

SISR Strategic International Securities Research Inc.

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Economics & Financial Markets

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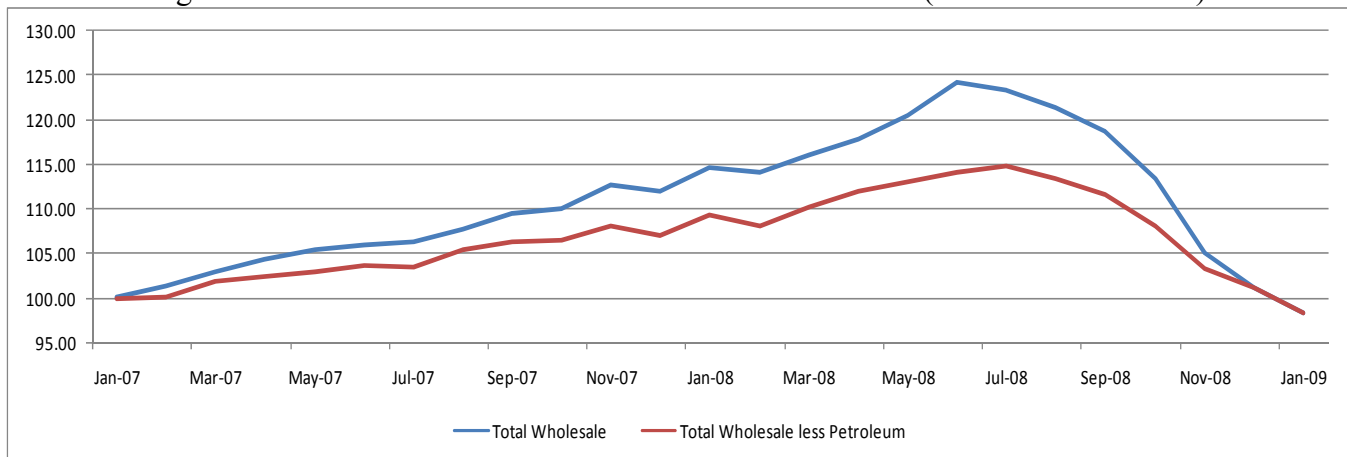
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United States Wholesale Sales

