



## Economics & Financial Markets

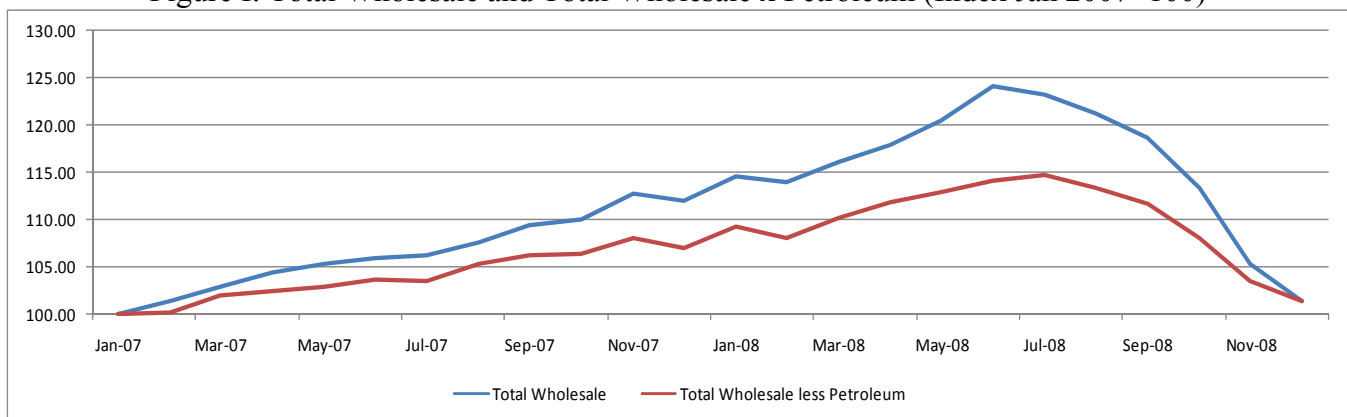
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### United States Wholesale Sales

