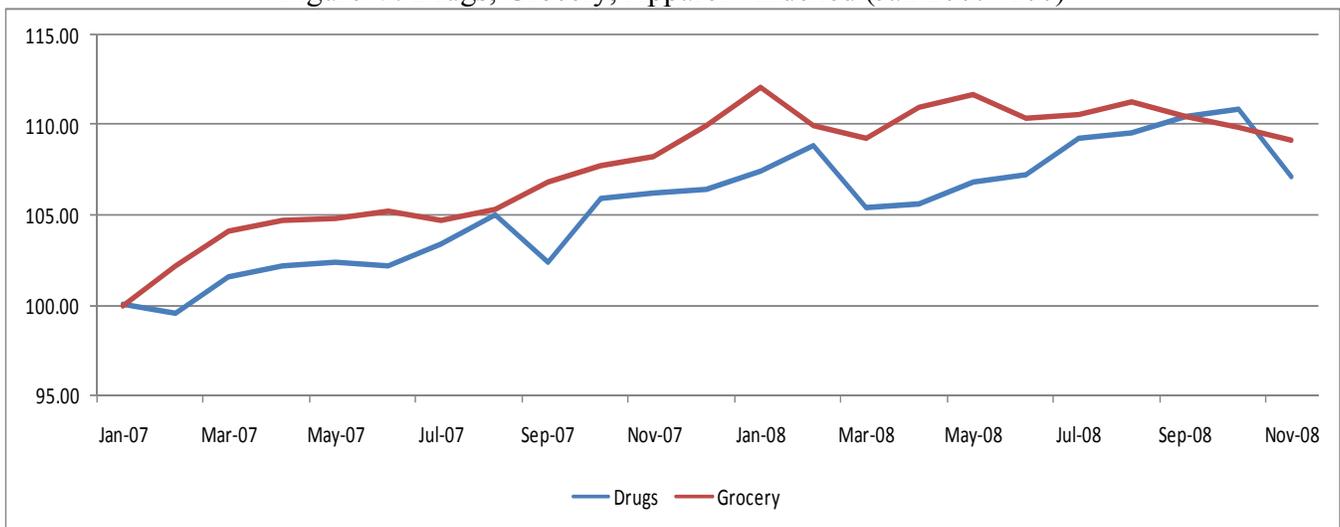
Figure IV: Computers, Electrical & Electronic - Indexed (Jan 2007=100)



Source: Department of Commerce: SISR

- We see from Figure V that Drugs and Groceries have been stable throughout the recession, which is what we would expect given that they are staples and not discretionary expenditures. The decline in groceries additionally is more a result of declining food prices than a decline in quantities purchased, as was the rise in groceries prior to May 2008, a consequence of increasing prices.

Figure V: Drugs, Grocery, Apparel - Indexed (Jan 2007=100)