March 10, 2009

Wholesale Trade Nondurable Continues to Outperform Durables

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



Source: Department of Commerce: SISR

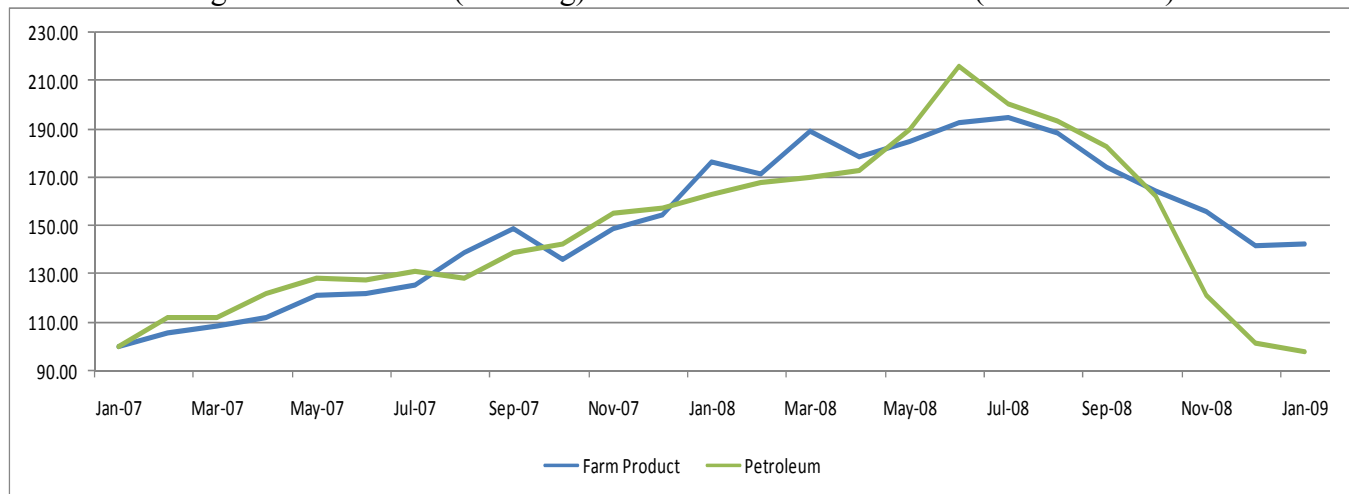
Key Points

- January sales of merchant wholesalers were down 2.9% from 3.7% in December and from 7.1% in November.
- Durables were down 6.5% as compared to 2.2% in December and 6.0% in November and nondurables were up 0.3 in contrast to being down 4.9% in December.
- Nondurables x Petroleum was up 0.9% after being down 1.5% in December.
- The largest decliners were metals down 15.3%, machinery down 10.8% and autos down 6.5%, all durables.
- The largest gainers were Drugs up 2.1%, Groceries up 1.7%, Apparel 0.6% and alcohol up 1.5% and farm products up 0.7% all nondurables.

- Petroleum (refining) a nondurable was down only 3.5% this month in contrast to down 16.4% in December.
- 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).

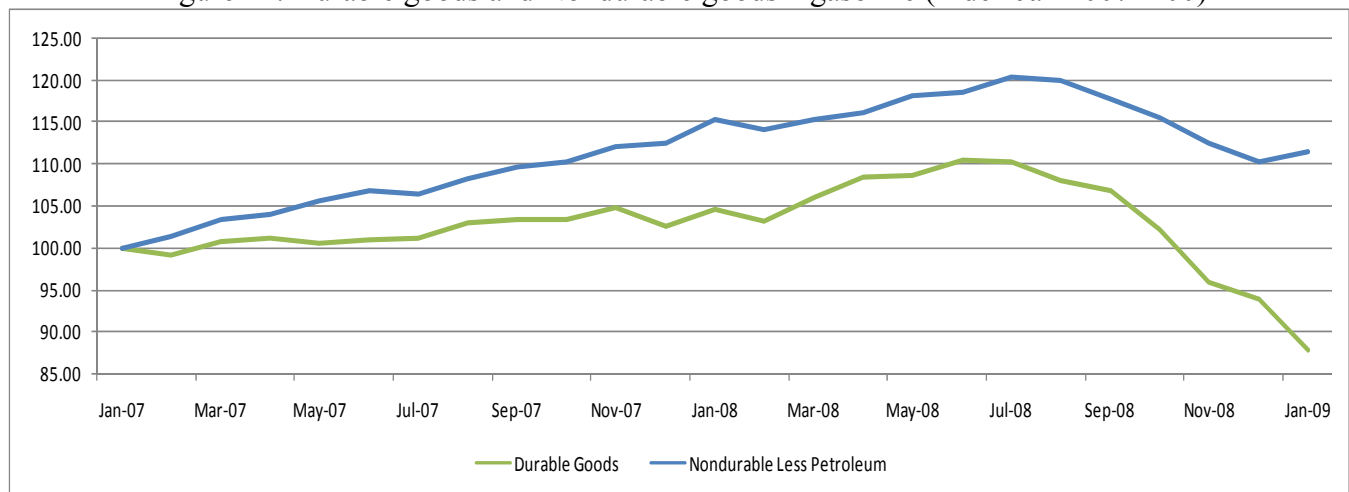
Figure II: Petroleum (Refining) and Farm Products - Indexed (Jan 2007=100)



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

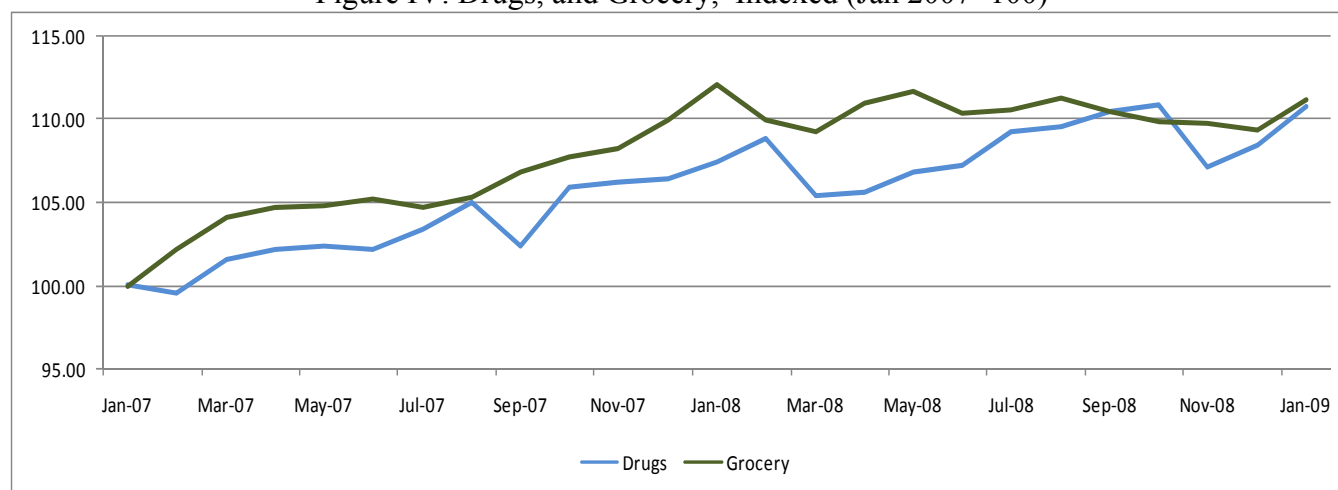
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A. Non-Durables

