



## Safian Investment Research

96 Brook Hills Circle, White Plains, NY 10605  
Economic Analysis • Asset Consultant • (914) 697-9700 • Fax (914) 761-1011

# Investment Strategy Report for Institutional Investors

A Sector Approach to Stock Market and Economic Forecasting

\*\*\*\*\*

Since 1962

Vol. 49 No. 9

May 1, 2009

### Viewing Economic Series in a New Era Bull Market

We continue to believe a new bull market has started and that the popular averages (unlike large equally weighted indices) did not reflect the improving technical condition in early March of this year. Undoubtedly, investor opinions are now more bullish, but we do not see a major pull back developing as yet. Stock market leadership may be complex at times because of the uncertainty of government actions. However, recent economic conditions reflected a major setback and the beginnings of some stabilization.

### Industrial Production

This report discusses industrial production, selected new orders series, and personal consumption series from the first quarter gross domestic product release which have been very helpful during turning points for the economy. We analyze these figures in various ways, but at this phase of a recession, the year over year changes on an historic basis have been very helpful. For example, the year over year change for industrial production dating back to 1919 shows that the current year over year decline is about the same as it was in 1975 and that low and the current one is the lowest since the mid 1940s, just after World War II (see page 3). The gradually narrower peaks and troughs for this annual rate of change reflected the better control government had over the economy due to the improved measurement of business activity and the lack of world conflict. The financial excesses permitted by the Greenspan years provided the massive speculation that created a loss of control over the system. Our country's leadership is now struggling to regain stabilization.

### Industrial Production For Individual Industries

Motor vehicle and parts industrial production series reflect an extreme in business weakness since the index is back to the 1984-1992 levels and the year over year percentage change was down more than 40% earlier this year. There was a slight rebound in that rate in March (page 5). The construction series fell to levels reached in the early 1990s and the year over year change was the lowest since the data have been available (page 7). The computer and electronic production series (see page 8) showed a different pattern. Its peak annual rate of growth for industrial production occurred in 1997

and during the 1995 - 2000 peak rates of growth that averaged about 32%. That speculative period resulted in a dramatic drop in the growth rate for industrial production for technology industries. The rebound in the 2000-2007 period was moderate and that year over growth rate was negative 17% most recently. This industry experienced its excesses in the late 1990s, so it is very different from those sectors that recorded financial excesses more recently.

Pages 11A to 12A present some of the energy industrial production series. These show the recession resistant aspect of the electric utility industry. However, in the early 1980s that sector also declined rather sharply. Page 12 shows the industrial production for the oil and coal industries (which do have different characteristics) have held up relatively well. Page 12A illustrates the drilling industrial production data which recorded a major drop from the early 1980s to the early 1990s due to the overly bullish attitudes created by the Alaskan pipeline. That growth, however, was renewed in the late 1990s. This sector has been more cyclically sensitive. Unlike the industrial production series for energy, the data for primary metals declined about 45% from a year ago and production for wood products and paper had sharp drops as well (pages 13 - 16). Industrial production for defense and equipment remained stable during the same time period (page 14).

### **Capacity**

Capacity growth and capacity utilization are also useful series in the industrial production release that can help in forecasting business trends. The diffusion indexes for capacity utilization lag by one month and showed improvement in both January and February (30% in January and 33.8% in February compared to 28.8% in November and 21.5% in December).

The larger the capacity growth in a business expansion, the greater the chances are for weaker price trends and reduced production activity. Unfortunately, we do not have capacity figures for foreign countries, so we have to follow price trends during a downtrend in economic activity to see how prices are acting as an indication of capacity trends. For this reason, we have frequently included commodity prices in our investment reports. It is interesting to note that capacity growth was very small in the 2003 to 2007 business expansion, indicating less potential supply when business conditions rebound (page 17). Total capacity utilization and the utilization for manufacturing were sharply reduced in this recession. This would suggest greater corporate management efforts to reduce overhead and tighten cost controls. In our belief, this is why some corporations are reporting better than expected results (page 17A). Capacity utilization was relatively high for primary metals in 2007, but not at the 90% plus levels in the 1990s. Therefore, as demand eased for the economy, prices of spot metals collapsed in 2008 (page 18). It is interesting to note that capacity growth rose about 2% for oil and natural gas production which is a relatively high figure. Petroleum and coal also recorded a continued rise in capacity. Capacity trends were pretty flat for machinery while the same series for computer and electronic products recorded relatively small gains since 2003 (pages 19 - 22).

## **New Orders And Inventories**

The figures for manufacturers' new orders and inventories for durable goods were down for orders and little changed for inventories. Primary metals recorded declines in both these categories. Technology new orders did not decline as much as they did in 2002 but they were down and inventories were little changed. Nontechnology new orders were off sharply from year ago levels but inventories were little changed. New orders for nondefense capital goods were off sharply in recent months, but up a bit in March (pages 24 - 28).

## **Personal Consumption – 1<sup>st</sup> Quarter 2009**

Finally, personal consumption – 1<sup>st</sup> quarter 2009 figures from the recently released GDP data recorded the first quarter to quarter increase in five quarters, but they were still down on a year over year basis (pages 29--31).

## **Investment Policy**

Our investment policy is unchanged. We believe a new era bull market is developing which started in **March**, as noted in our Investment Strategy Reports at that time. The aggressive financial policies of both the Bush and Obama Administrations and the Federal Reserve (which started in 2008) prevented a meltdown. Once economic conditions improve, we would expect more conservative policies by the Federal Reserve, the new Administration, and Congress. That transition will probably result in a stock market correction and a possible shift in stock market leadership. We would expect government emphasis to be on clean energy, more efficient use of energy, and reduced imports of energy. Healthcare, education, technology, infrastructure, and reducing the deficit should also become government priorities. More conservative trends are coming and it will be easier for the Democrats to pass such legislation than it would be for Republicans. We believe some liberal Democrats who were influential in passing more aggressive financial laws in earlier years **may** have some difficulties at the polls. We would prefer to buy individual stocks on pullbacks or buy stocks in favored sectors that have not yet moved. The first important pullback should be when the Fed begins to raise short rates.

**Ken Safian**  
**kensafian@gmail.com**

**Lorraine Corbett**

### DISCLOSURE INFORMATION

The stocks or sectors that are covered in this report are not rated by Safian Investment Research Inc. (SIR). The report is provided to you for informational use only and should not be used or considered as an offer to sell, buy or subscribe for securities or other financial instruments. SIR may not have taken steps to ensure that the securities in this report are suitable for you.

The contents of this report do not constitute investment, tax, legal or accounting advice. A recipient who is not a professional investor should seek the advice of an independent advisor prior to making any decisions based on his report. SIR and will not treat you as a customer solely because you have received this report.

Information and opinions presented herein have been obtained from sources believed by SIR to be reliable, but SIR makes no representation as to the accuracy or completeness of this report, and accept no liability for loss arising from its use, except to the extent such liability may not be waived under applicable laws or regulations. This report is not to be relied upon in substitution for the exercise of your independent judgment. SIR may have issued reports in the past, or made oral representations, that are inconsistent with, and reach different conclusions from, the information or conclusions presented in this report. SIR has no duty to update this report.

Past performance is not a guarantee of future results. Opinions contained in this report reflect a judgment as of the day of publication and are subject to change. SIR has no duty to update this report. Securities' prices are influenced by economic, political, and market factors, and may rise and fall. Some investments may have a high level of volatility, and may experience sudden increases and declines in their value, resulting in losses when those investments are sold. In some cases, the loss may exceed the amount of capital invested.

SIR may to the extent permitted by law participate or invest in financing transactions with the issuers of the securities covered by this report, may carry positions, or conduct transactions in their securities or options. Information on such transactions will be [are] provided in the "Disclosure" section of this report.

Our research professionals are paid in part based on the profitability of SIR, which includes earnings from investment banking and other business

DISCLOSURE SECTION:

CERTIFICATION:

We, Kenneth Safian, and Lorraine T. Corbett, hereby certify that all of the views expressed in this report accurately reflect our own personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

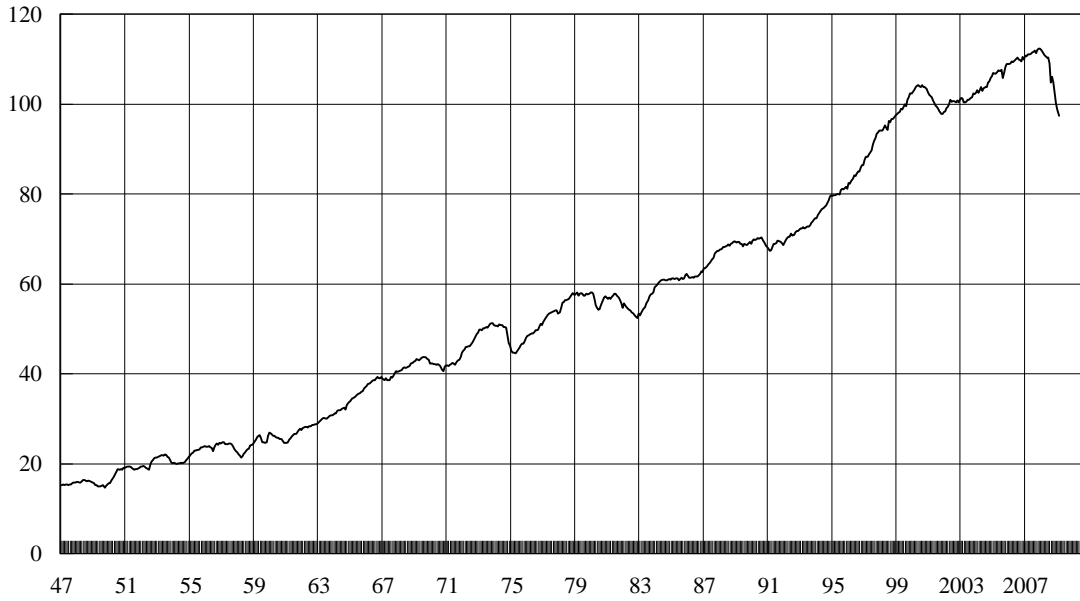
## Table of Contents

### Graphic Section of May 1, 2009 Investment Strategy Report

<u>Pages</u>	<u>Flow of Funds Series</u>
1 - 3	Industrial Production for Total Industries, Manufacturing, and Historical Data Back to 1919 for Manufacturing
4 - 11	Industrial Production for Durable Consumer Goods, Nondurable Consumer Goods, Business Equipment & Business Supplies, Computers, Motor Vehicles, Construction and Materials
11A - 14	Industrial Production for Utilities, Petroleum & Coal Products, Drilling Oil & Gas Wells, Primary Metals, and Defense & Space Equipment
15-16A	Industrial Production for Wood Products, Paper Products, and Newspaper Publishers
17 - 17A	Industry Capacity and Capacity Utilization for Total Industry and Manufacturing
18	Capacity Utilization for Primary Metals With the Journal of Commerce Spot Metals Index
19-22	Industrial Capacity for Selected Industries
23 - 28	Manufacturing New Orders and Inventories for Selected Industries
29 - 31	Gross Domestic Product for PCE Durables and PCE for Motor Vehicles

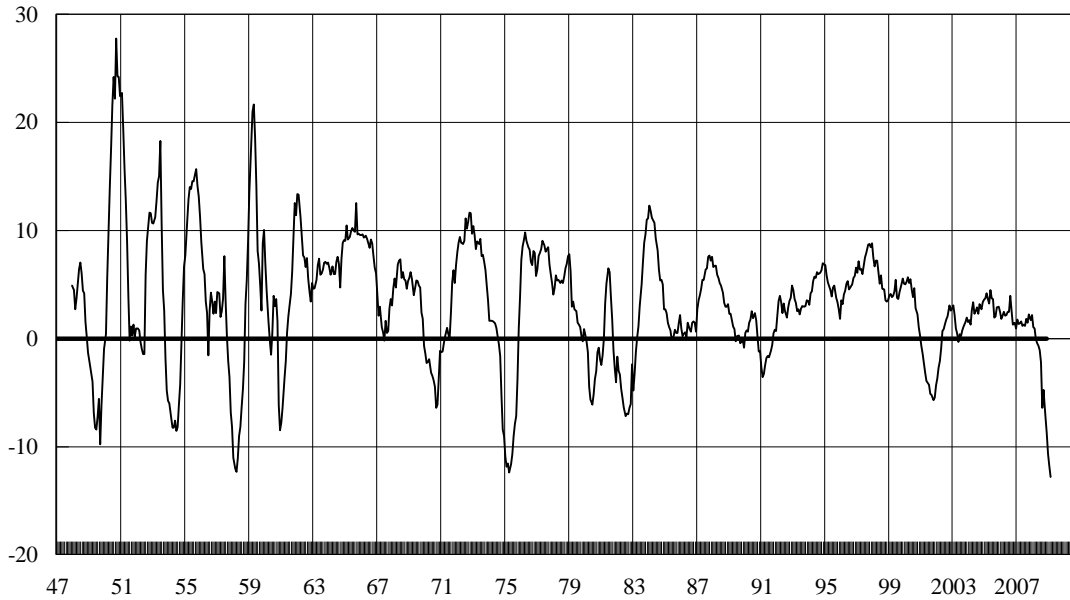
## INDUSTRIAL PRODUCTION TOTAL INDEX

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



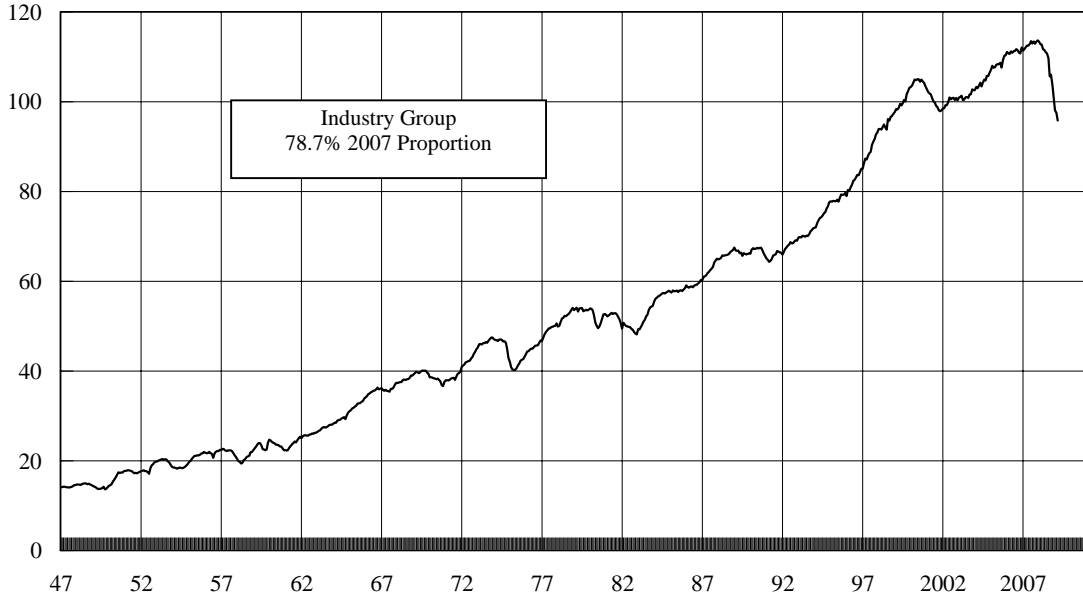
Data plotted through March 2009

Source: Federal Reserve Board

**Total industrial production reached a peak in December of 2001, experiencing a 15% gain from the 2001 low. This rise was confirmed by the rise in the industrial sector of the economy and spot industrial prices. The annual rate of gain slowed in 2005-2006 and other business indicators also became sluggish. The nonfinancial segment of the economy was softening as financial speculation was rising. In other words, the sector shifts that characterized both the economy and the stock market for some years was continuing. Then, of course, the weakness in the financial sector began to unfold resulting in a recession. The annual rate of change for industrial production in March was slightly below the lows in 1958 and 1975. This would suggest an oversold business environment.**