February 11, 2009

## Wholesale Trade Sales Down 3.6% x Petroleum Down 1.5%

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



Source: Department of Commerce: SISR

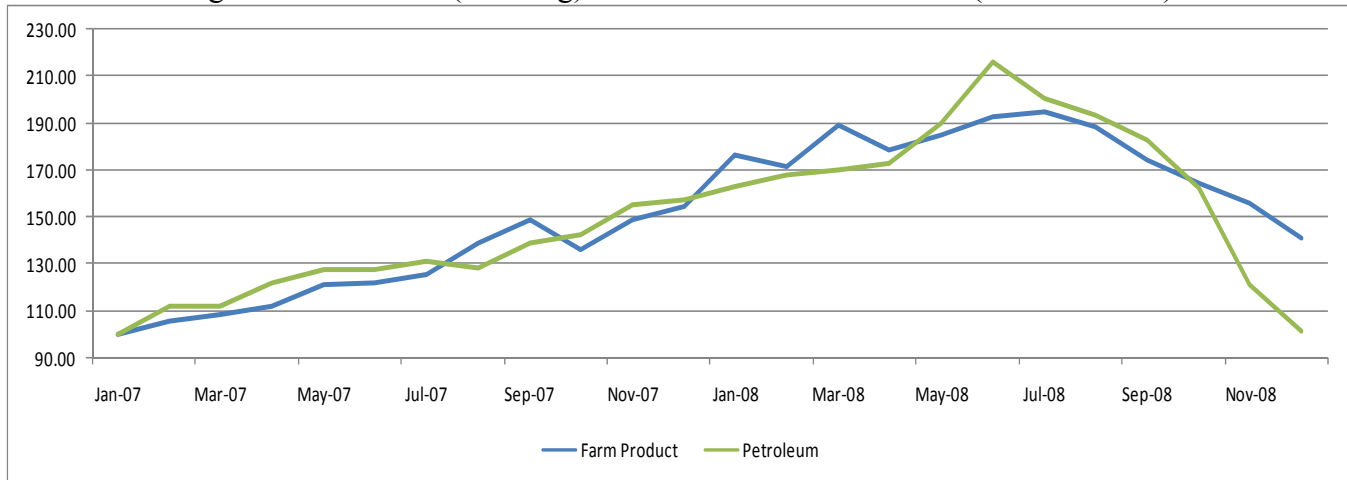
### Key Points

- December sales of merchant wholesalers were down 3.6% from 7.1% in November but x petroleum it was down 1.5% (Figure I) i.e. contracting but at a much slower rate.
- Durables were down 2.0% as compared to 6.0% in November and nondurables were down 4.9% in contrast to 8.4% in November.
- Nondurables x Petroleum was down only 1.5% after being down 2.0% in November.
- The largest decliners were Petroleum (refining) a nondurable down 16.4%, and Automotive (parts) 8.1%, Lumber 8.1%, and Metals 5.3%, all durables.
- The largest decliners of the Nondurables x Petroleum (petroleum is a non durable) were Farm products down 9.4%, chemicals down 7.0%, and paper down 3.3%.
- Apparel was down only 1.7% whereas Groceries and Drugs were up 0.3% and 0.6% respectively, all nondurables.

## • 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).

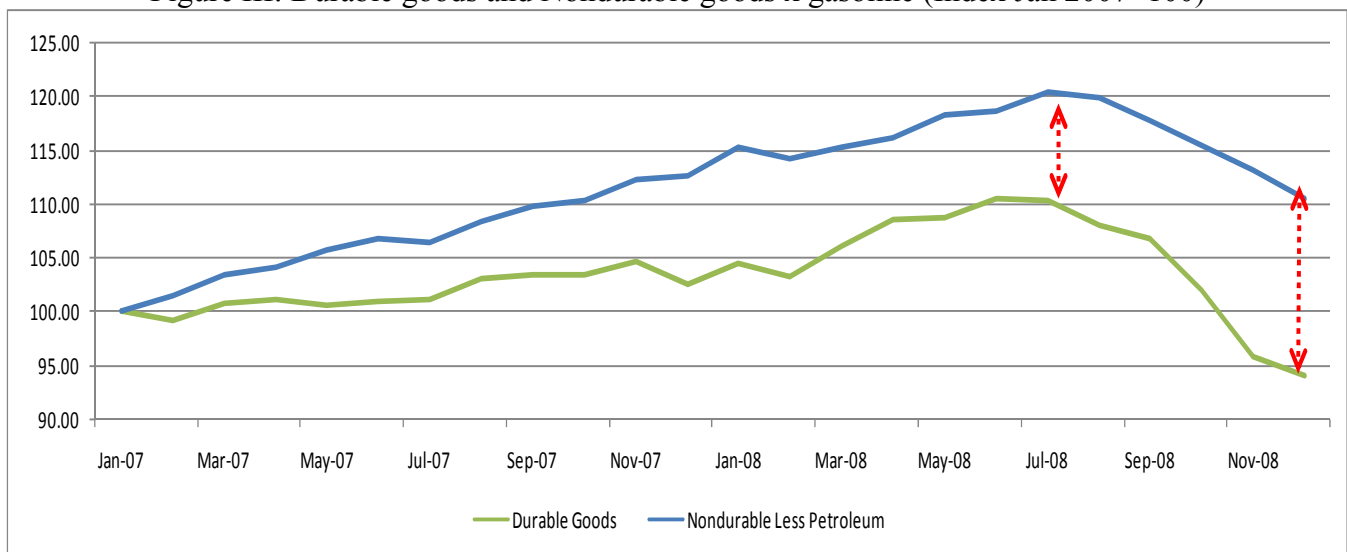
Figure II: Petroleum (Refining) and Farm Products - Indexed (Jan 2007=100)



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)