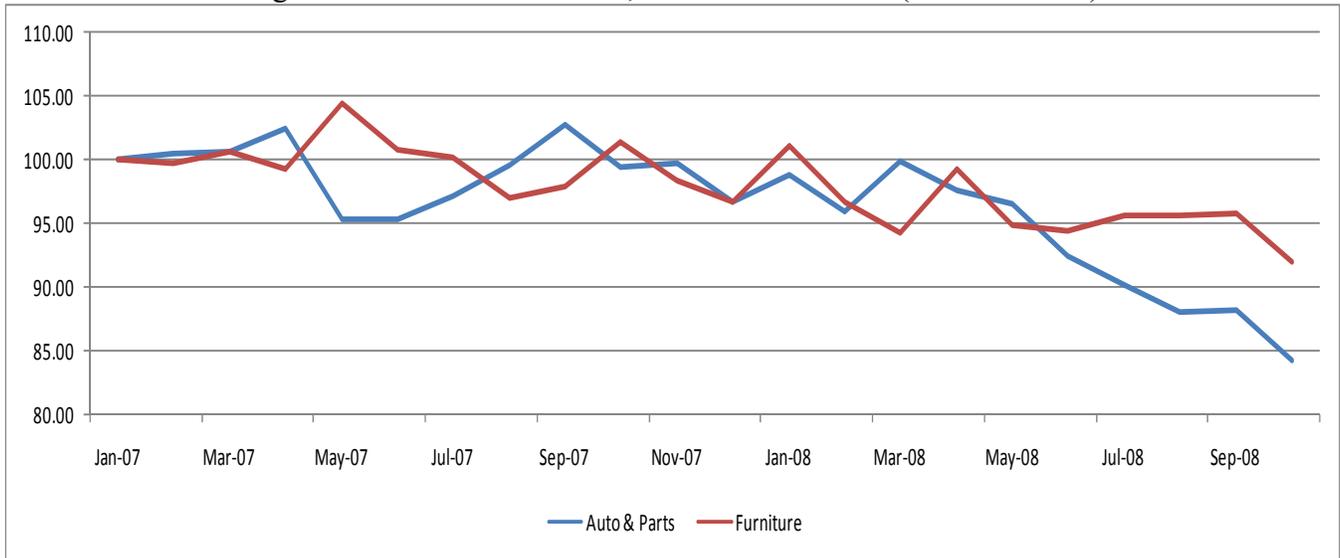


Source: Department of Commerce: SISR

B. Durables

- The large ticket items however, like Autos and Furniture have been in serious decline since the beginning of the recession which began late in 2007 (Figure VI).

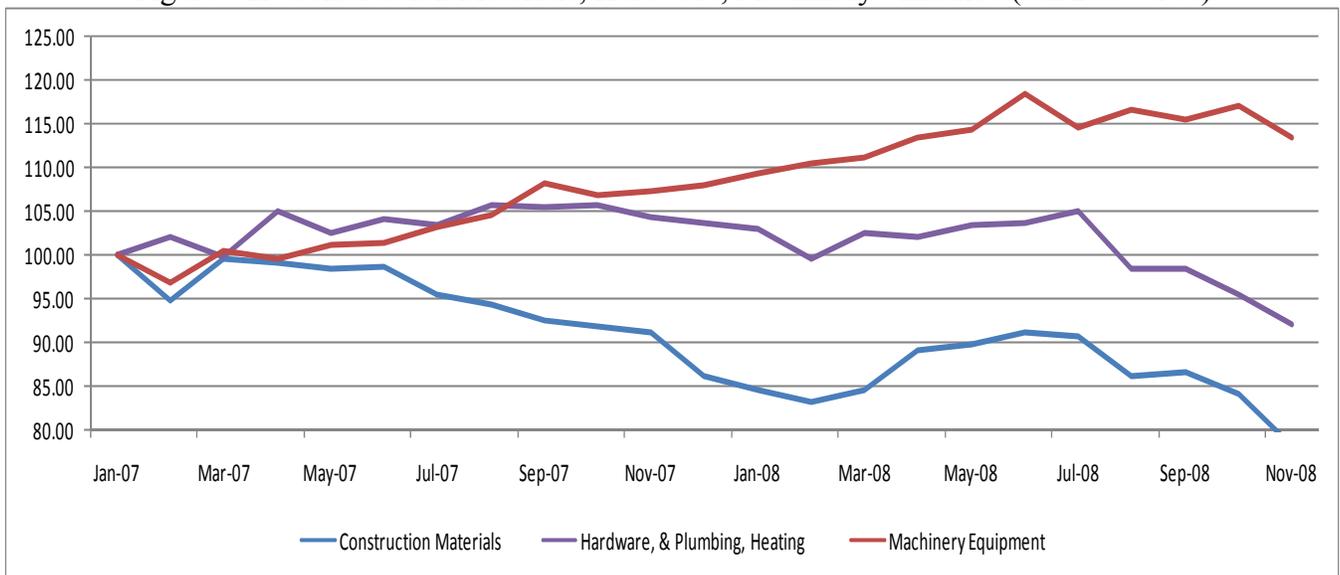
Figure VI: Auto & Auto Parts, Furniture - Indexed (Jan 2007=100)



Source: Department of Commerce: SISR

- The same can be said for construction materials, and hardware & Plumbing which has struggled throughout the recession (Figure VII), with machinery equipment one of the strongest sectors for the past few years resulting from exports has begun break down as exports have begun to decline.

Figure VII: Construction Materials, Hardware, Machinery - Indexed (Jan 2007=100)



Source: Department of Commerce: SISR

Conclusion

The themes that we have been arguing for the past three months are again central to this report that:

1. Petroleum has distorted so many economic reports both on the up side and on the down side. Currently the data is coming worse than it should because of the rapid decline in the cost of gasoline, whereas for the past four years all reports were coming in better than they should have been.
2. Nondurable goods will outperform durable goods because the consumer has more disposable income and until they become more comfortable with larger purchases they will continue to use extra disposable income on these smaller items, restaurants, apparel, minor home improvements.
3. For the past few months we have argued that if the consumer stops saving and spends some of their additional disposable income, the consumer sector will begin to improve, and as that occurs the economy will recover faster than most economists have projected.

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