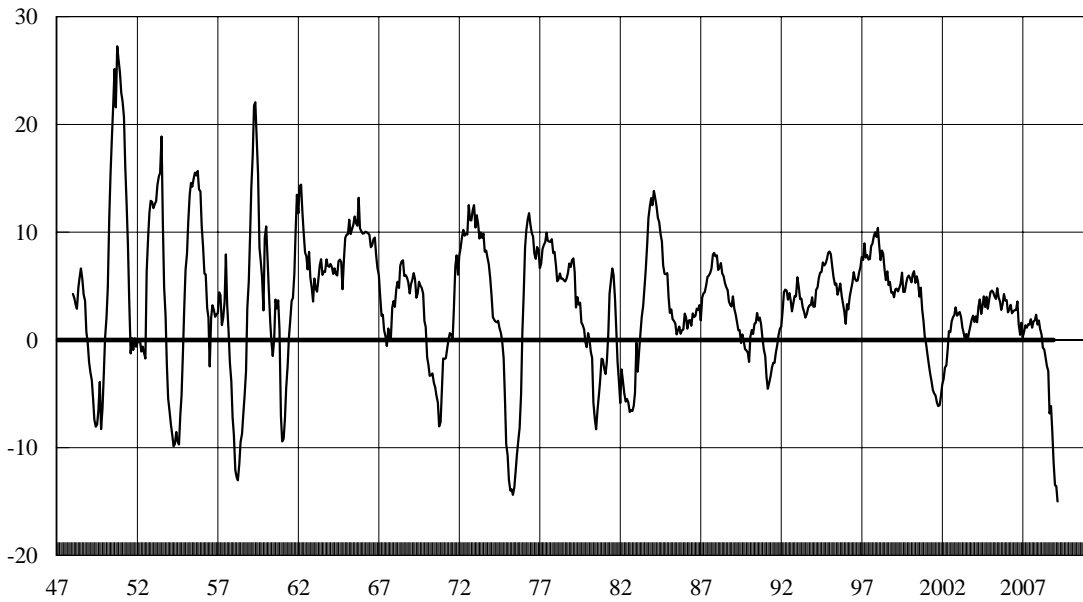
## INDUSTRIAL PRODUCTION MANUFACTURING

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



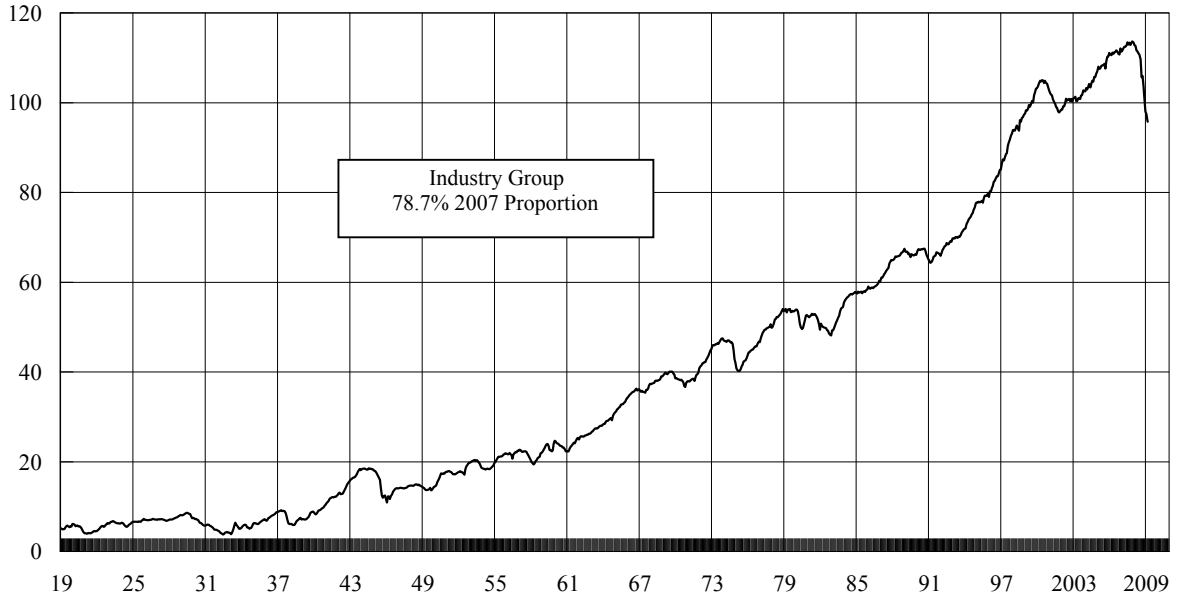
Data plotted through March 2009

Source: Federal Reserve Board

**The annual rate of change for manufacturing just surpassed or equalled the contraction in 1975.**

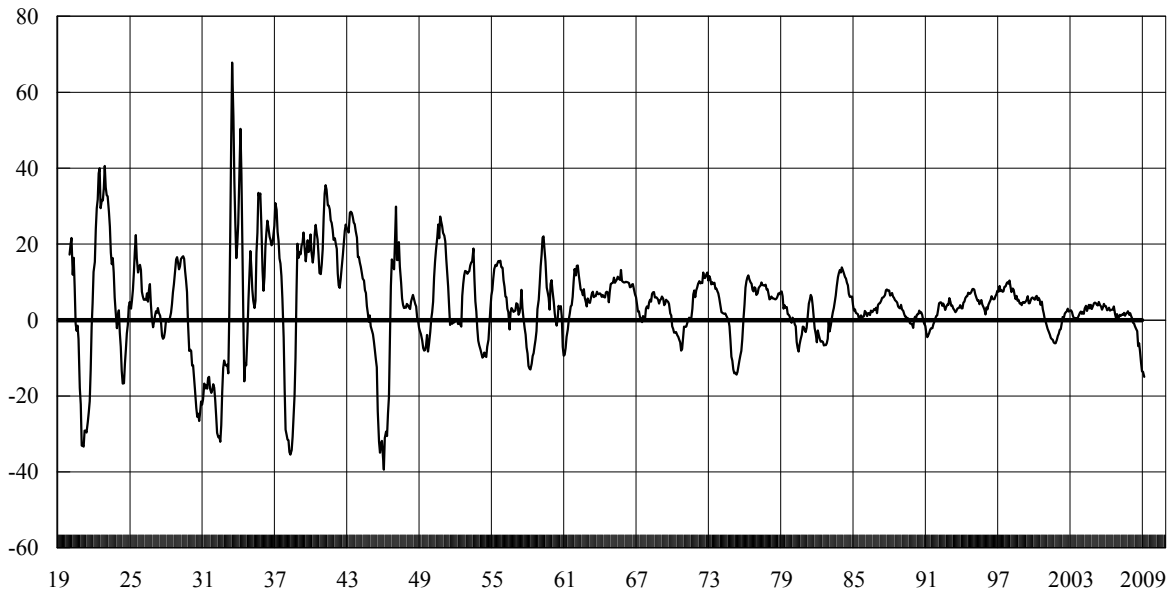
## INDUSTRIAL PRODUCTION MANUFACTURING - HISTORICAL

INDEX



PERCENT

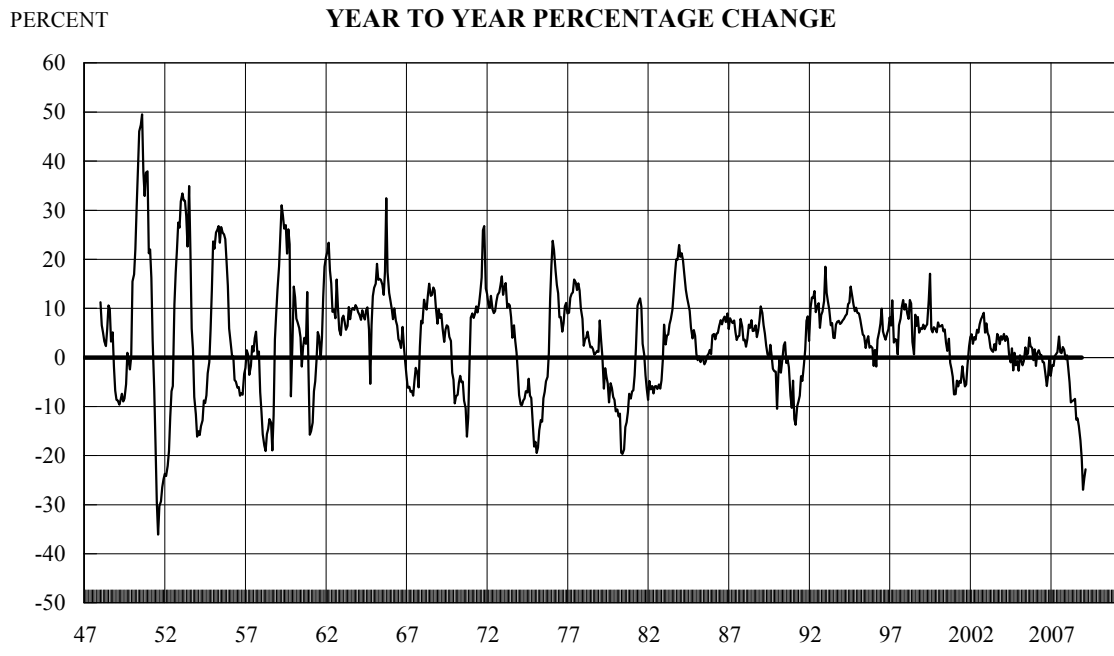
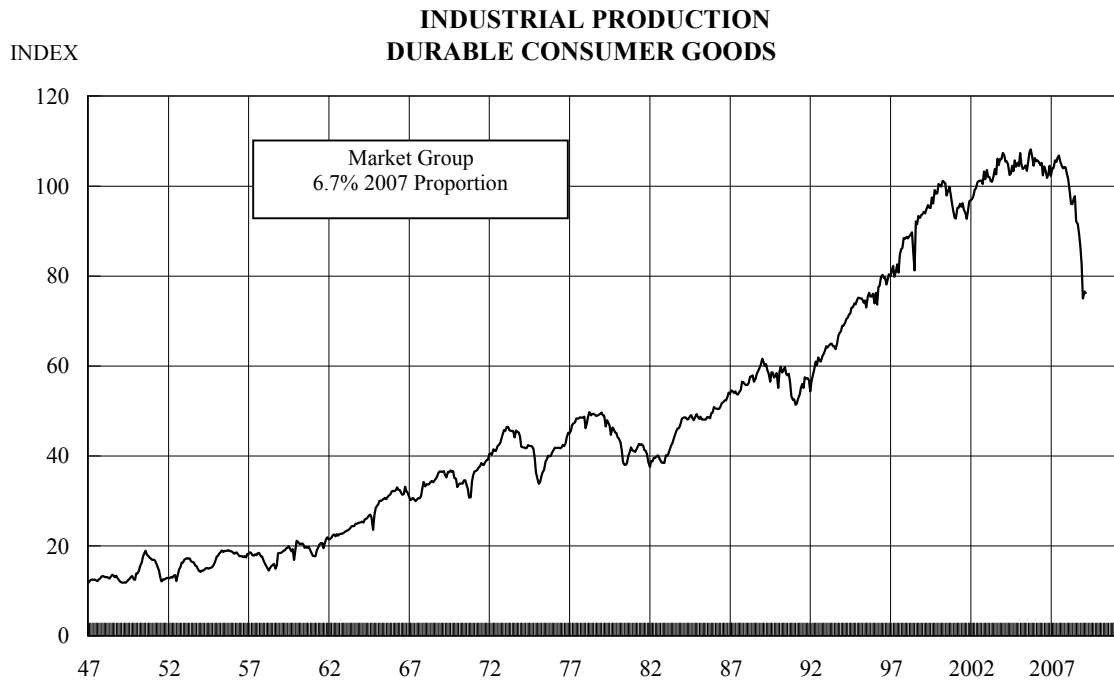
## YEAR TO YEAR PERCENTAGE CHANGE



Data plotted through March 2009

Source: Federal Reserve Board

**Notice the lower year over year volatility in industrial production in the 2003 to 2007 period compared to the levels in the 1920s to after World War II. This reflects the greater use of various management methods to contain the risks in business conditions. The recent sharp drop was an example of how corporate managements lost control of continuing business risks.**

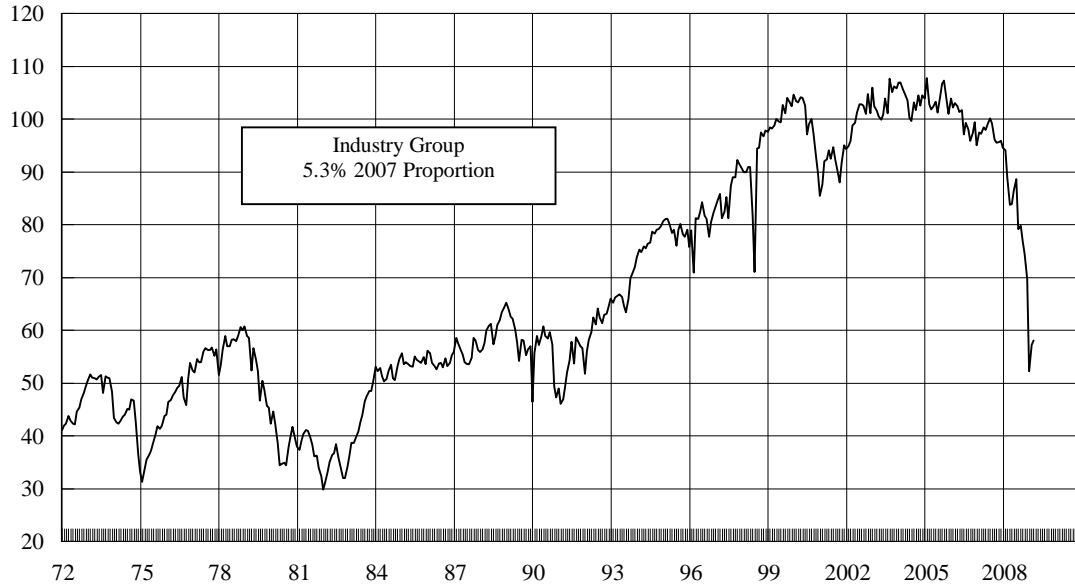


Data plotted through March 2009  
 Source: Federal Reserve Board

**Durable consumer goods were an especially sluggish area and a clear sign that the excessive growth phase in consumption was beginning to slow and lag the general economy.**

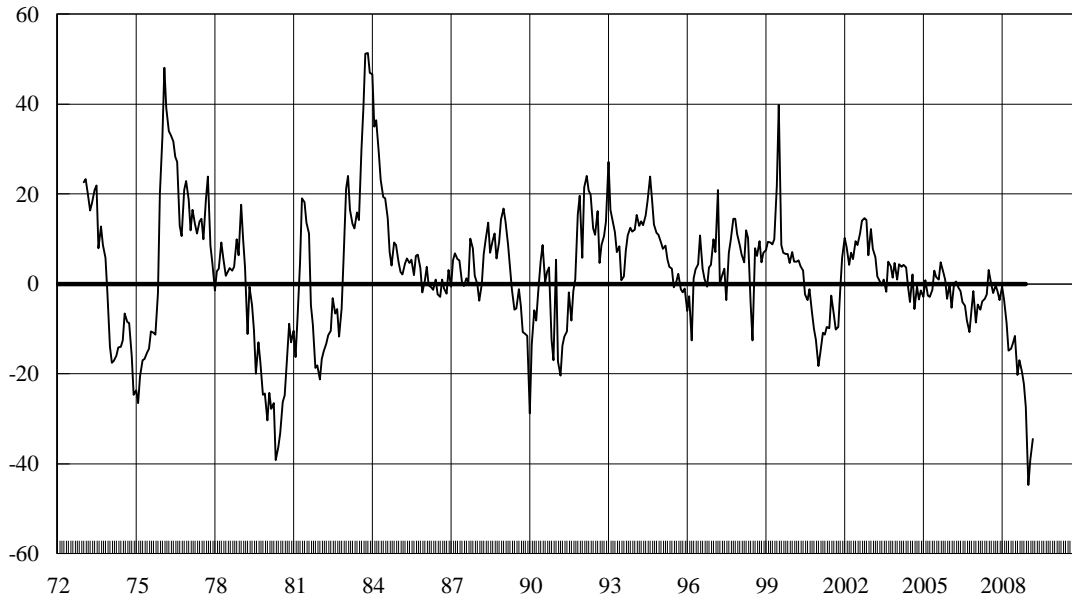
## INDUSTRIAL PRODUCTION MOTOR VEHICLES AND PARTS

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



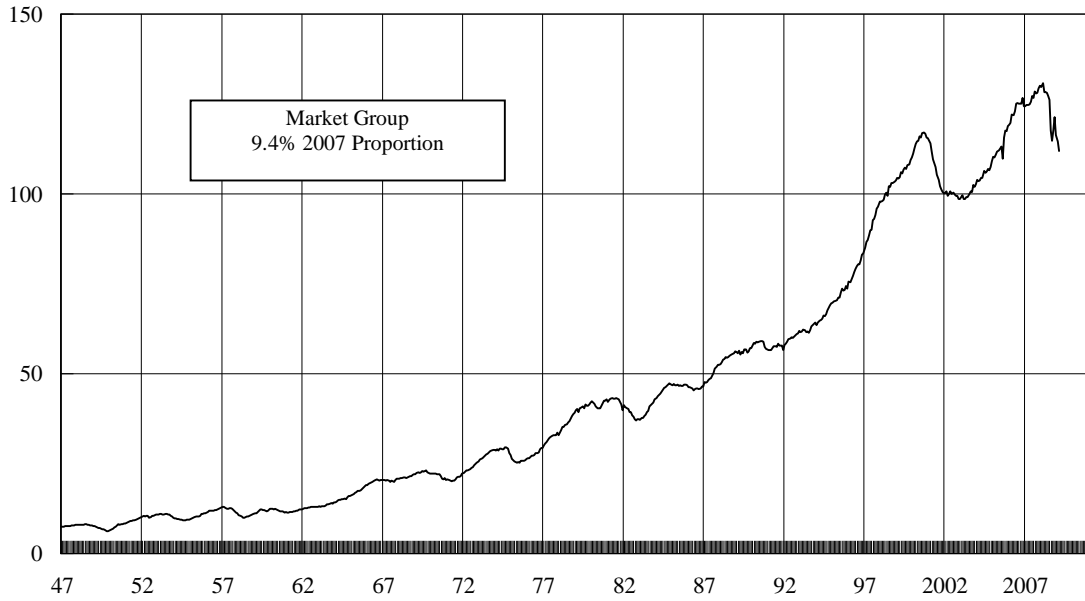
Data plotted through March 2009

Source: Federal Reserve Board

**Industrial production for autos and parts is just above the 1991 recession lows and the annual rate of decline was down more than 40% year over year, greater than the 1980 low.**

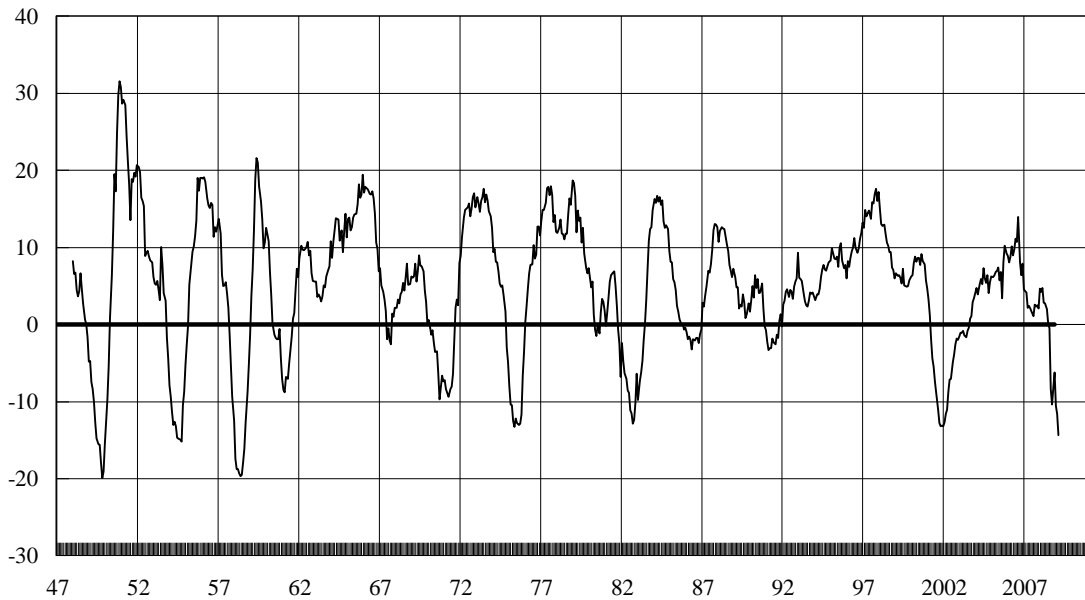
## INDUSTRIAL PRODUCTION BUSINESS EQUIPMENT

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



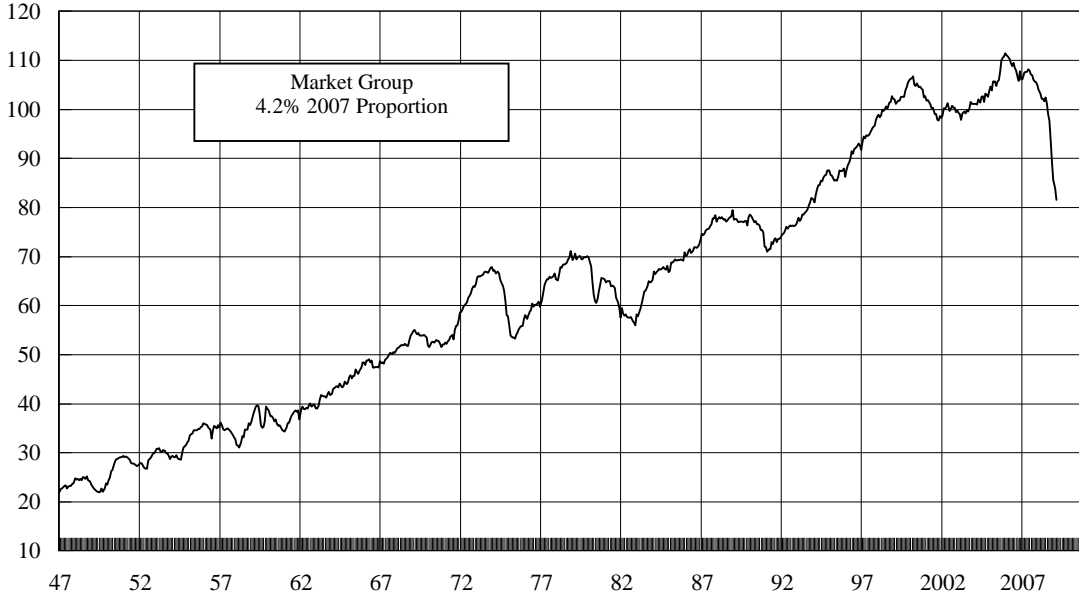
Data plotted through March 2009

Source: Federal Reserve Board

**The declining annual rate of growth in business equipment was obvious in late 2006 and early 2007, yet nobody paid attention.**

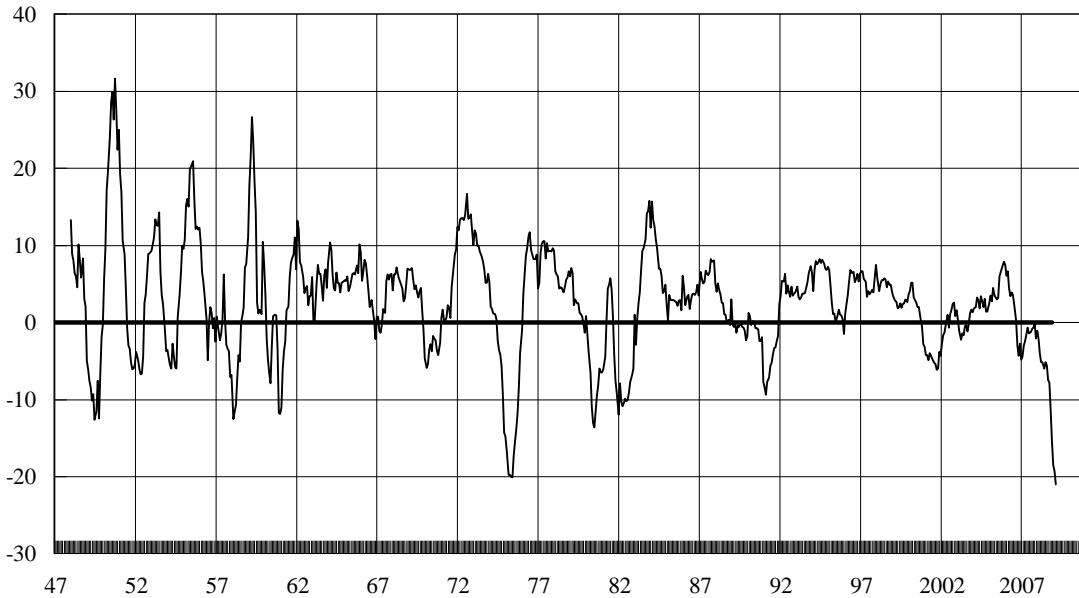
**INDUSTRIAL PRODUCTION  
CONSTRUCTION SUPPLIES**