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 1.5%.

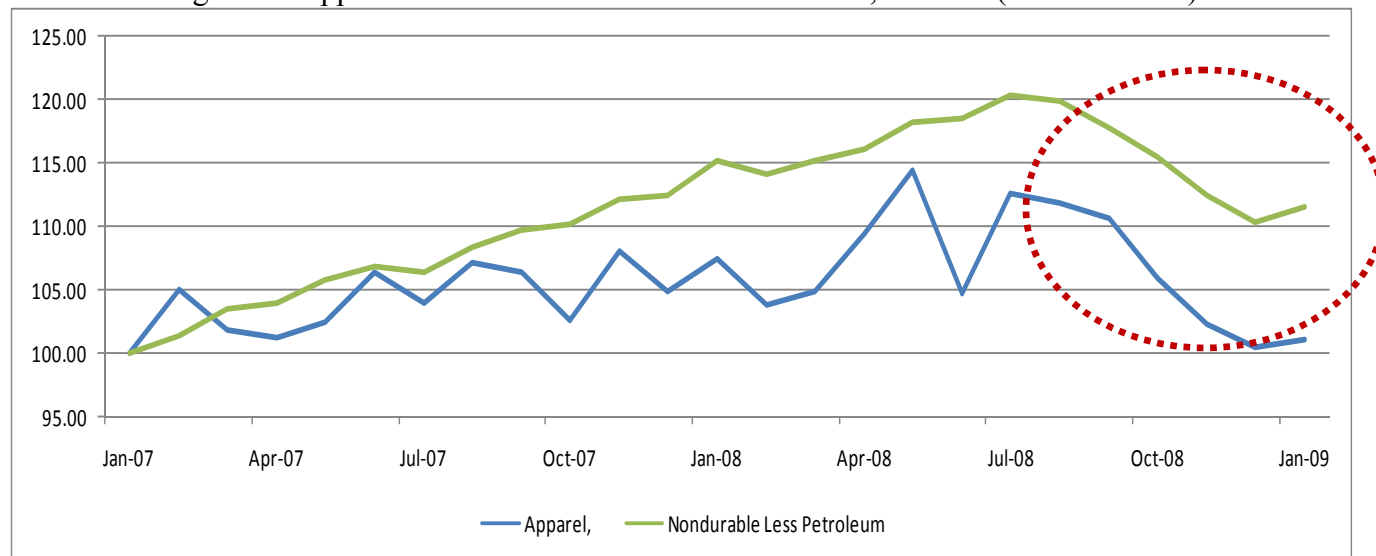
Figure IV: Drugs, and Grocery, Indexed (Jan 2007=100)



Source: Department of Commerce: SISR

Apparel also a durable good and a low ticket item has performed in line with nondurables x petroleum with the slope of the decline consistent with decline in nondurables less petroleum.