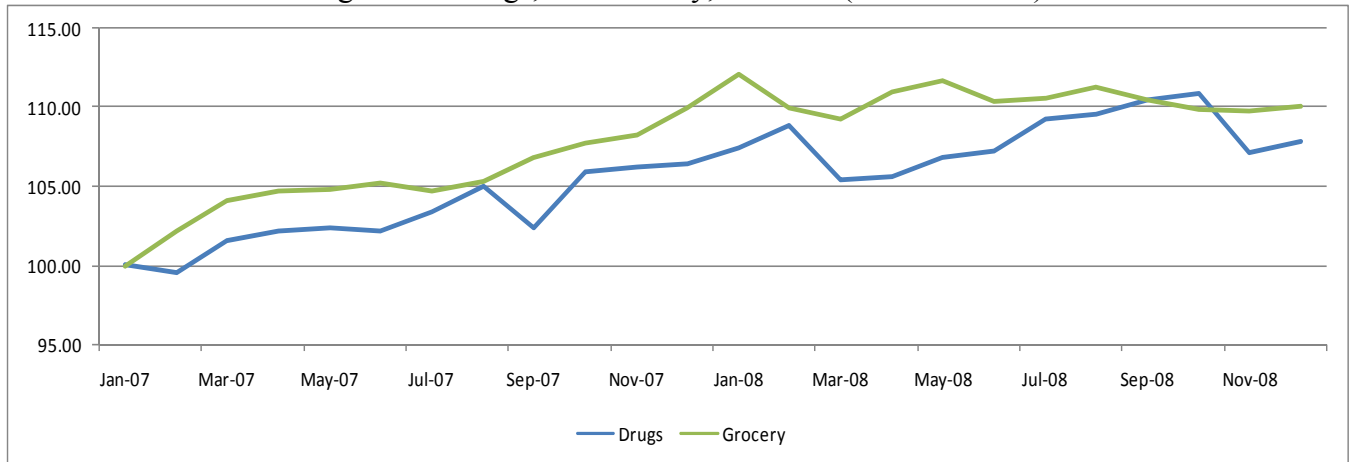


Source: Department of Commerce: SISR

## A. Non-Durables

- We see from Figure IV 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. Both Groceries and Drugs increased this past month and were the only non-durable that was up except for Alcohol & Beverages which was also up 0.7%.

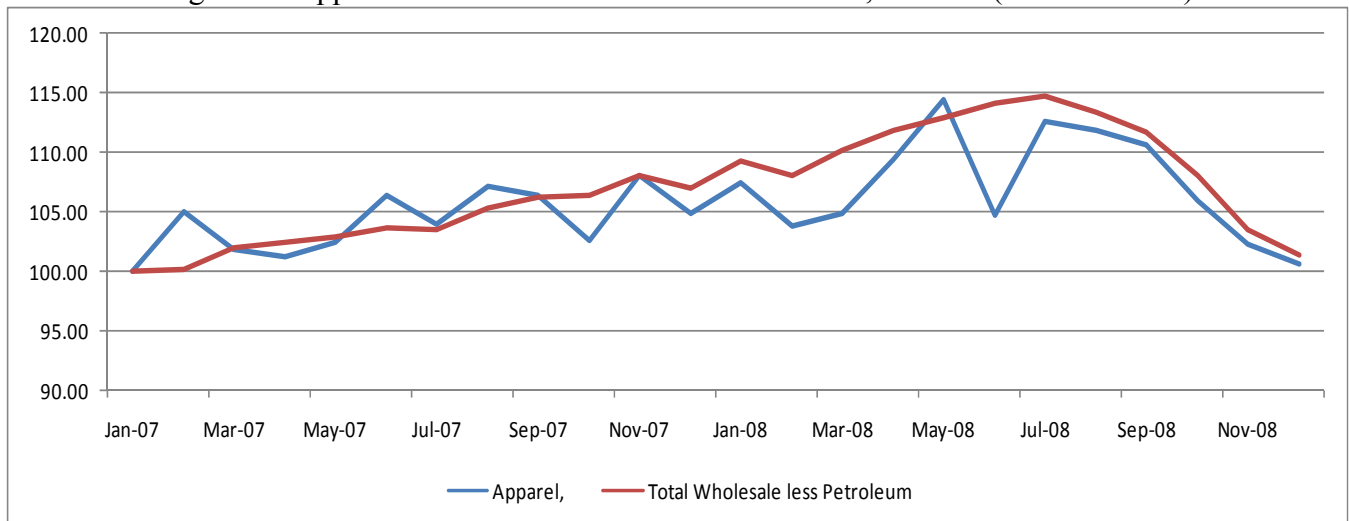
Figure IV: Drugs, and Grocery, Indexed (Jan 2007=100)



Source: Department of Commerce: SISR

- Apparel as a low ticket item has outperformed the durables in recent months as it has this month being down 1.7% with durables being down 2%. Nondurables x Petroleum was down 1.5% this month with apparel down 1.7%. What is interesting is that apparel almost functions like bell weather for this report. Plotting apparel with total wholesale less petroleum we find that apparel is almost a perfect trend line for the index less petroleum. The two variables are indexed base 100 for Jan 2007.