INDEX



PERCENT

**YEAR TO YEAR PERCENTAGE CHANGE**



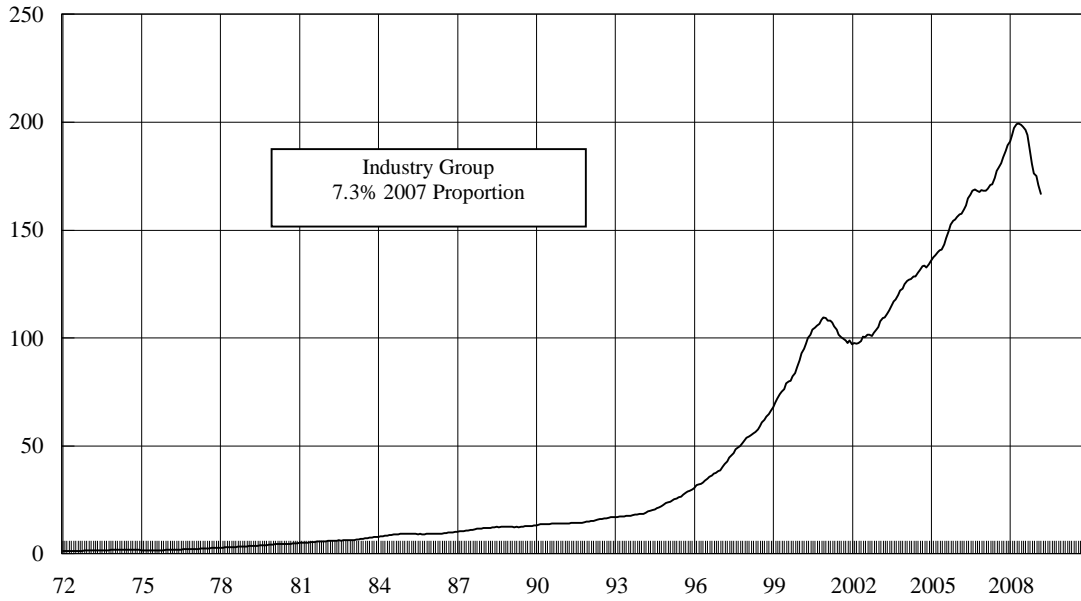
Data plotted through March 2009

Source: Federal Reserve Board

**The construction industry illustrated sharply lower industrial production to negative growth in 2006. The odds were against this segment in 2006 when a final advance that started in 2003 was extinguished and retraced half of the 1991 to 2000 rise. This series is now back to early 1994 levels.**

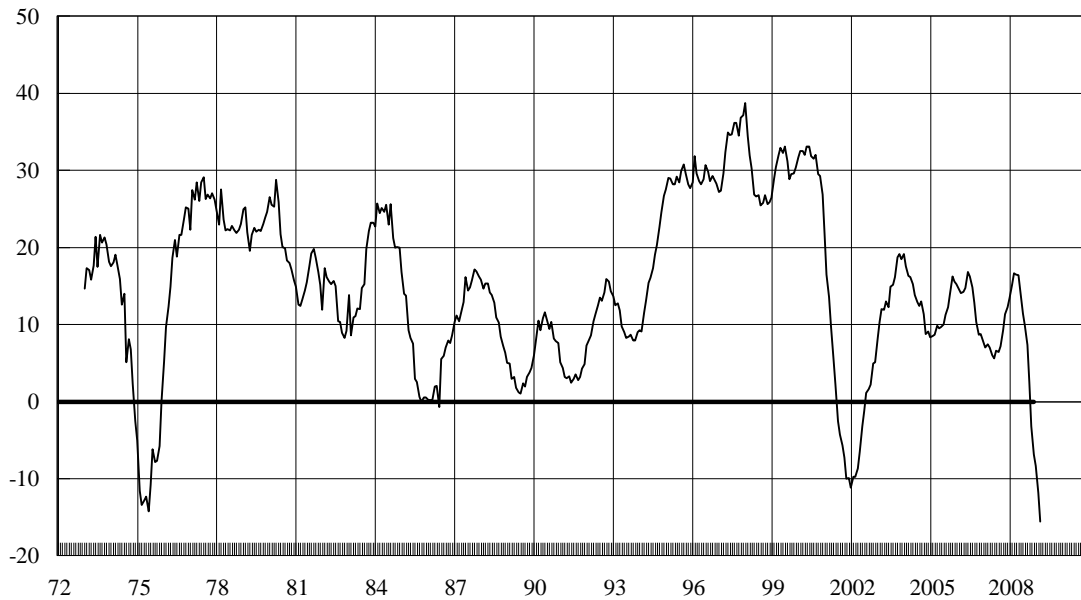
## INDUSTRIAL PRODUCTION COMPUTER AND ELECTRONIC PRODUCTS

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



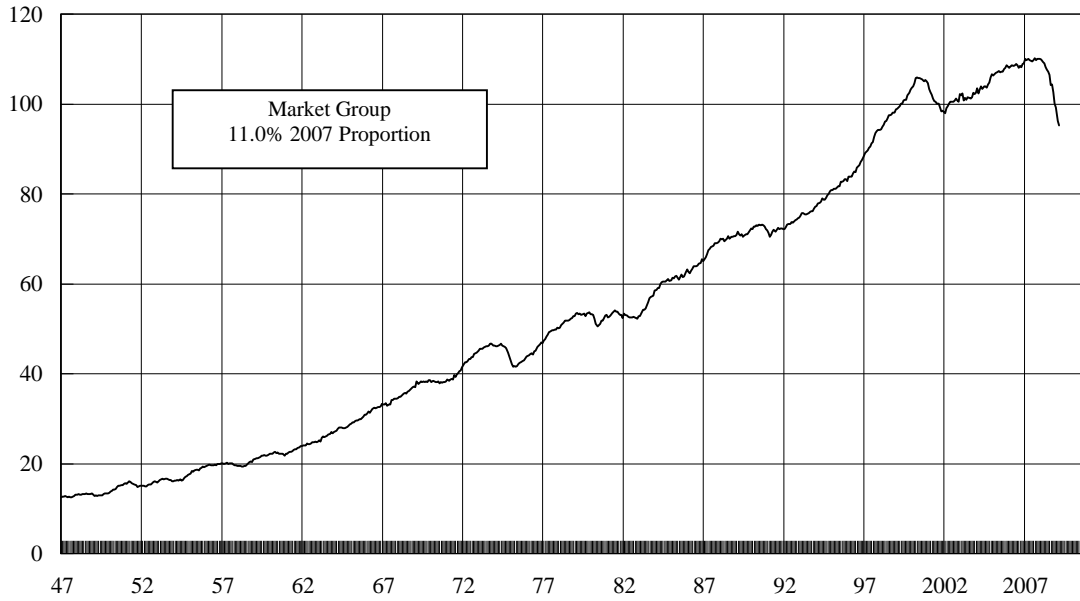
Data plotted through March 2009

Source: Federal Reserve Board

**The annual rate of growth in industrial production for computer and electronic products and technology generally was larger in the mid to late 1990s than it was in the period following the 2000-2001 correction. This was caused by the rebuilding period needed following those earlier excesses and should be watched closely.**

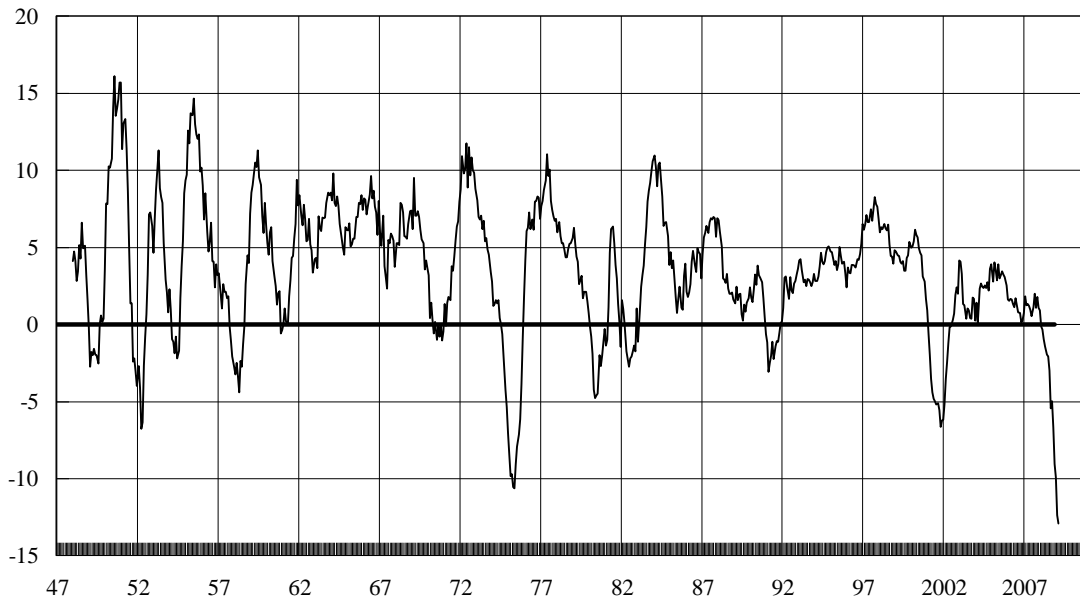
## INDUSTRIAL PRODUCTION BUSINESS SUPPLIES

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



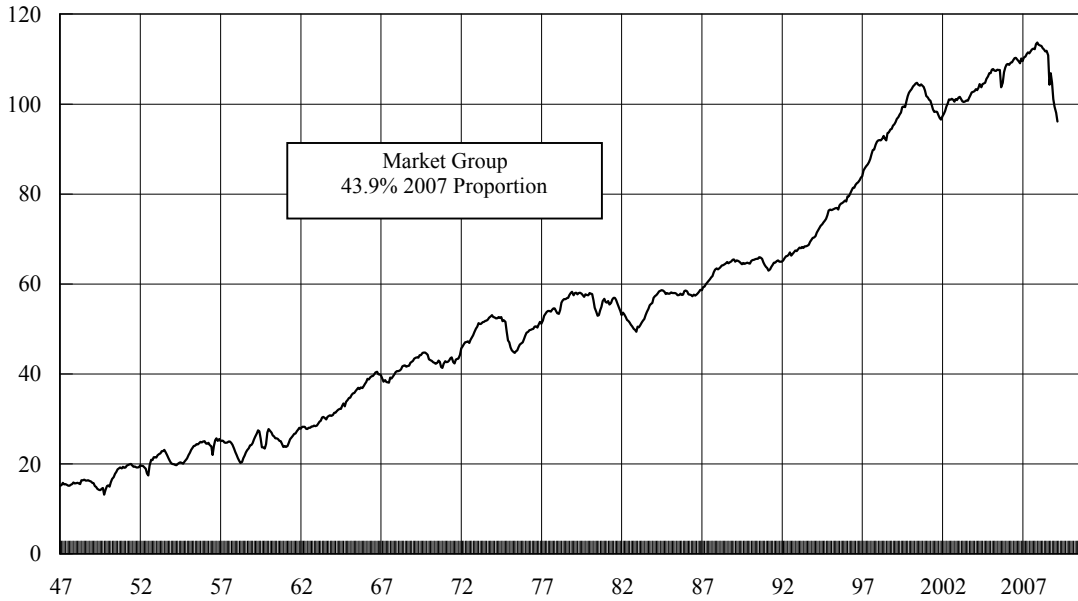
Data plotted through March 2009

Source: Federal Reserve Board

**The business supply series has a similar pattern to total industrial production and the annual rate of growth was at a record low in March.**

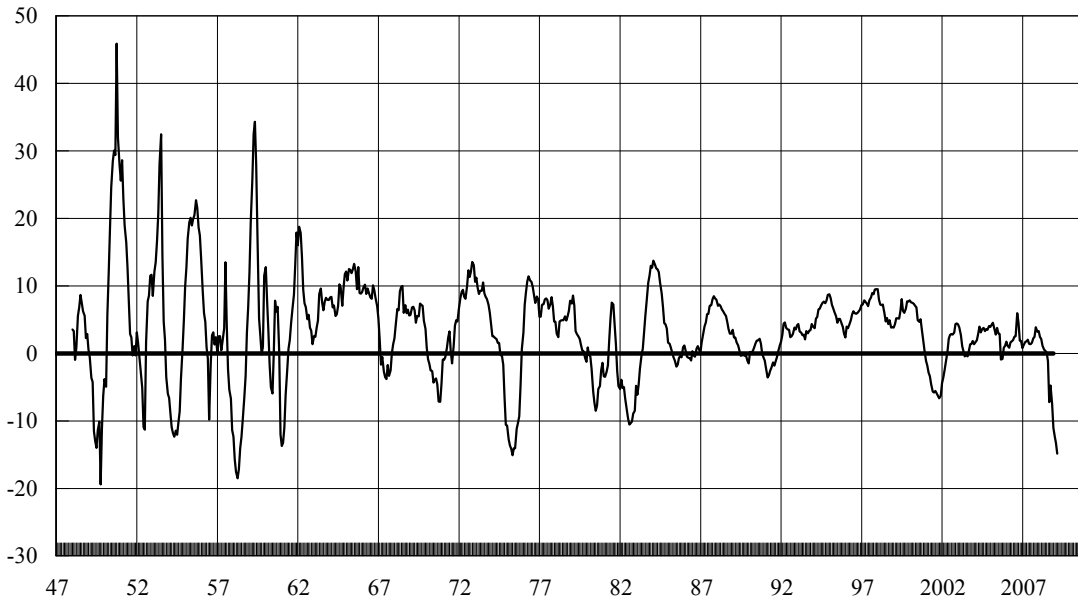
## INDUSTRIAL PRODUCTION MATERIALS

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



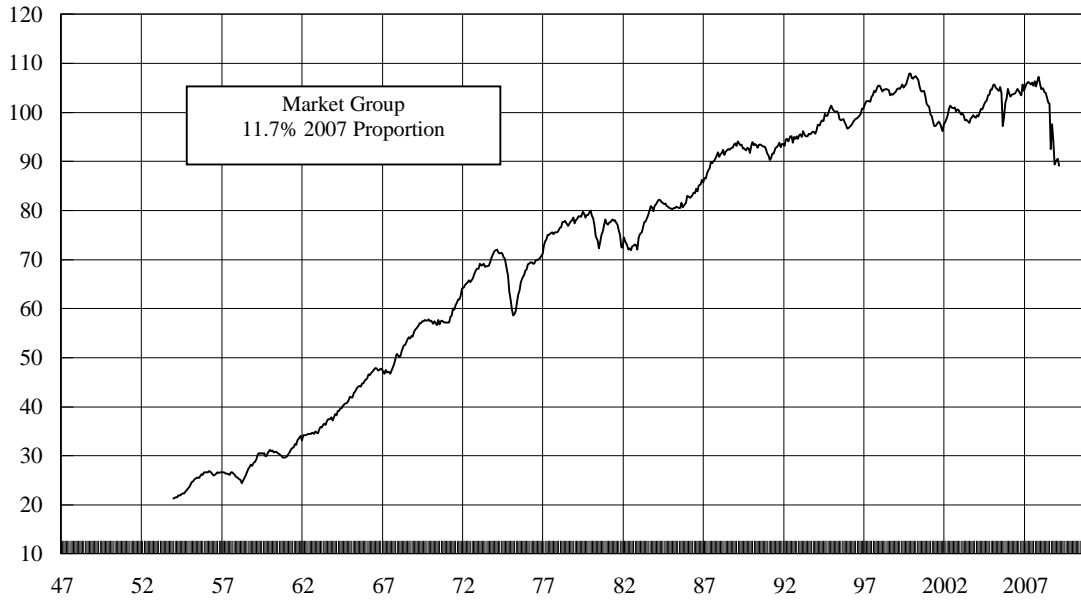
Data plotted through March 2009

Source: Federal Reserve Board

**The setback in this sector's industrial production was not that great considering the extended gains from the 1990 recession to the 2000 peak. Commodity prices of materials had a large gain prior to the recent drop. Speculation accounted for some of the gains in 2006-2007.**

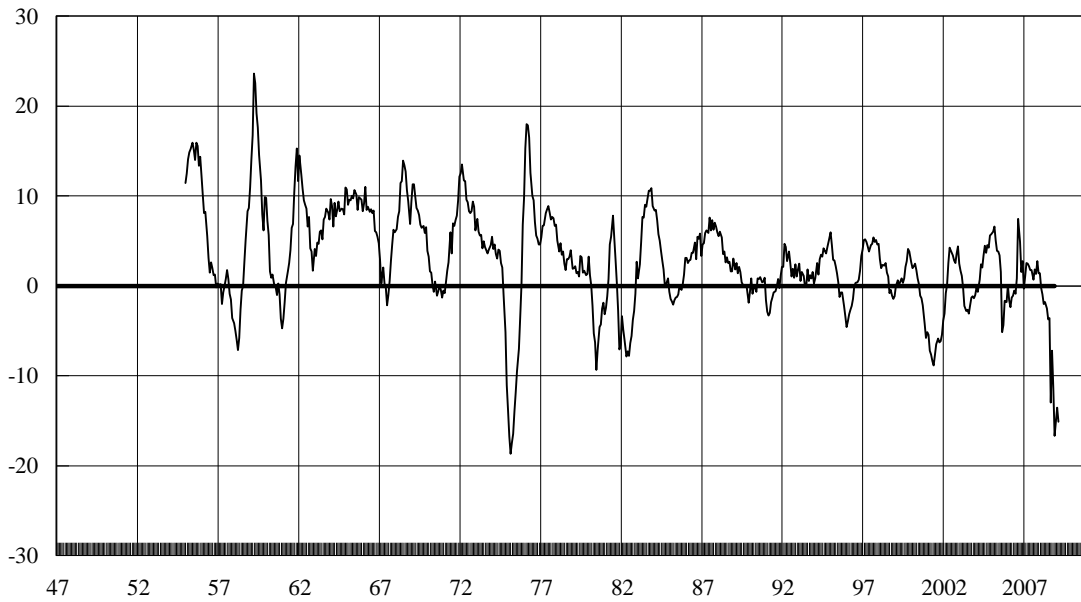
**INDUSTRIAL PRODUCTION  
NON-DURABLE GOODS MATERIALS**

INDEX



PERCENT

**YEAR TO YEAR PERCENTAGE CHANGE**



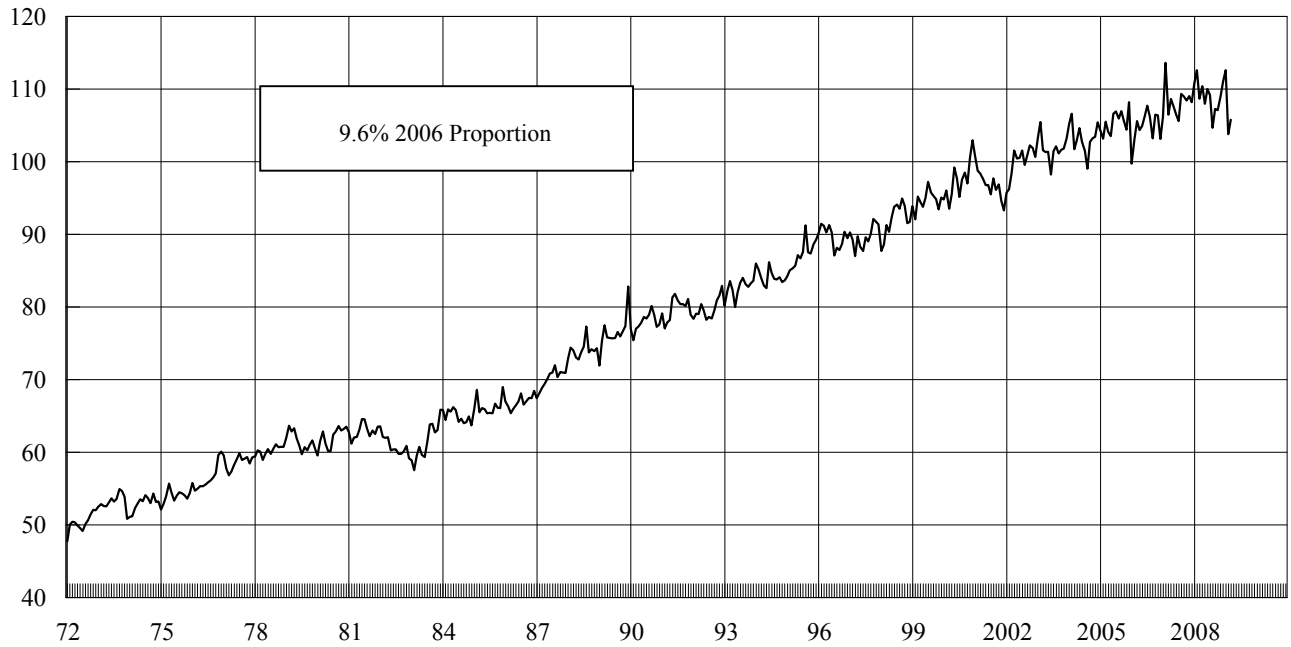
Data plotted through March 2009

Source: Federal Reserve Board

**This series did not reach a new peak in 2007 and illustrated the weakness experienced recently in such segments as the chemicals.**