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

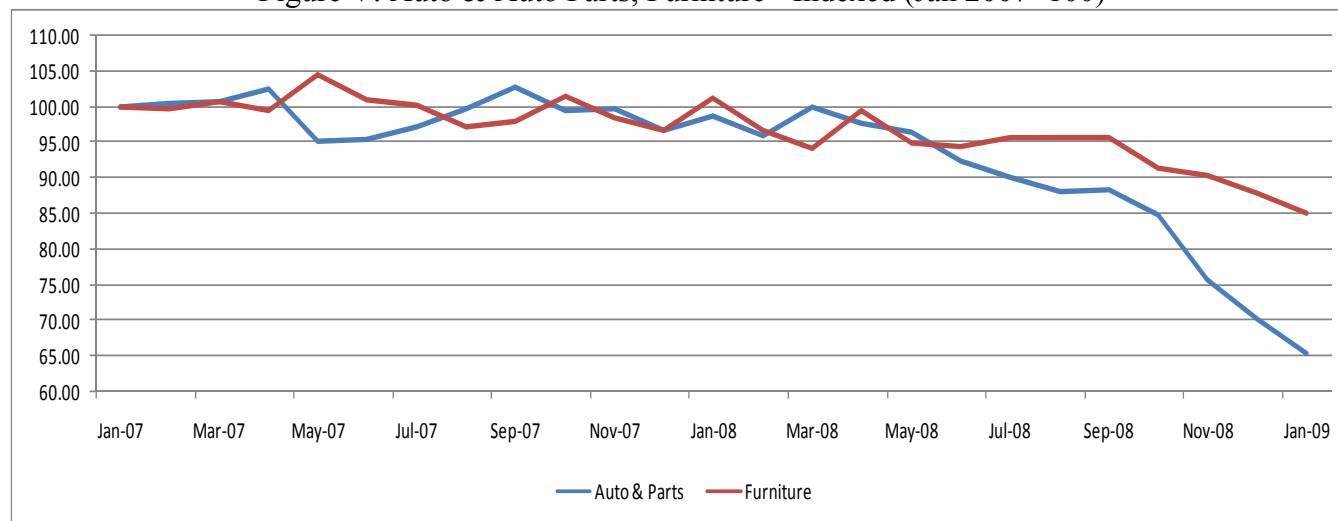


Source: Department of Commerce: SISR

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).

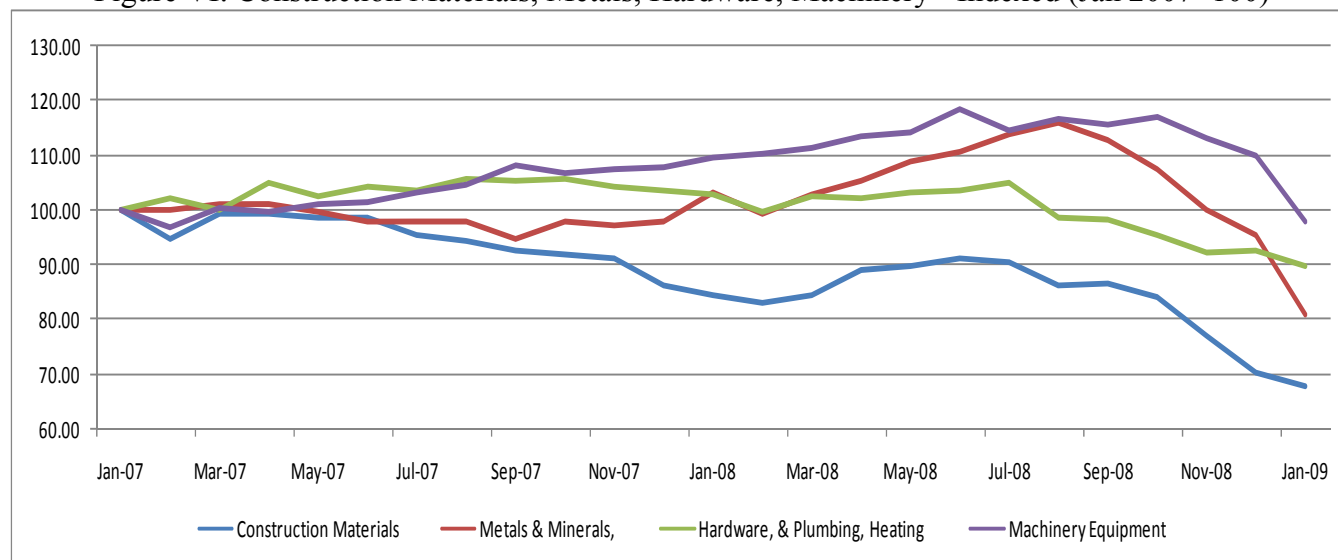
Figure V: Auto & Auto Parts, Furniture - Indexed (Jan 2007=100)



Source: Department of Commerce: SISR

The same can be said for construction materials, metals 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, Metals, 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. The savings rate is highly dependent on the level of consumer confidence in the economy.

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