Figure V: Apparel and Total Wholesale less Petroleum, Indexed (Jan 2007=100)

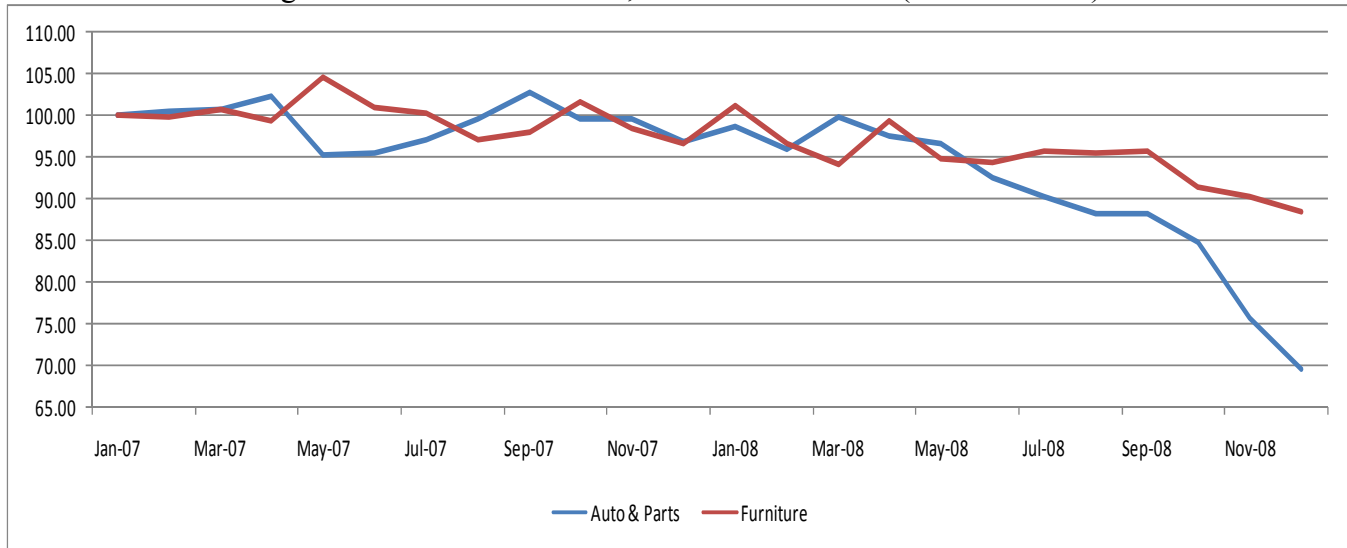


Source: Department of Commerce: SISR

## 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 V).

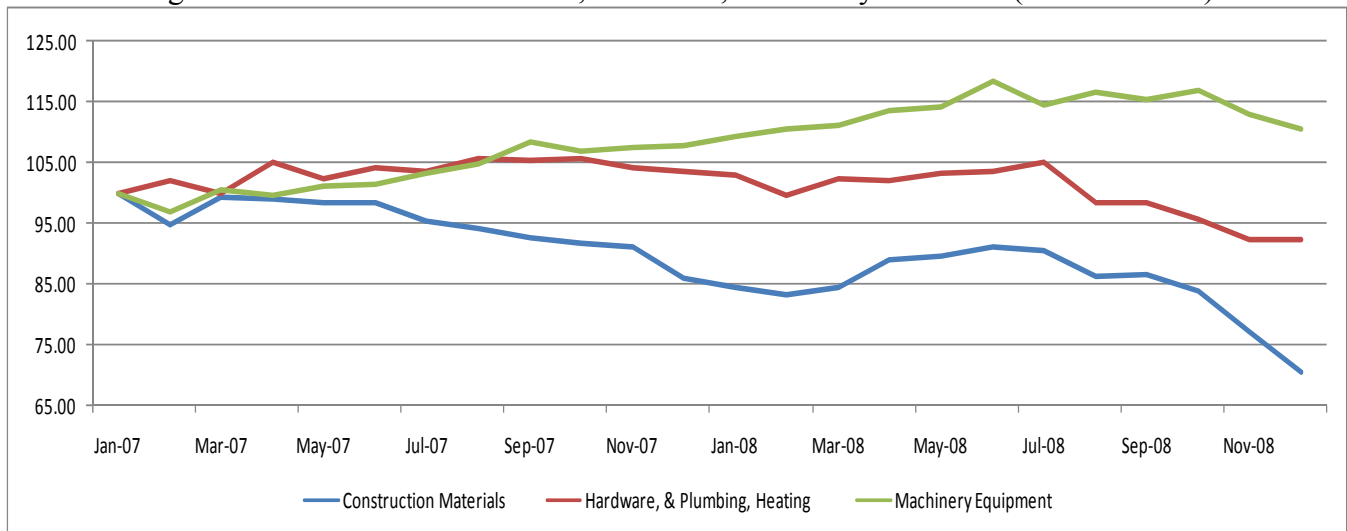
Figure V: Auto & Auto Parts, Furniture - Indexed (Jan 2007=100)