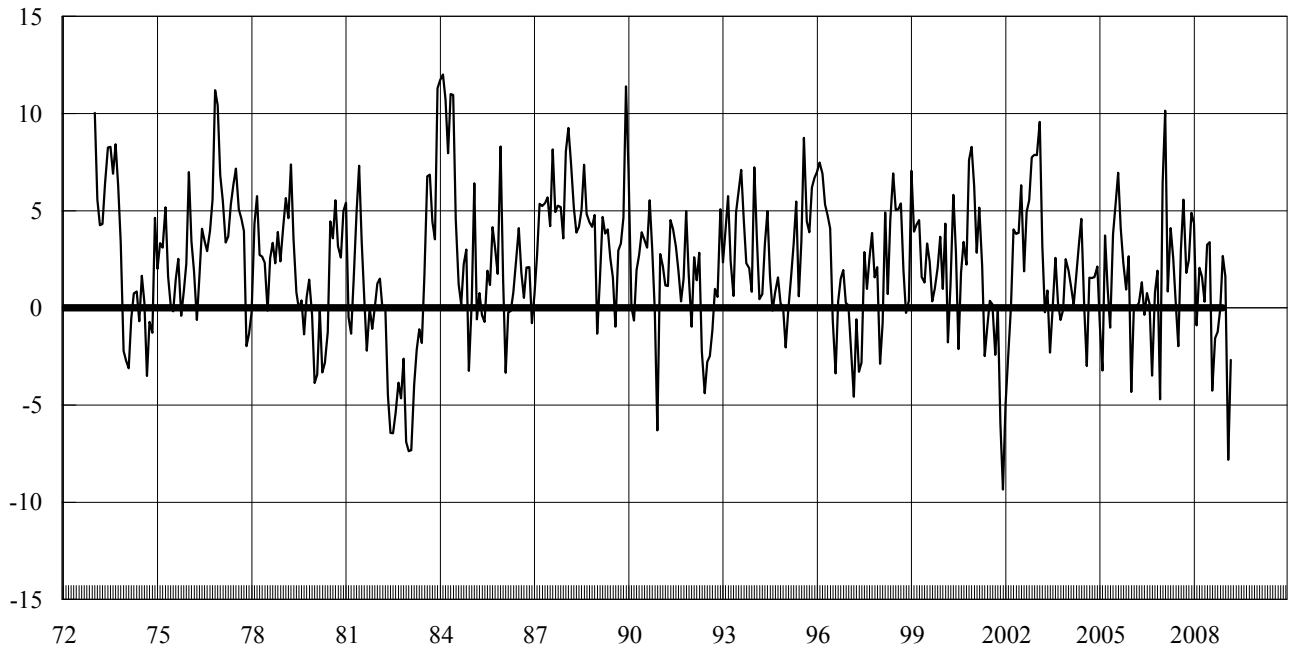
## INDUSTRIAL PRODUCTION UTILITIES

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



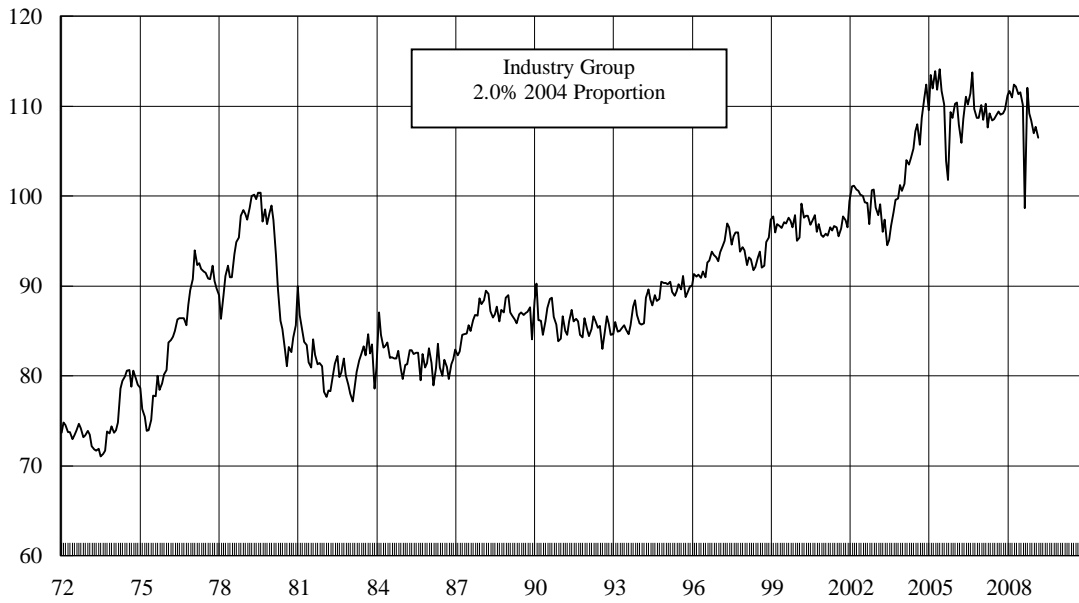
Data plotted through March 2009

Source: Federal Reserve Board

**The production of utilities has remained in an uptrend indicating the recession resistant nature of this industry and the need to develop domestic sources of energy.**

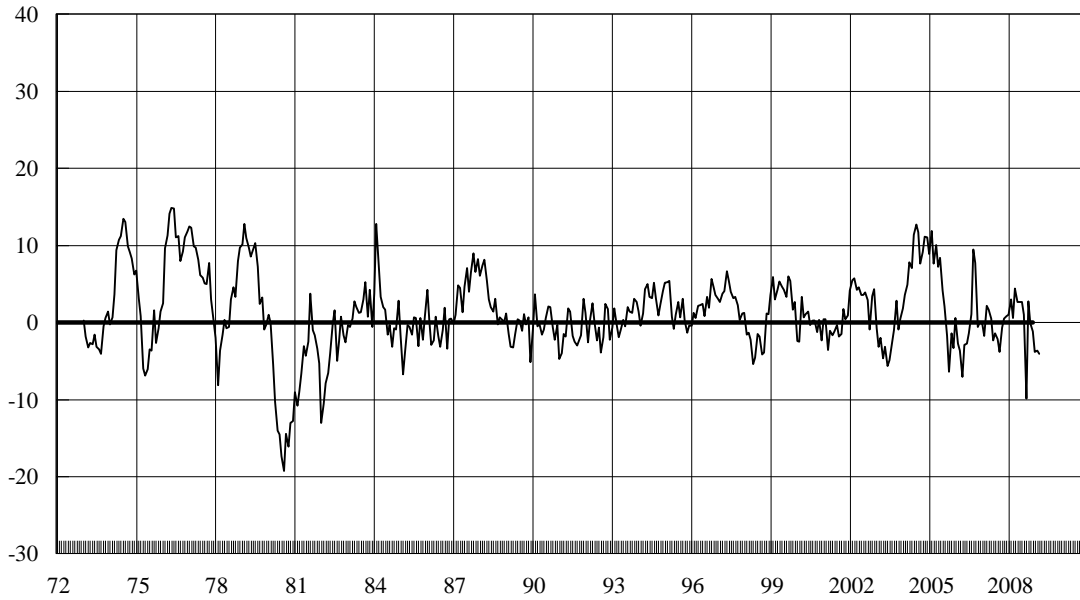
INDEX

### INDUSTRIAL PRODUCTION PETROLEUM AND COAL PRODUCTS



PERCENT

### YEAR TO YEAR PERCENTAGE CHANGE



Data plotted through March 2009

Source: Federal Reserve Board

**While coal and oil production is down, they are not down very much. Prices are down, however.**

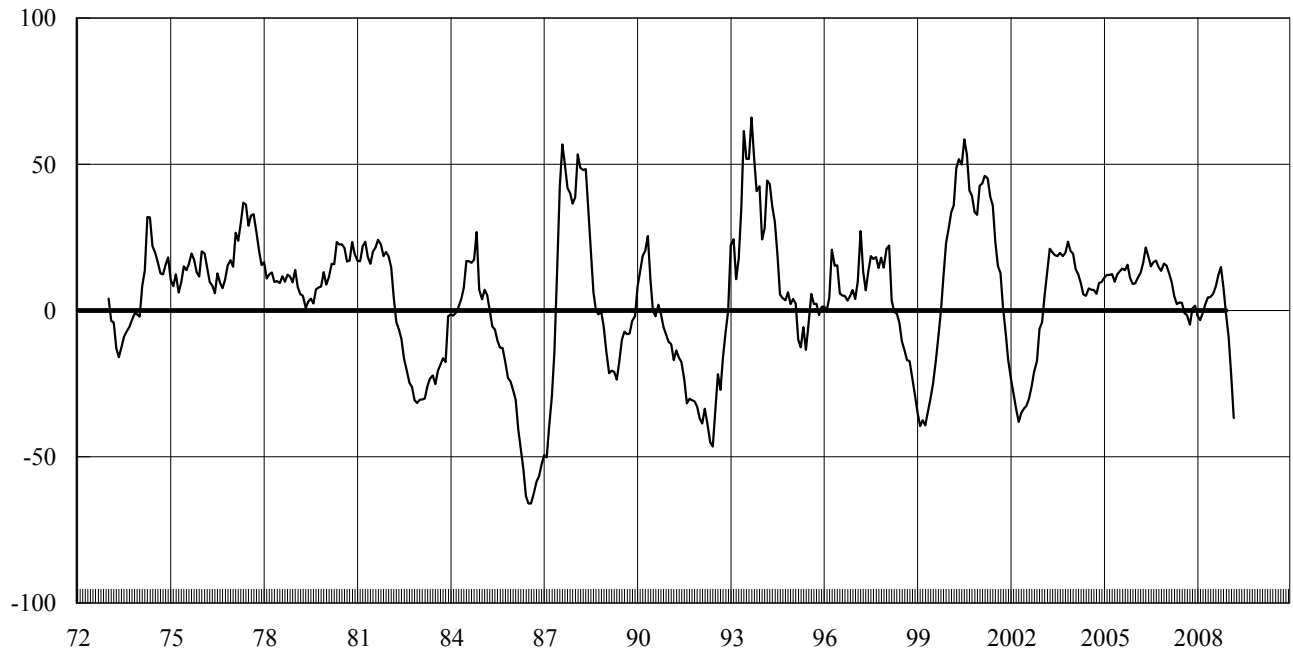
**INDUSTRIAL PRODUCTION  
DRILLING OIL AND GAS WELLS (number of rotary rigs running)**

INDEX



PERCENT

**YEAR TO YEAR PERCENTAGE CHANGE**



Data plotted through March 2009

Source: Federal Reserve Board

**The drilling industry recorded very wide swings in the use of oil rigs. The trend has been up since 2003 but production fell most recently.**

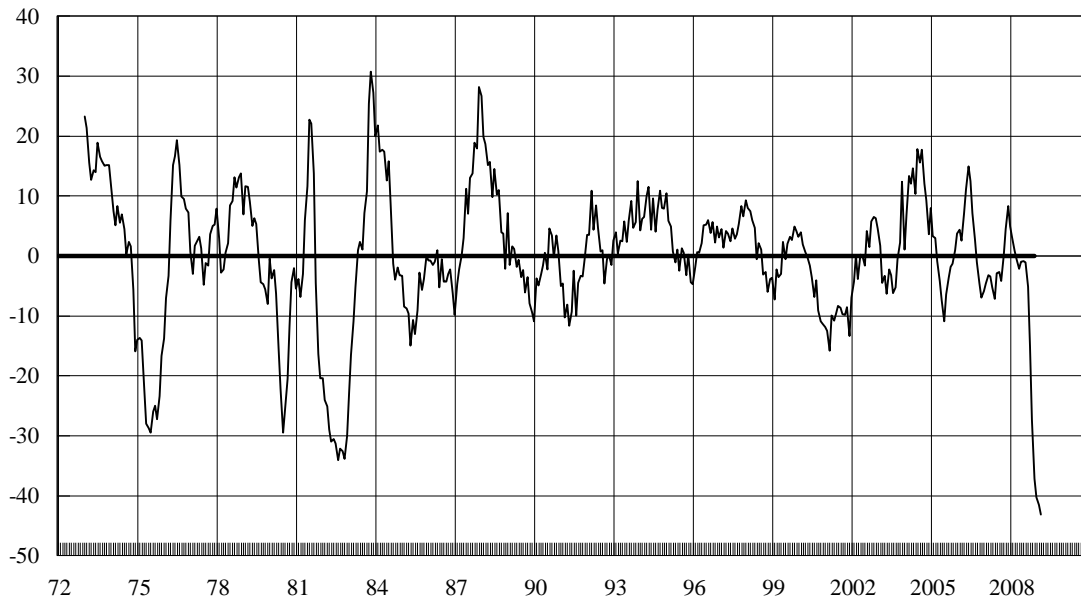
## INDUSTRIAL PRODUCTION PRIMARY METALS

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



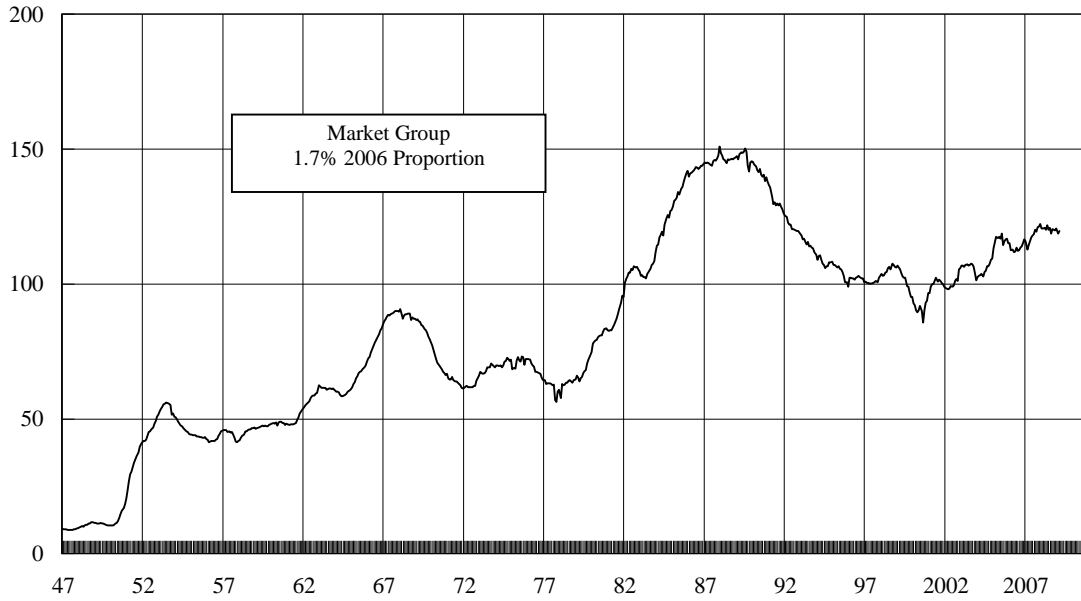
Data plotted through March 2009

Source: Federal Reserve Board

**This production sector fell sharply as did the commodity prices of metals.**

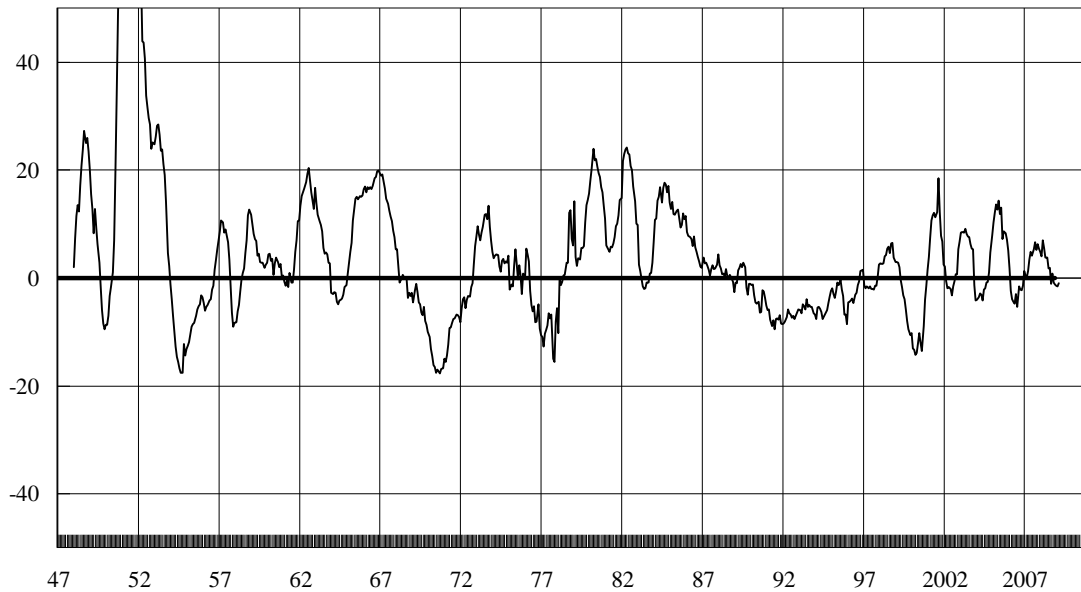
## INDUSTRIAL PRODUCTION DEFENSE & SPACE EQUIPMENT

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



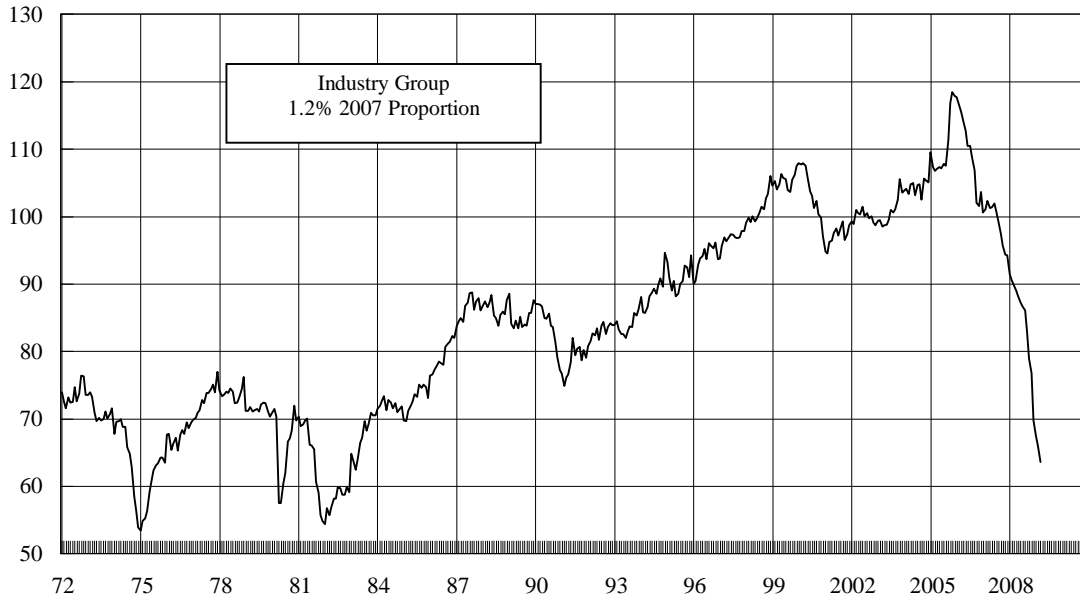
Data plotted through March 2009

Source: Federal Reserve Board

**Defense industrial production continued in a rising pattern, but the annual rate of growth did not suggest maintained growth in 2008 and early this year.**

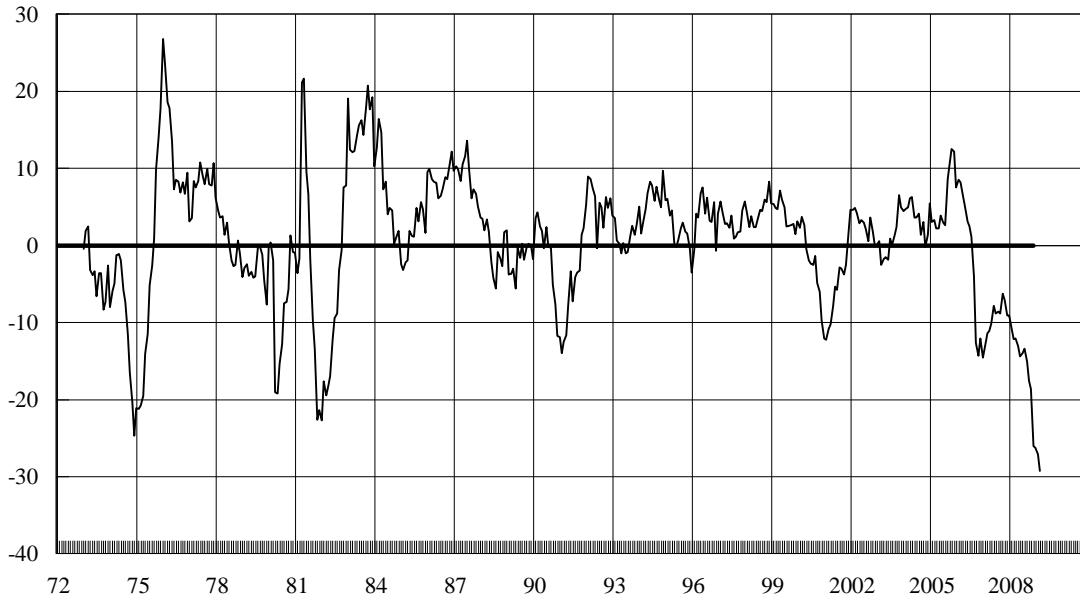
## INDUSTRIAL PRODUCTION WOOD PRODUCTS

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



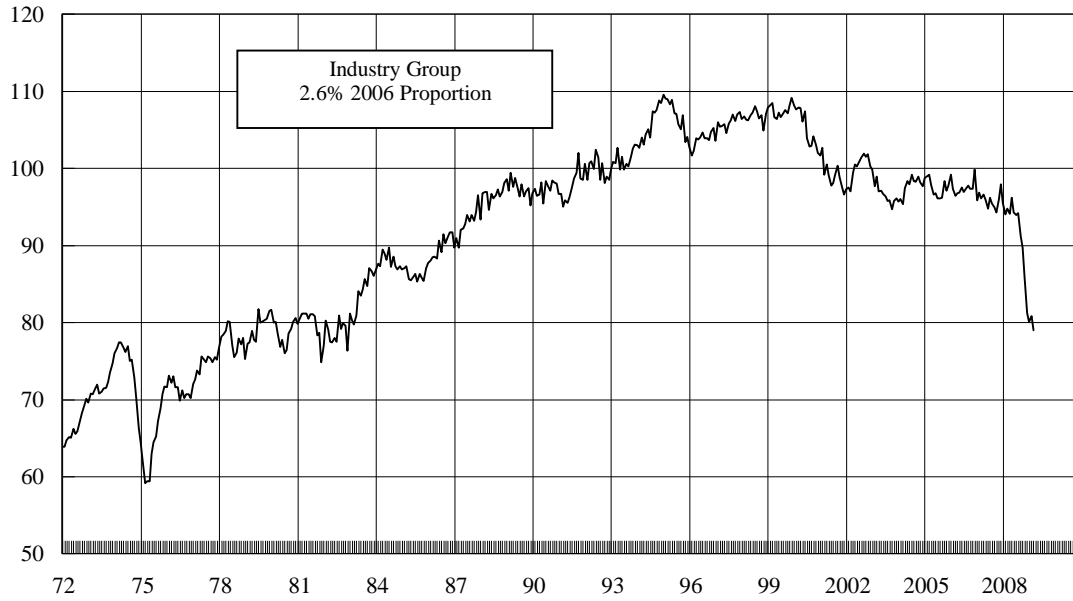
Data plotted through March 2009

Source: Federal Reserve Board

**There was a real collapse in the wood products data for industrial production. This reflected the housing drop. Primary metals experienced a similar but less extensive decline as noted earlier.**

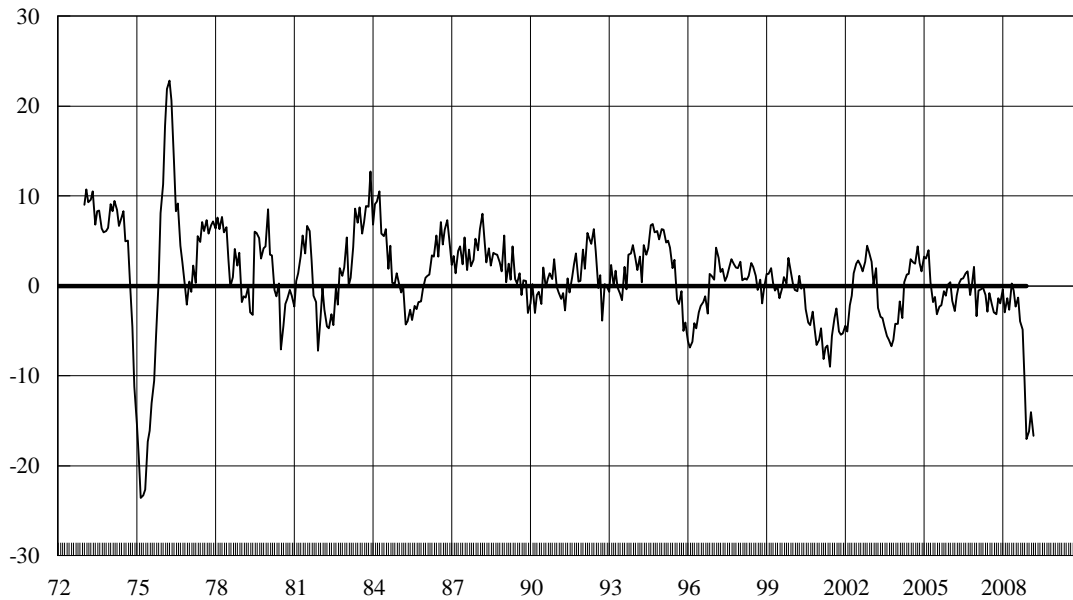
## INDUSTRIAL PRODUCTION PAPER

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



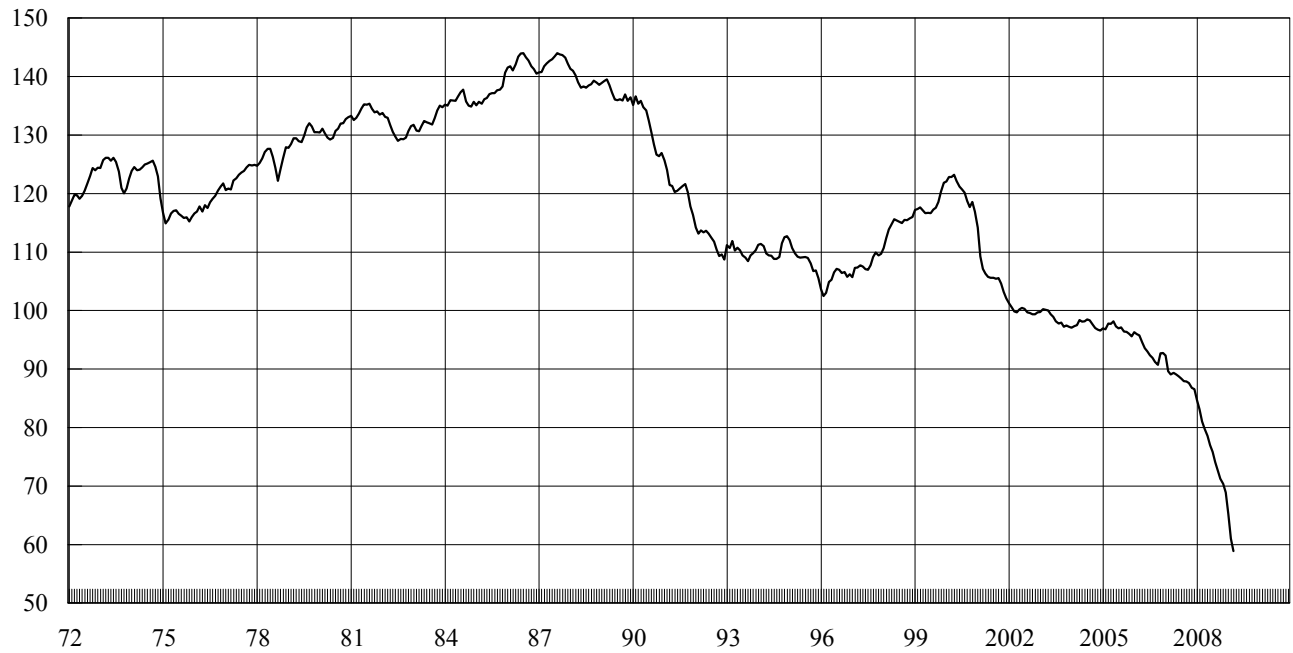
Data plotted through March 2009

Source: Federal Reserve Board

**The paper industry experienced its deepest drop since 1975. Certainly, the newspaper industry was a reason for this.**

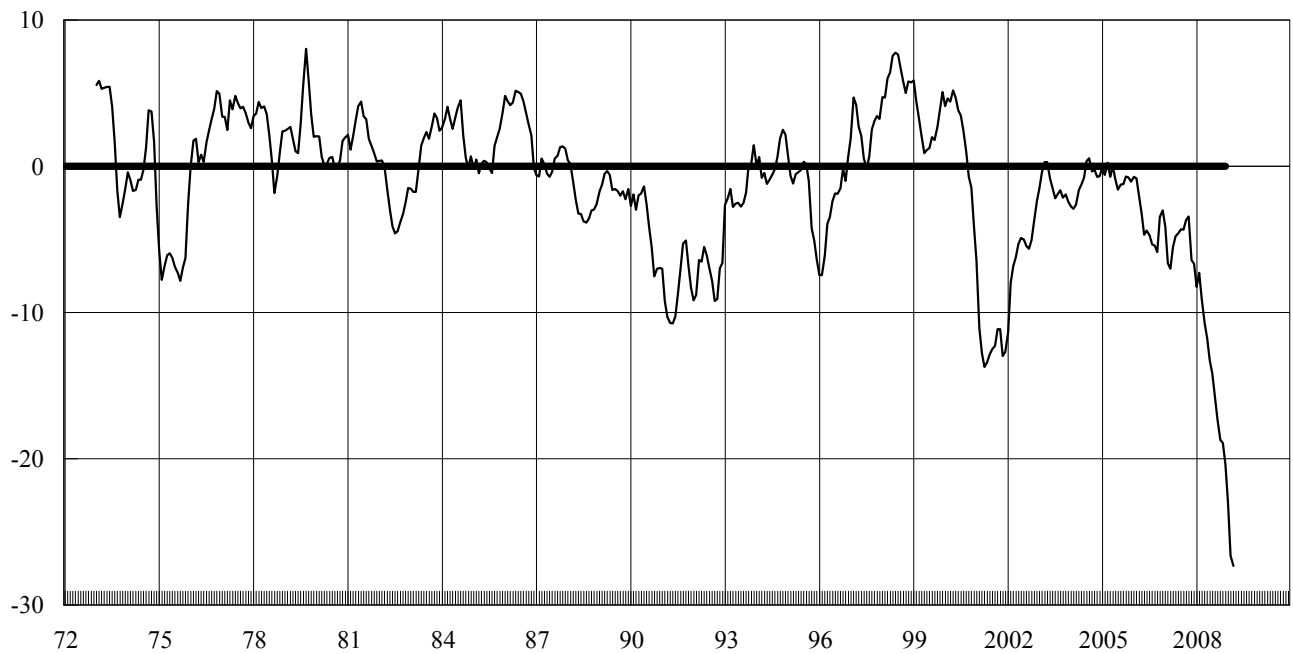
## INDUSTRIAL PRODUCTION NEWSPAPER PUBLISHERS

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



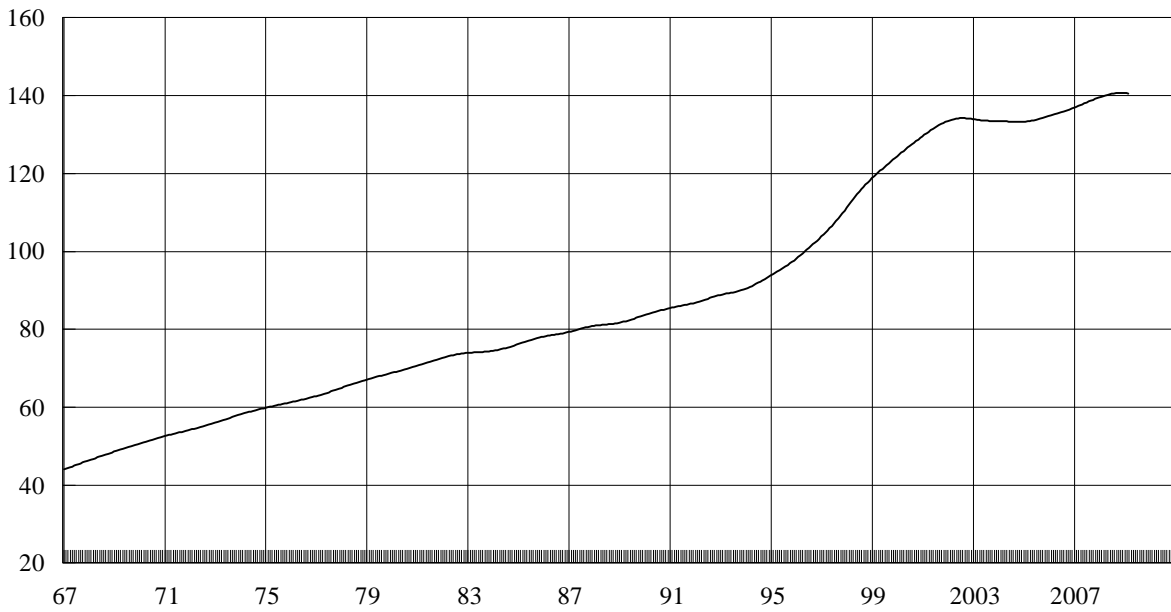
Data plotted through March 2009

Source: Federal Reserve Board

**The newspaper has been desimated.**

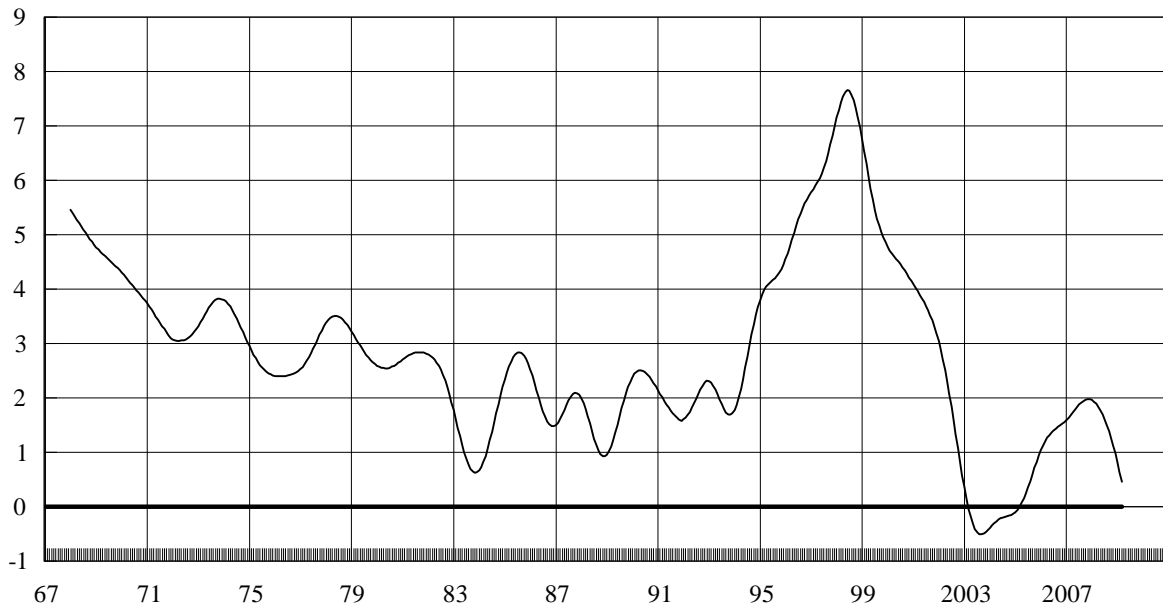
## INDUSTRIAL CAPACITY TOTAL INDUSTRY

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



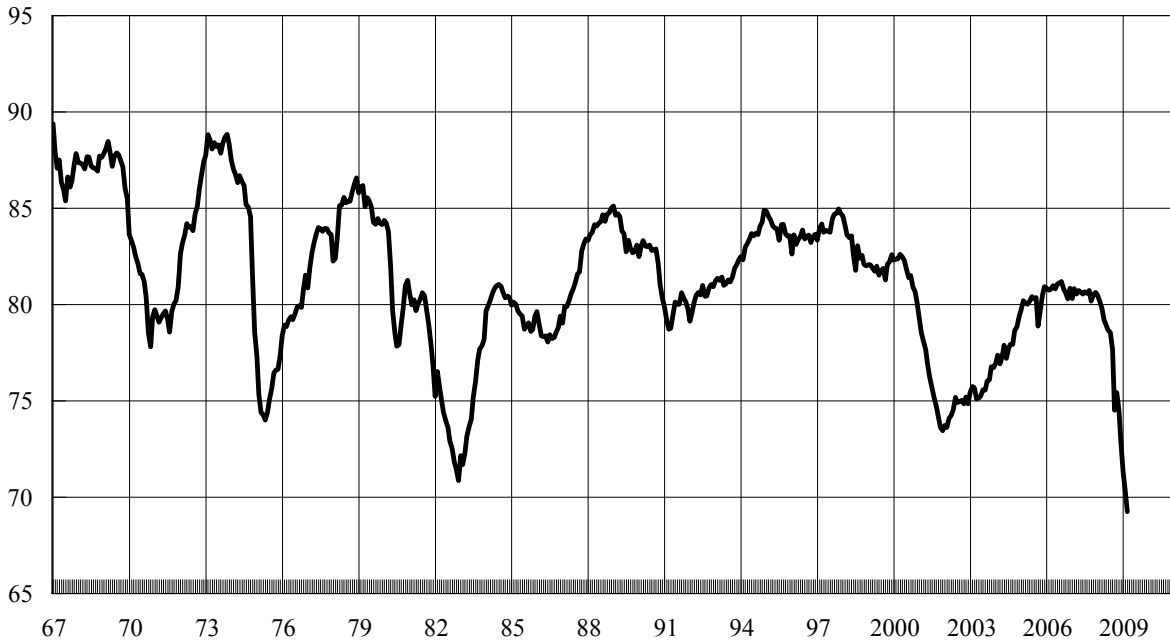
Data plotted through March 2009

Source: Federal Reserve Board

**An interesting aspect of the industrial production data is the small increase in capacity in the business expansion during the 2003 to 2007 expansion. This suggests potentially little excess capacity once a business rebound unfolds. This was one reason for the greater volatility in commodity prices prior to the decline in business conditions (see next page).**