Source: Department of Commerce: SISR

- The same can be said for construction materials, and hardware & Plumbing which has struggled throughout the recession (Figure VI), 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.

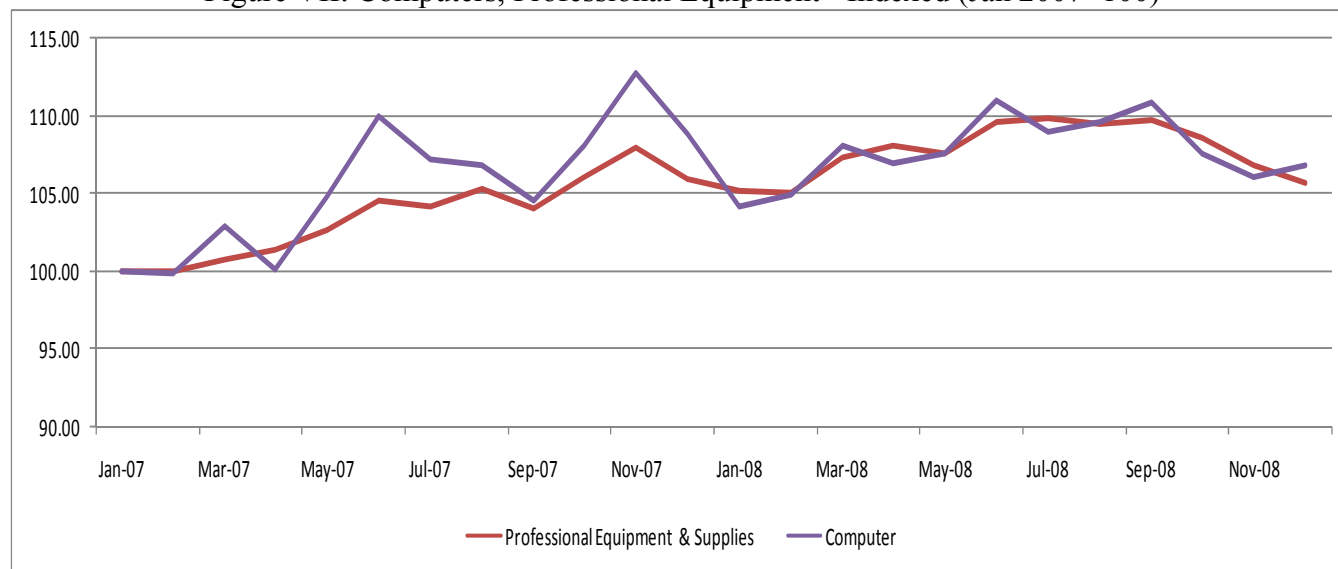
Figure VI: Construction Materials, Hardware, Machinery - Indexed (Jan 2007=100)



Source: Department of Commerce: SISR

- The one exception was that Computers which was up slightly and Electrical & Professional Equipment which was down slightly, but more stable than the other durables. The likely reason is the same as for the nondurables is that these are lower ticket items that individual commonly purchase, as opposed to an auto which is a much bigger ticket item.

Figure VII: Computers, Professional Equipment - 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. The savings rate is highly dependent on the level of consumer confidence in the economy.

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