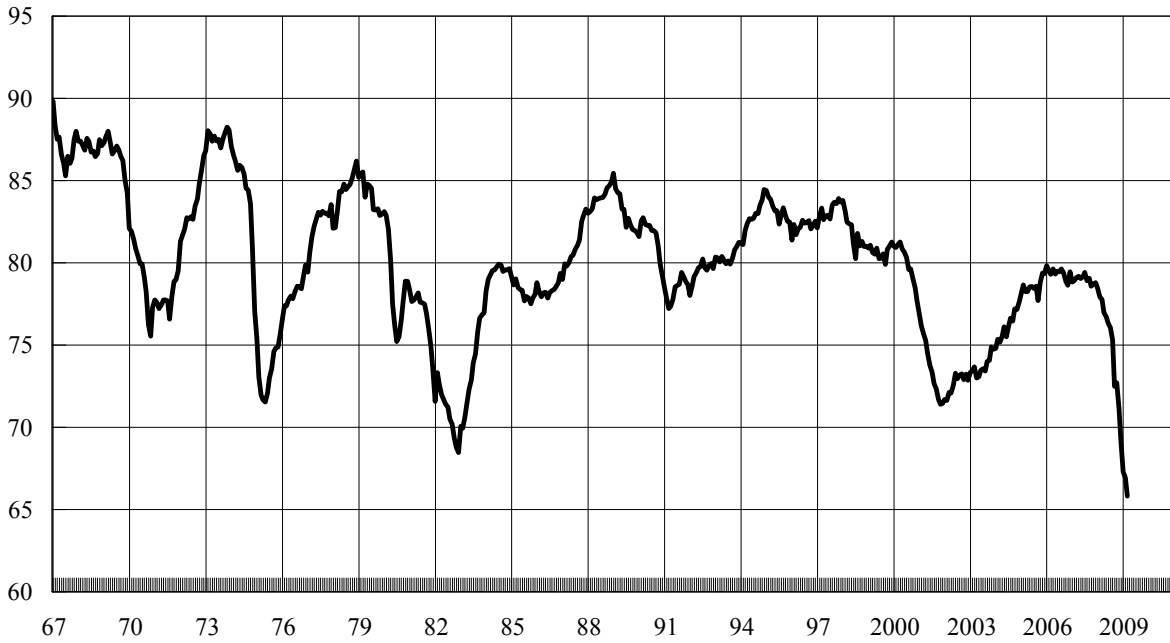
## CAPACITY UTILIZATION TOTAL INDUSTRY

INDEX



## MANUFACTURING

INDEX



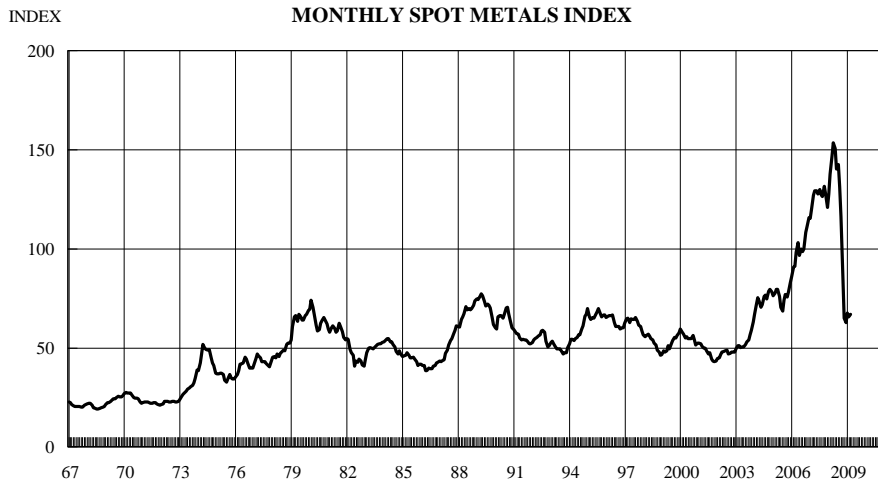
Data plotted through March 2009  
Source: Federal Reserve Board

**Capacity utilization is very low indicating more competitive conditions and probably lower overhead costs.**

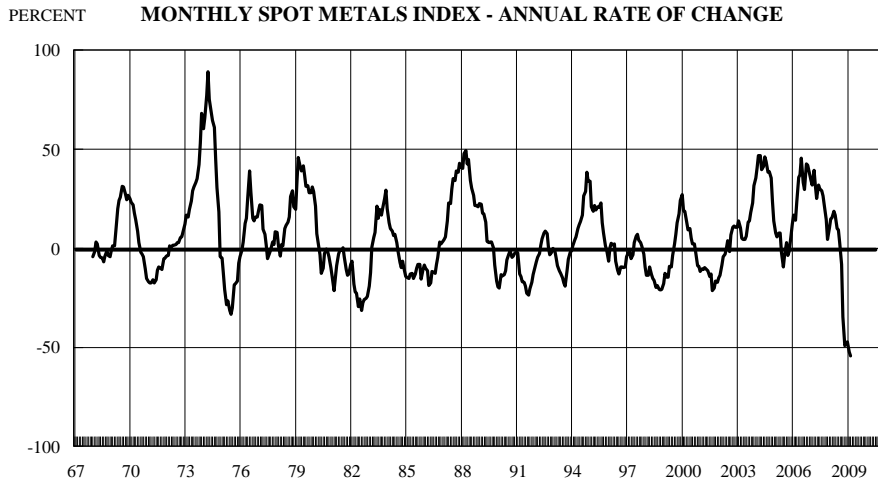
**CAPACITY UTILIZATION  
PRIMARY METALS**



**JOURNAL OF COMMERCE  
MONTHLY SPOT METALS INDEX**



**JOURNAL OF COMMERCE  
MONTHLY SPOT METALS INDEX - ANNUAL RATE OF CHANGE**

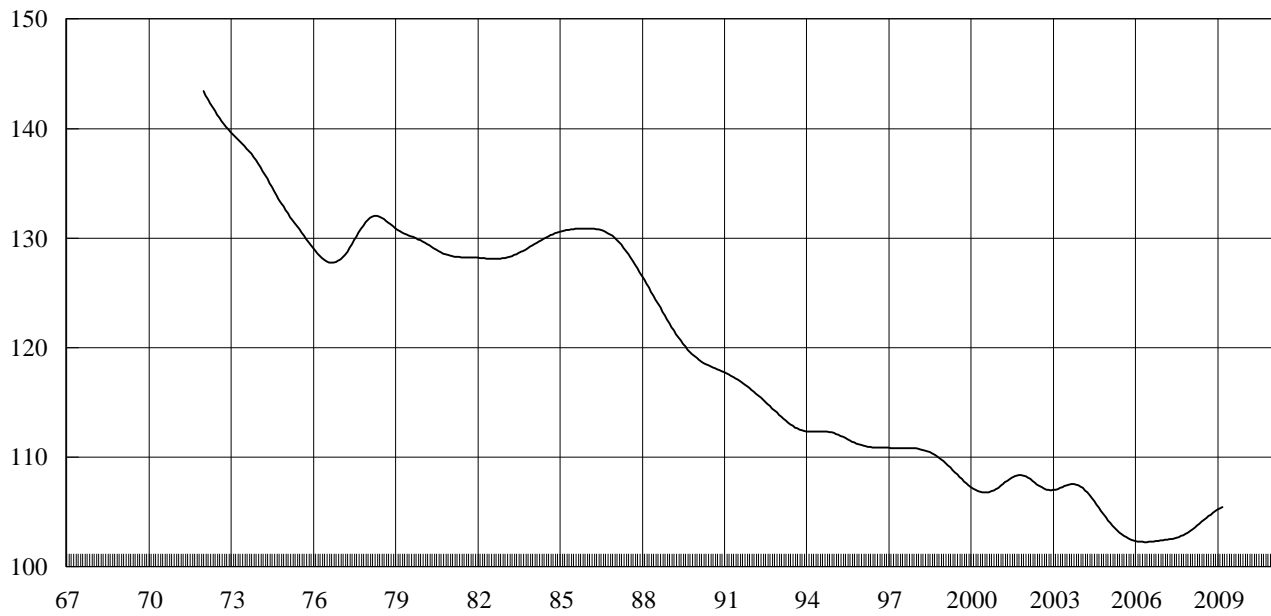


Data plotted through March 2009  
Source: Federal Reserve Board

**The lower capacity growth noted on the prior page coincided with the sharp rise in metal prices and then the sharp drop as business conditions weakened.**

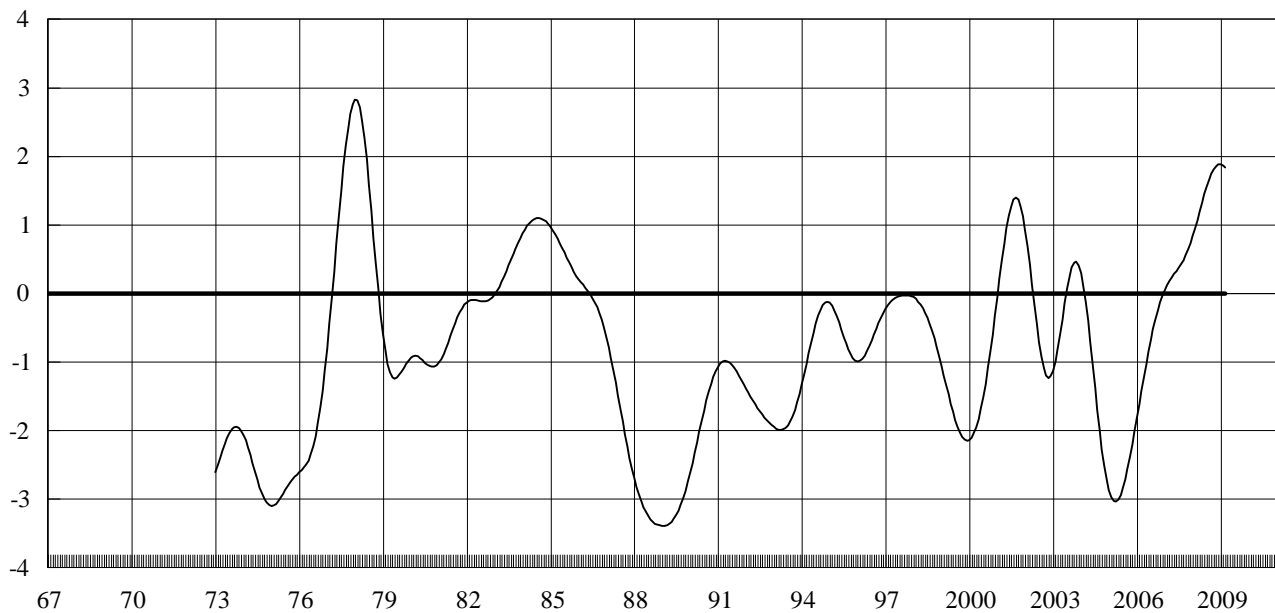
## INDUSTRIAL CAPACITY OIL AND GAS EXTRACTION

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE



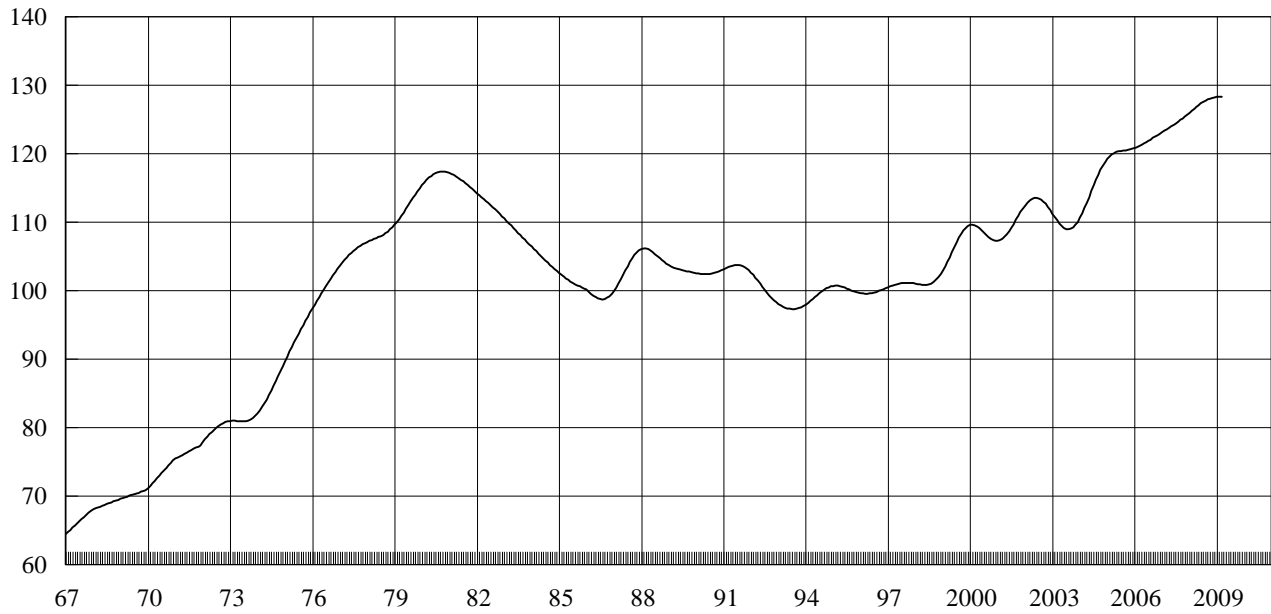
Data plotted through March 2009

Source: Federal Reserve Board

**Some industries recorded relatively higher or average growth in capacity. This was the case for the oil and gas, petroleum and coal and machinery categories (see next two pages).**

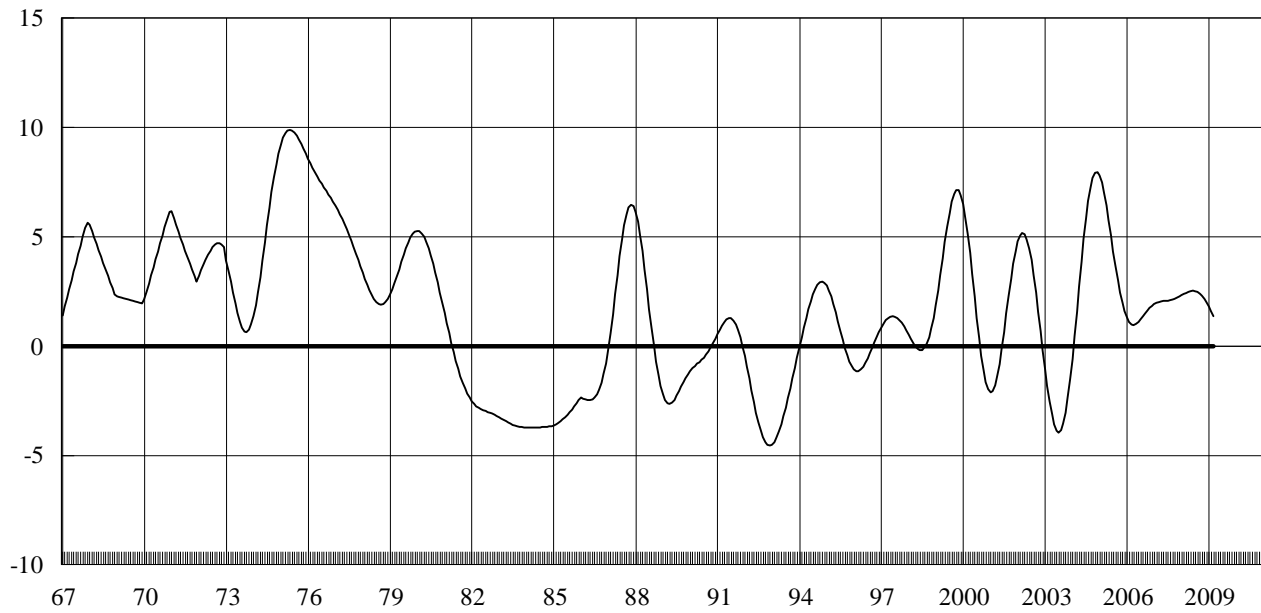
**INDUSTRIAL CAPACITY  
PETROLEUM AND COAL PRODUCTS**

INDEX



PERCENT

**YEAR TO YEAR PERCENTAGE CHANGE**

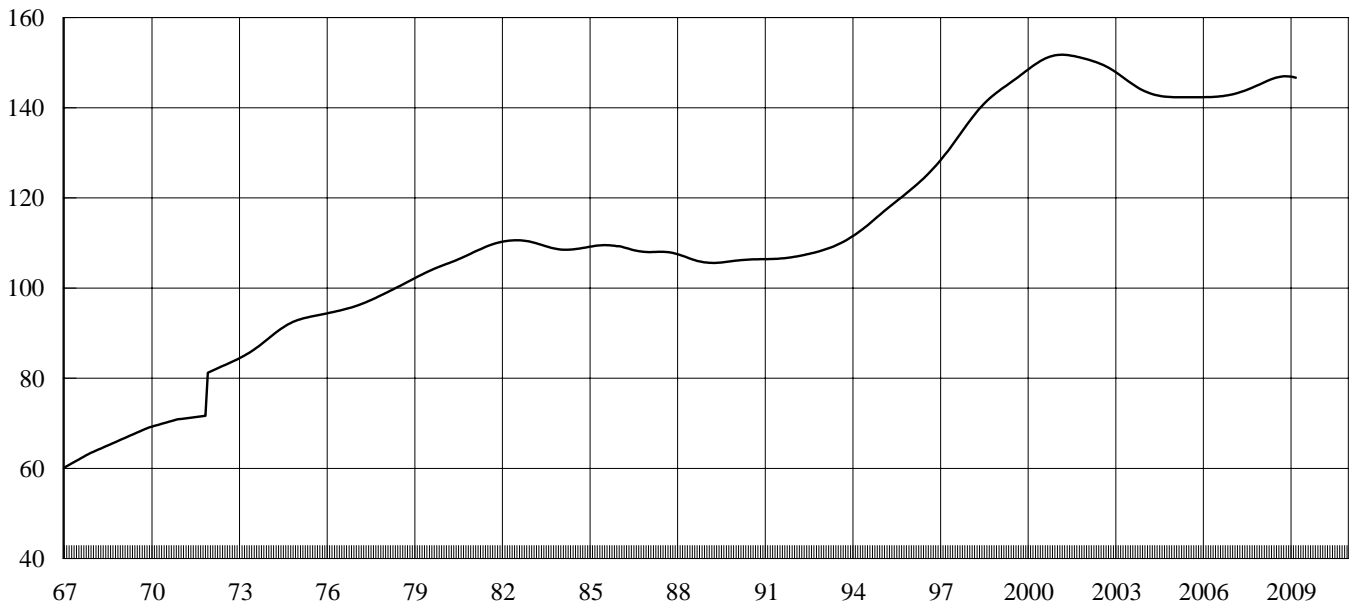


Data plotted through March 2009  
Source: Federal Reserve Board

**SEE PAGE 19**

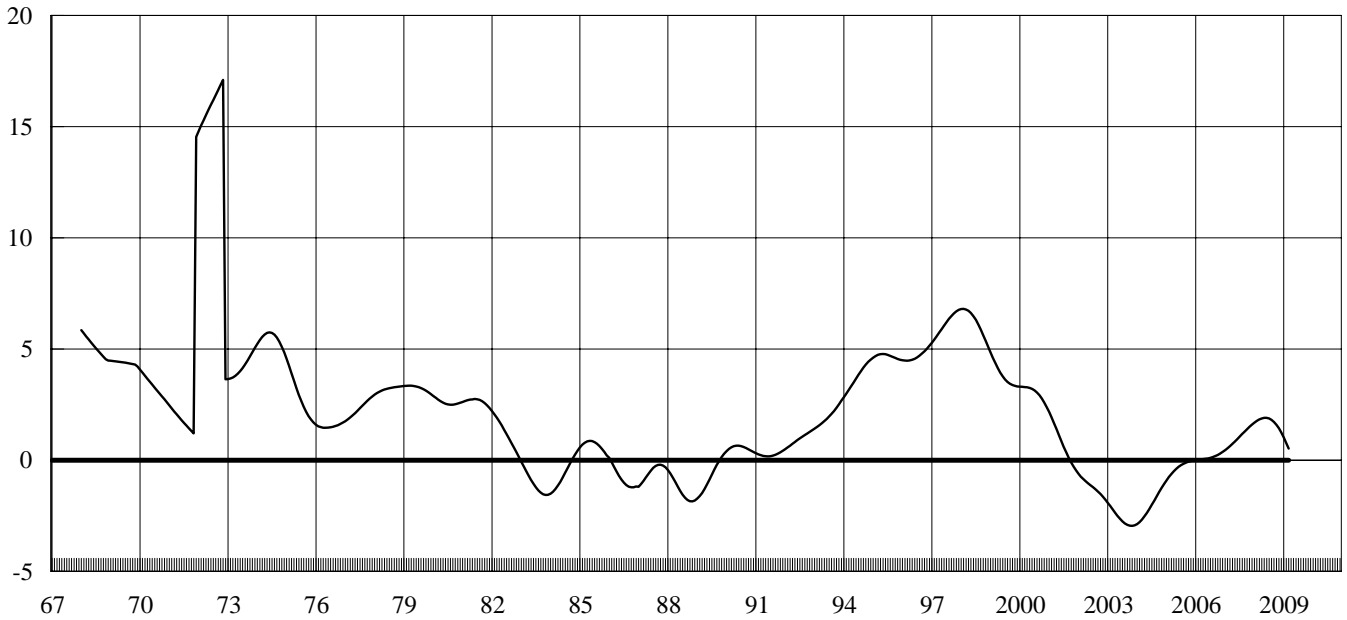
**INDUSTRIAL CAPACITY  
MACHINERY**

INDEX



PERCENT

**YEAR TO YEAR PERCENTAGE CHANGE**

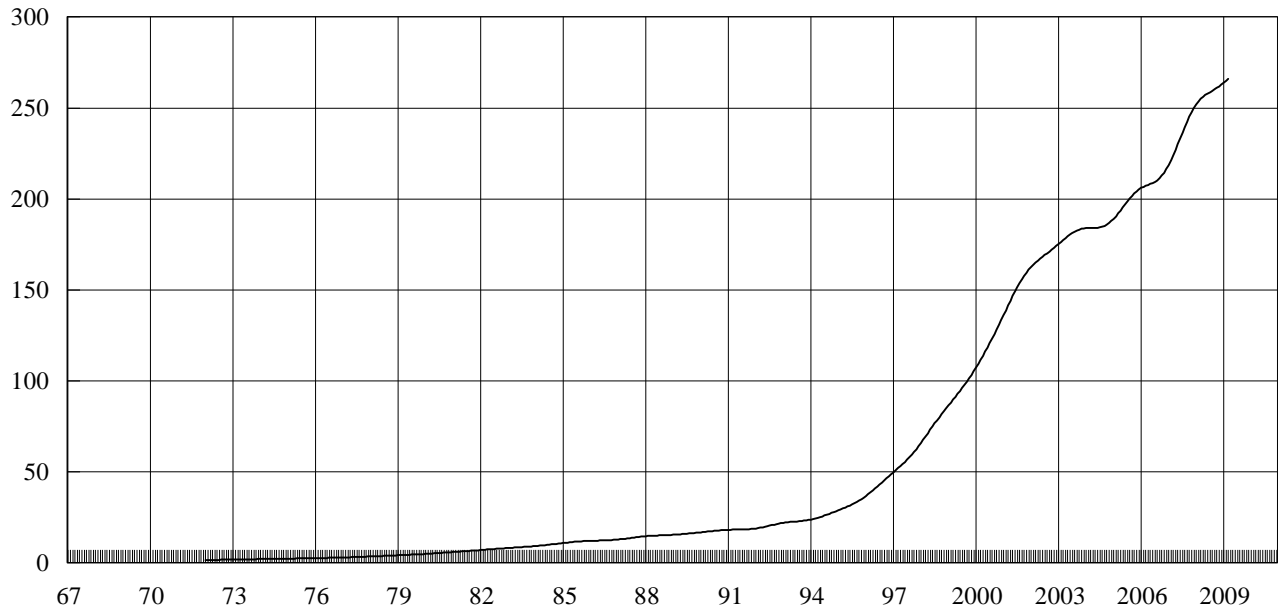


Data plotted through March 2009  
Source: Federal Reserve Board

**SEE PAGE 19**

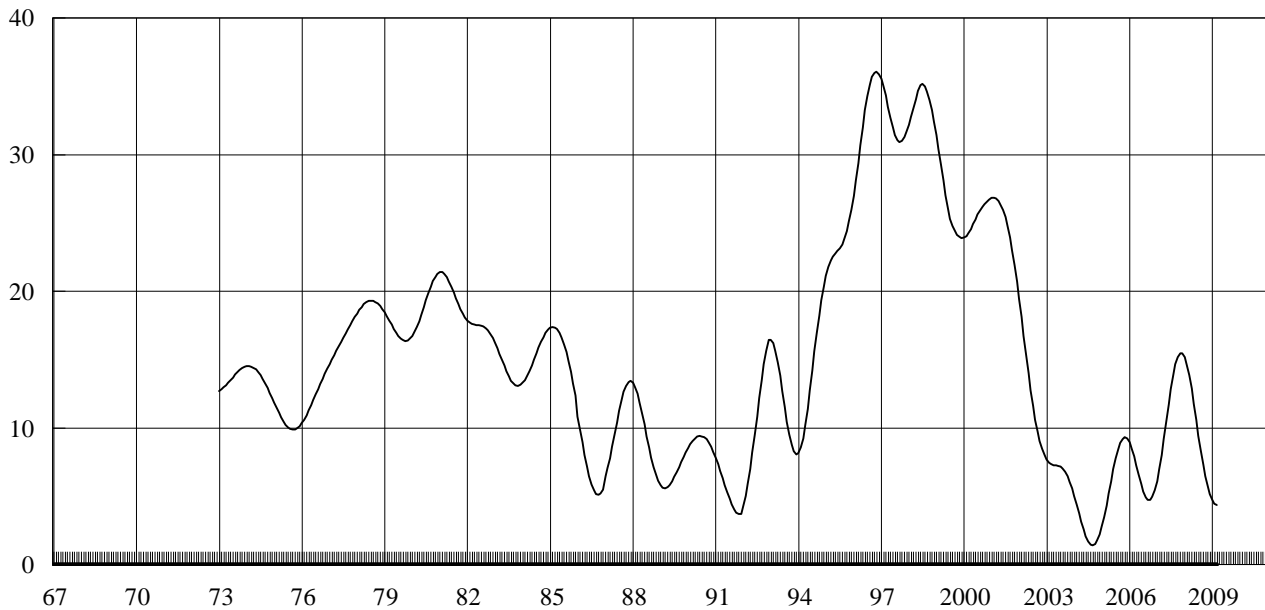
## INDUSTRIAL CAPACITY COMPUTER AND ELECTRONIC PRODUCTS

INDEX



PERCENT

## YEAR TO YEAR PERCENTAGE CHANGE

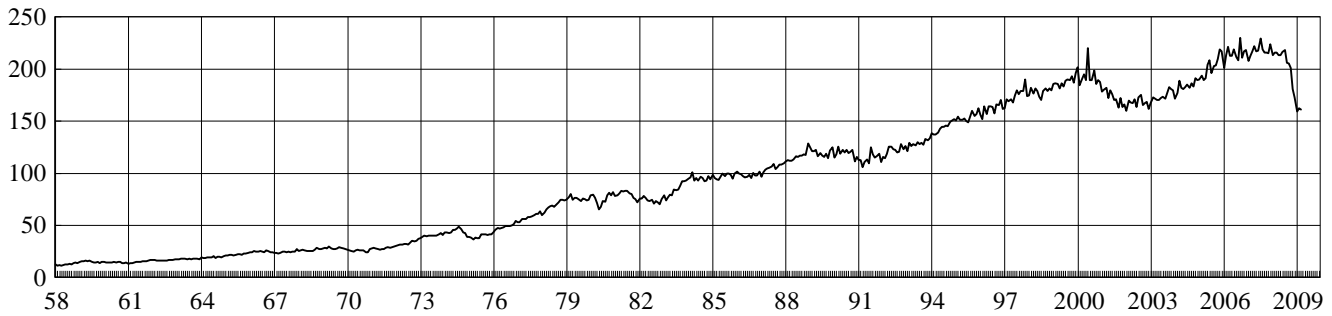


Data plotted through March 2009  
Source: Federal Reserve Board

**Technology industries typically recorded relatively high gains in capacity. However, the 5% capacity growth in computer and electric products in March was a relatively low gain.**

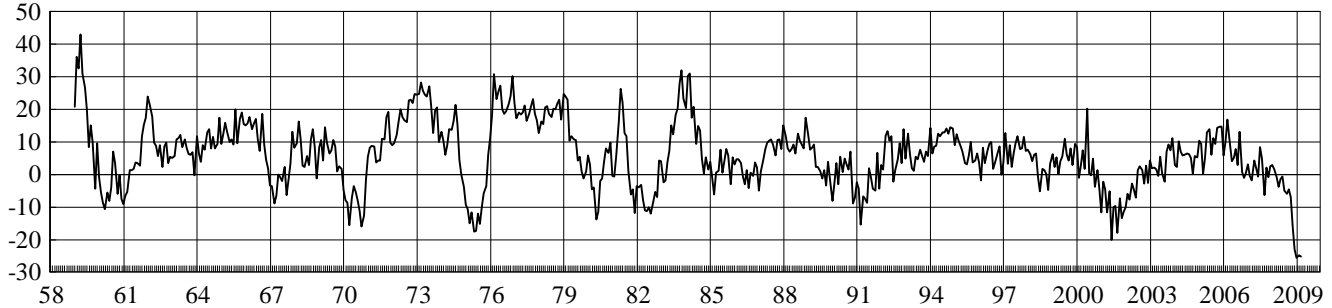
**DURABLE GOODS**  
**MANUFACTURERS' NEW ORDERS**

BILLIONS \$



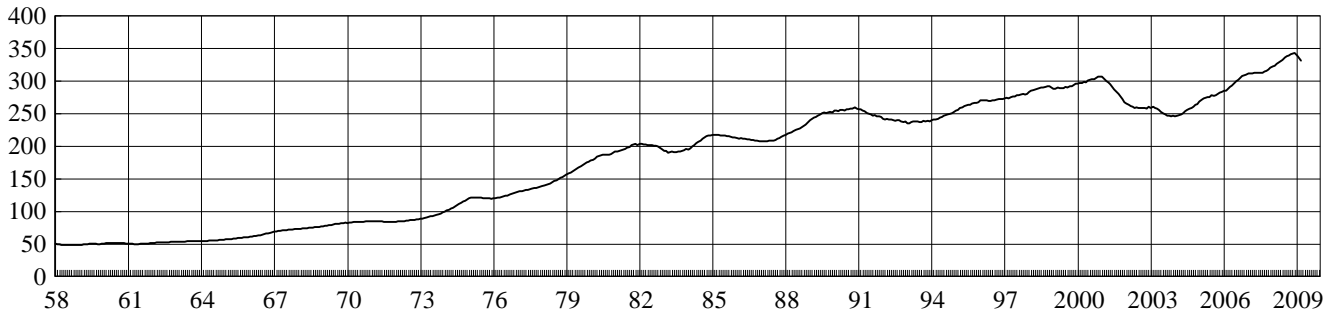
PERCENT

**YEAR TO YEAR PERCENT CHANGE**



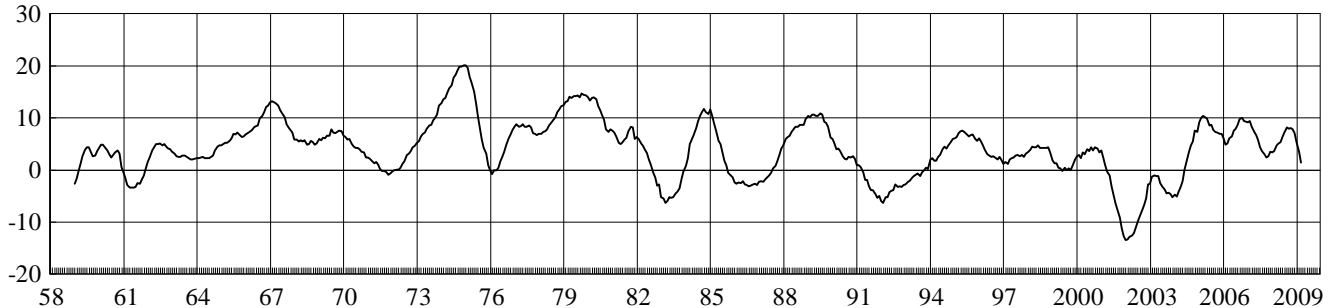
BILLIONS \$

**MANUFACTURERS' INVENTORIES**



PERCENT

**YEAR TO YEAR PERCENT CHANGE**



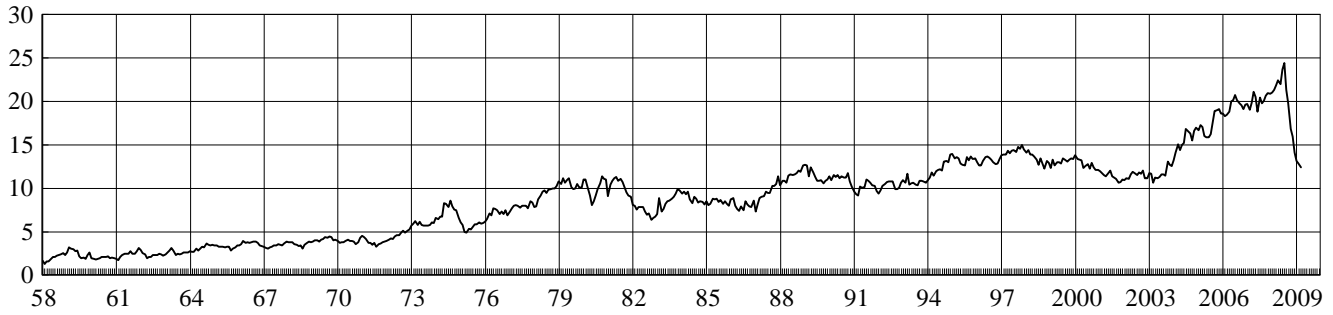
Data plotted through March 2009

Source: Department of Commerce

**There are times when economic data can be misleading or confusing. For example, new orders were down year over year 25% in March compared to a small increase of 1.4% for inventories. Assuming prices have not moved very much, this would have bearish implications because the orders were down so and inventories were still up slightly. However, prices did drop substantially last year causing the data to be potentially misleading. Conversely, should spot prices rise it could be misleading as well, as was the case in early 2008 for primary metals (see next page).**

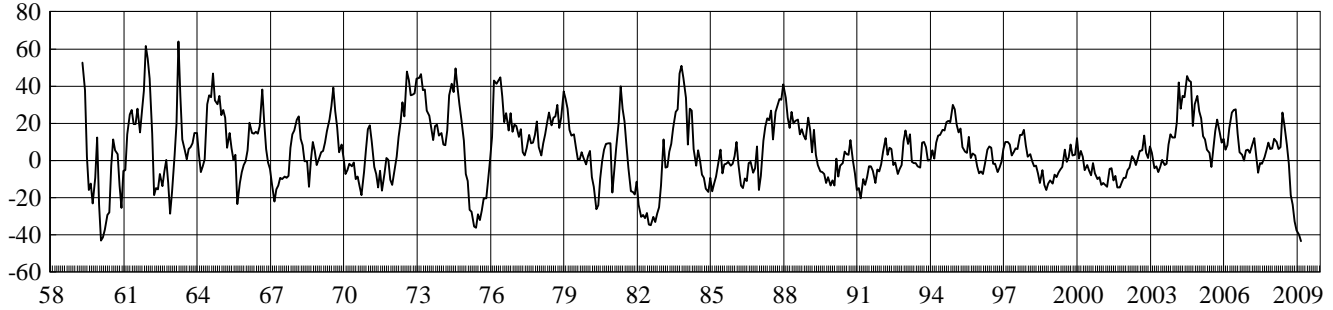
**PRIMARY METALS  
MANUFACTURERS' NEW ORDERS**

BILLIONS \$



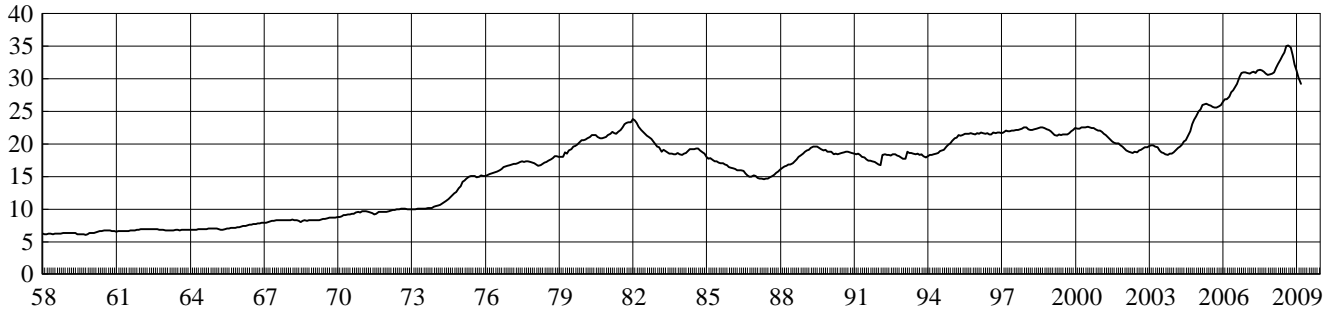
PERCENT

**YEAR TO YEAR PERCENT CHANGE**



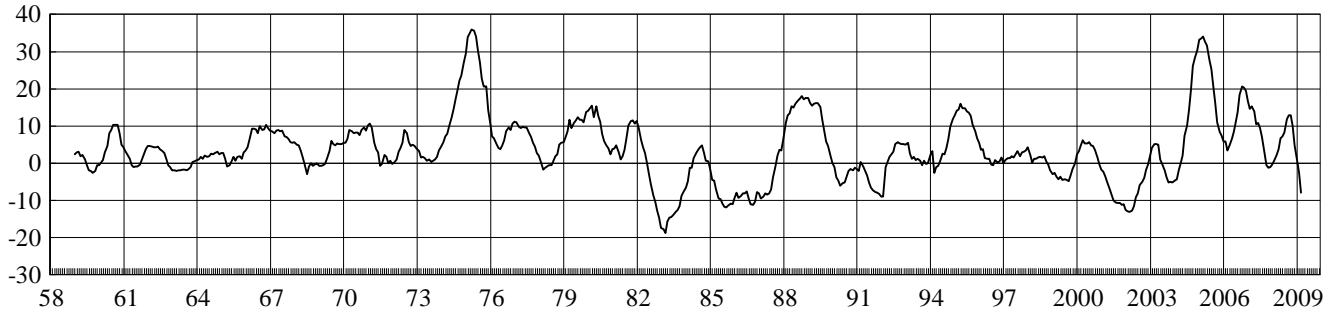
BILLIONS \$

**MANUFACTURERS' INVENTORIES**



PERCENT

**YEAR TO YEAR PERCENT CHANGE**

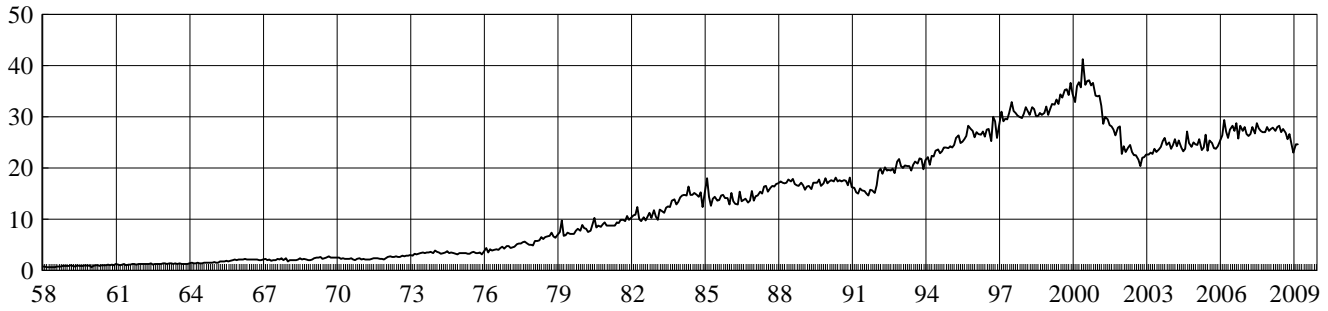


Data plotted through March 2009  
Source: Department of Commerce

**Spot metal prices were very strong in early 2008, which caused new orders to rise substantially (see prior page). Prices of metals fell sharply during the second half of last year resulting in lower new orders for metals.**

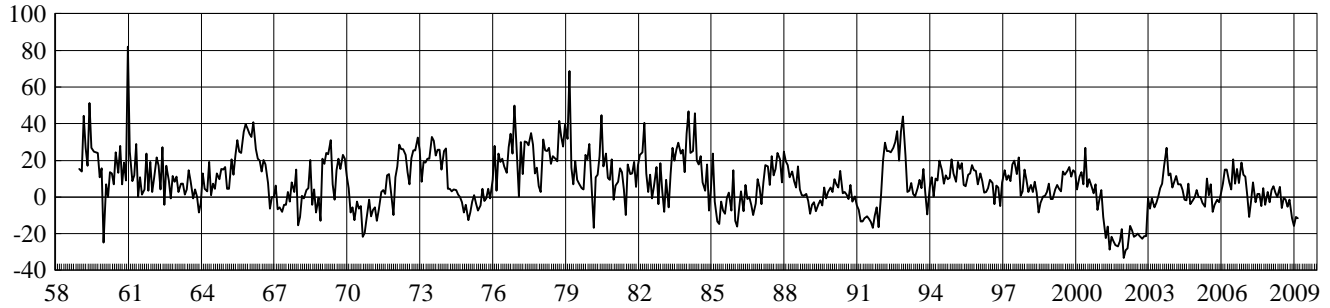
**TECHNOLOGY GOODS (Computers and Electronic Products)**  
**MANUFACTURERS' NEW ORDERS**

BILLIONS \$



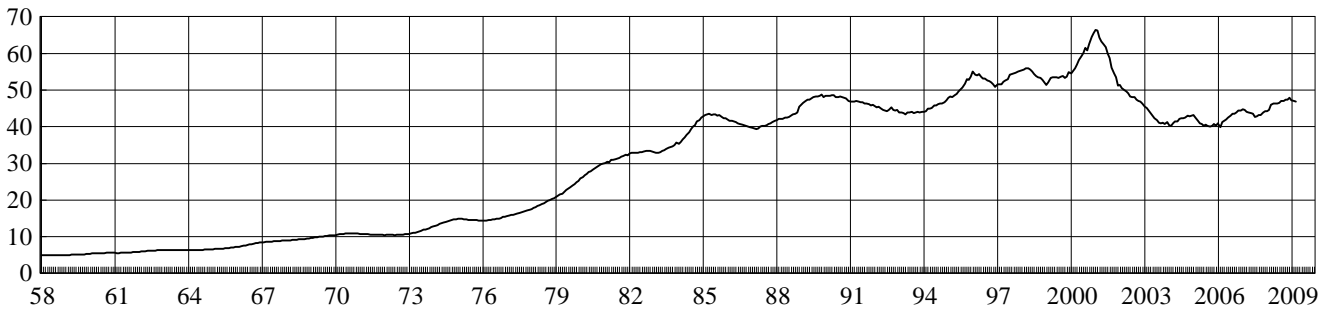
PERCENT

**YEAR TO YEAR PERCENT CHANGE**



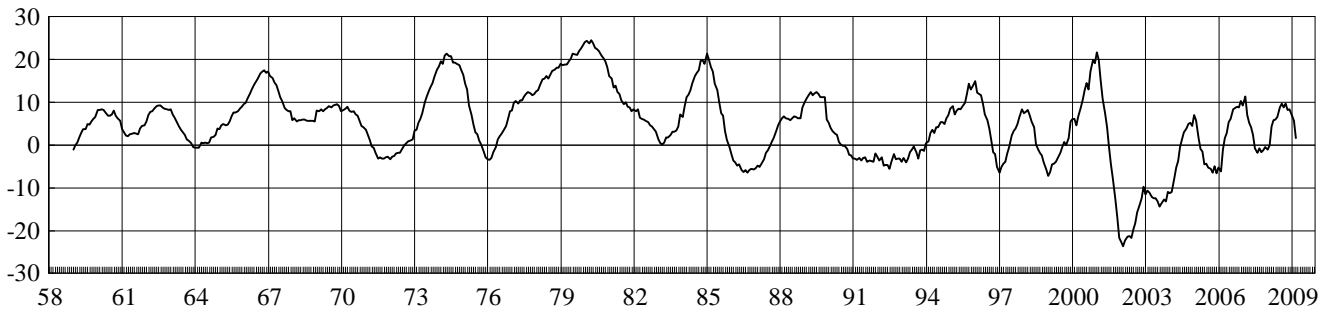
BILLIONS \$

**MANUFACTURERS' INVENTORIES**



PERCENT

**YEAR TO YEAR PERCENT CHANGE**

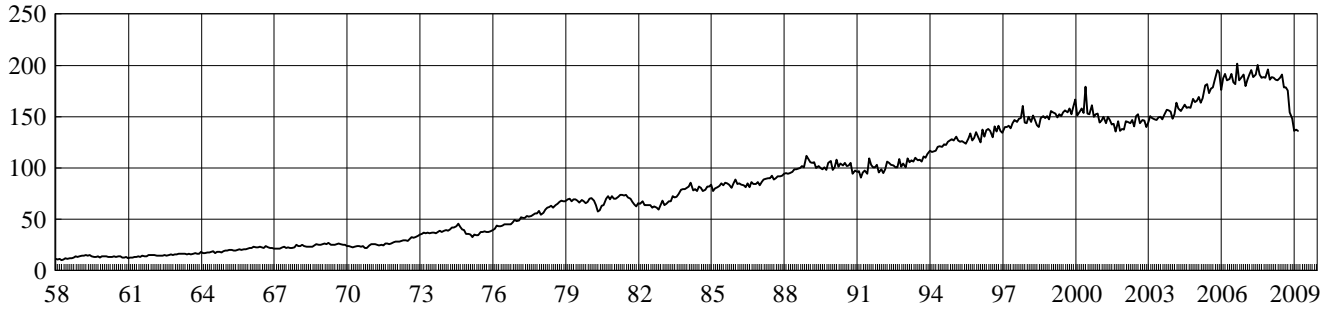


Data plotted through March 2009  
 Source: Department of Commerce

**While this new orders series is down, it is still above the 2002 low by a good amount. This is not the case for nontechnology new orders on the next page nor for the computer new orders. These data do not show excess as was the case in 1999-2000.**

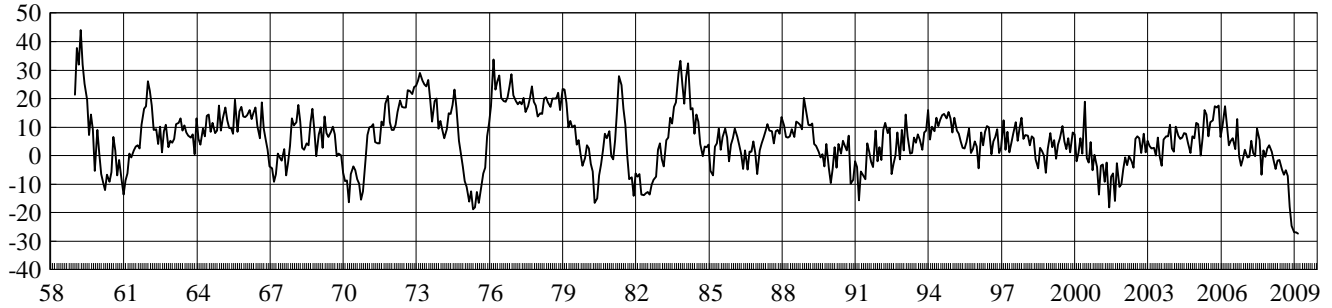
**NONTECHNOLOGY GOODS**  
**MANUFACTURERS' NEW ORDERS**

BILLIONS \$



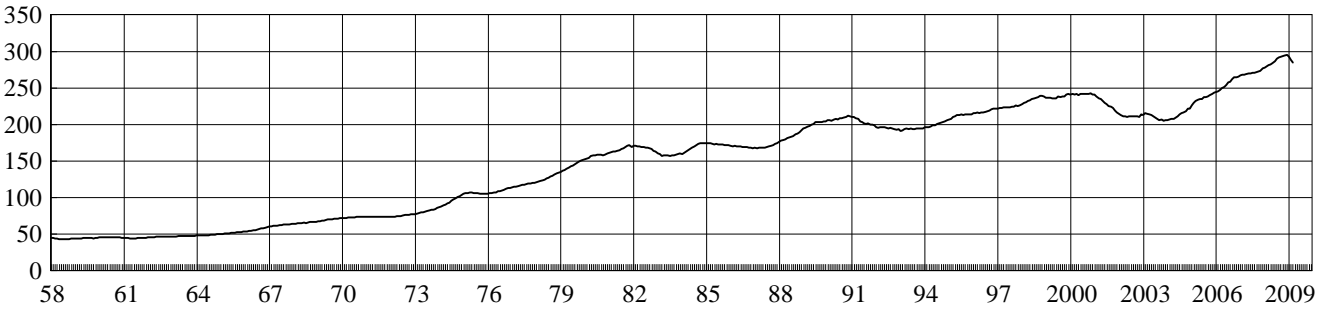
PERCENT

**YEAR TO YEAR PERCENT CHANGE**



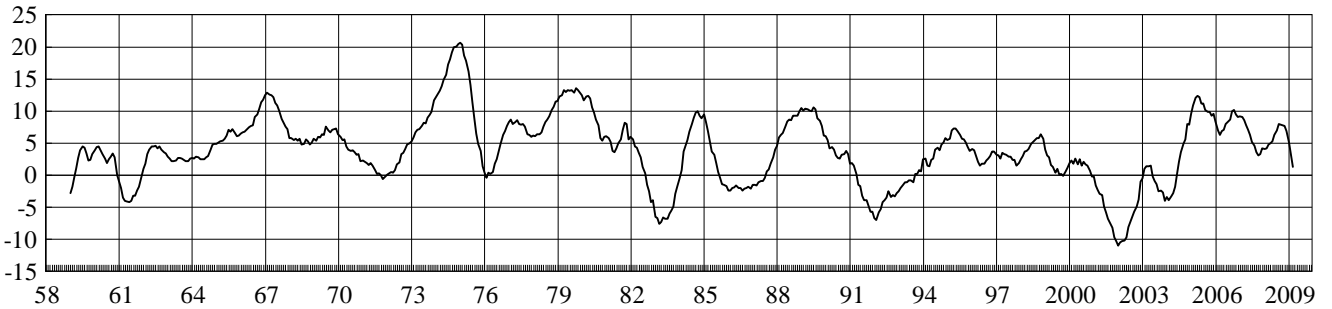
BILLIONS \$

**MANUFACTURERS' INVENTORIES**



PERCENT

**YEAR TO YEAR PERCENT CHANGE**

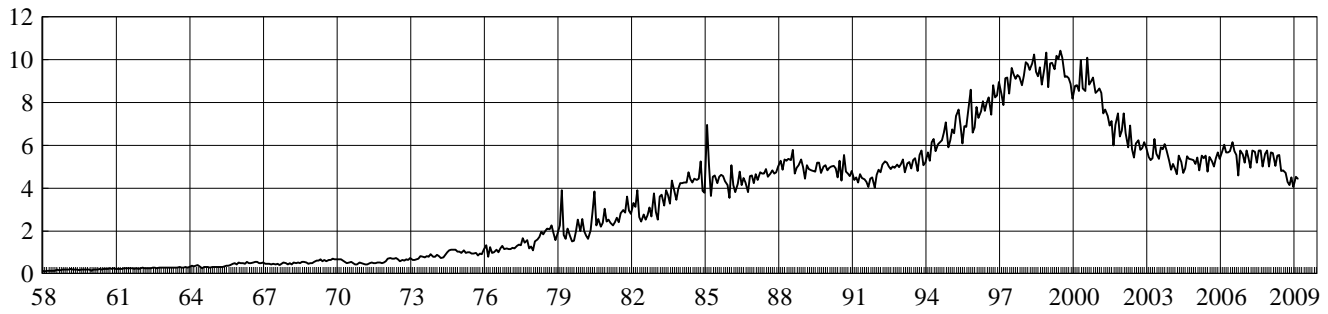


Data plotted through March 2009  
 Source: Department of Commerce

**Since technology companies reached their economic peak and excess in the 1999-2000 period, this nontechnology segment of new orders and inventories should bear a greater brunt of the weakness. The year over year change in new orders illustrates the record negative annual rate of decline in recent months. Inventories remain relatively high.**

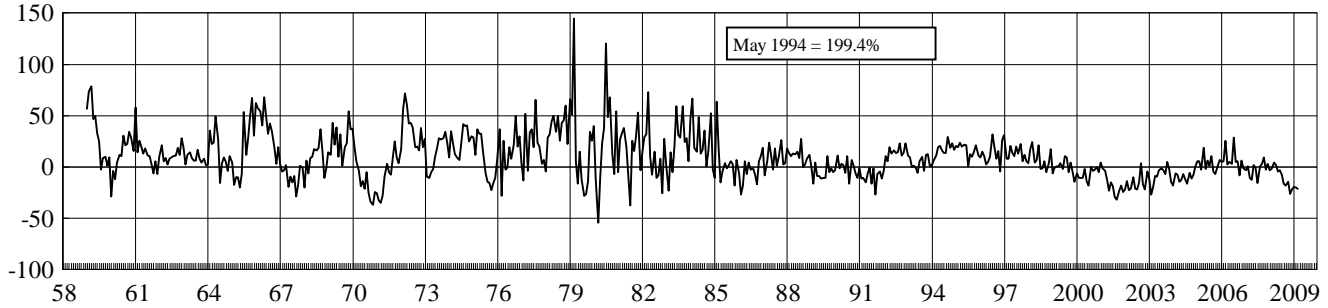
**COMPUTERS AND RELATED PRODUCTS  
MANUFACTURERS' NEW ORDERS**

BILLIONS \$



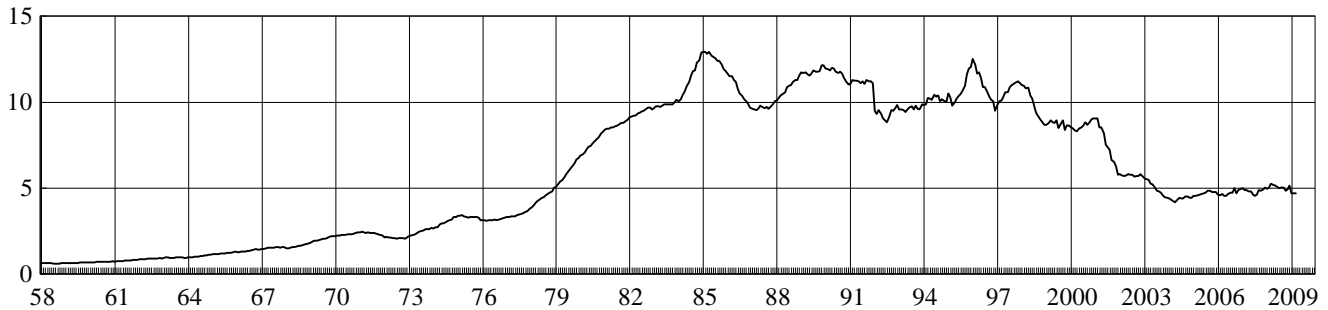
PERCENT

**YEAR TO YEAR PERCENT CHANGE**



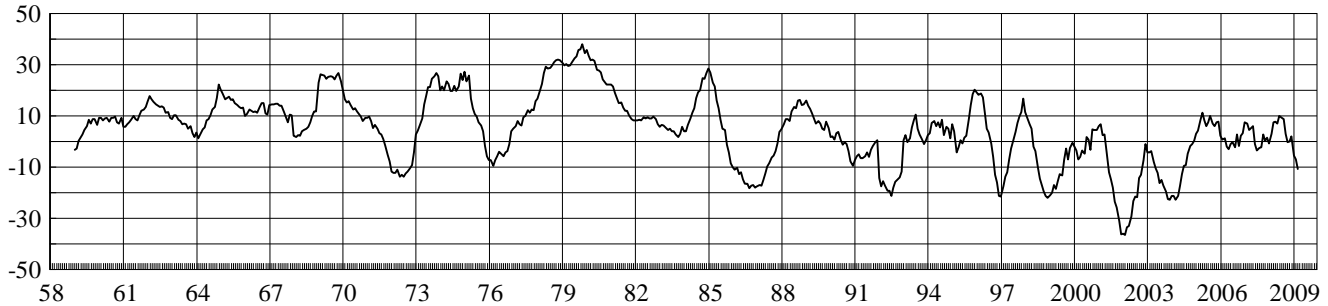
BILLIONS \$

**MANUFACTURERS' INVENTORIES**



PERCENT

**YEAR TO YEAR PERCENT CHANGE**



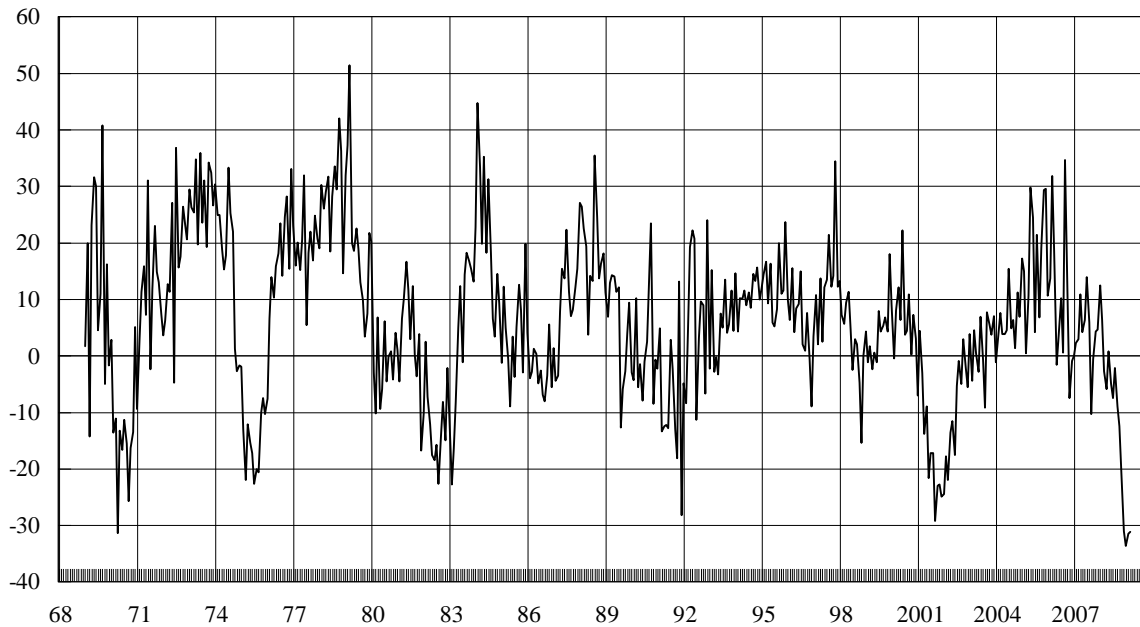
Data plotted through March 2009  
Source: Department of Commerce

**Both new orders and inventories are down for computers and related products, but the major correction of the excess in the 2000 to 2003 period prevented further major excess in the 2003 to 2007 expansion.**

## NEW ORDERS FOR NONDEFENSE CAPITAL GOODS



## YEAR TO YEAR PERCENT CHANGE

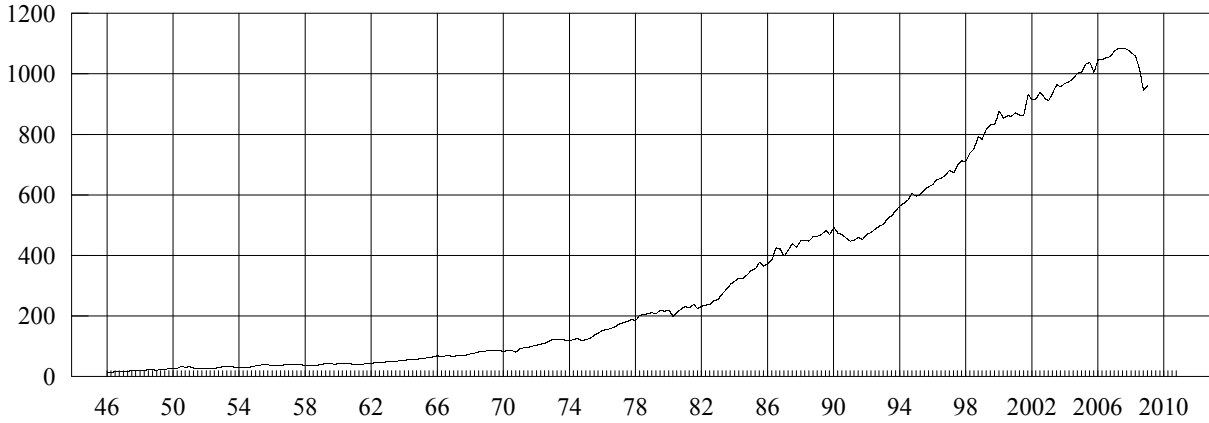


Data plotted through March 2009  
Source: Bureau of the Census

**New orders for nondefense capital goods showed a less extended pattern for the economy in 2007 and the data fell to the 2002 low. This pattern suggests the final phases of a recession.**

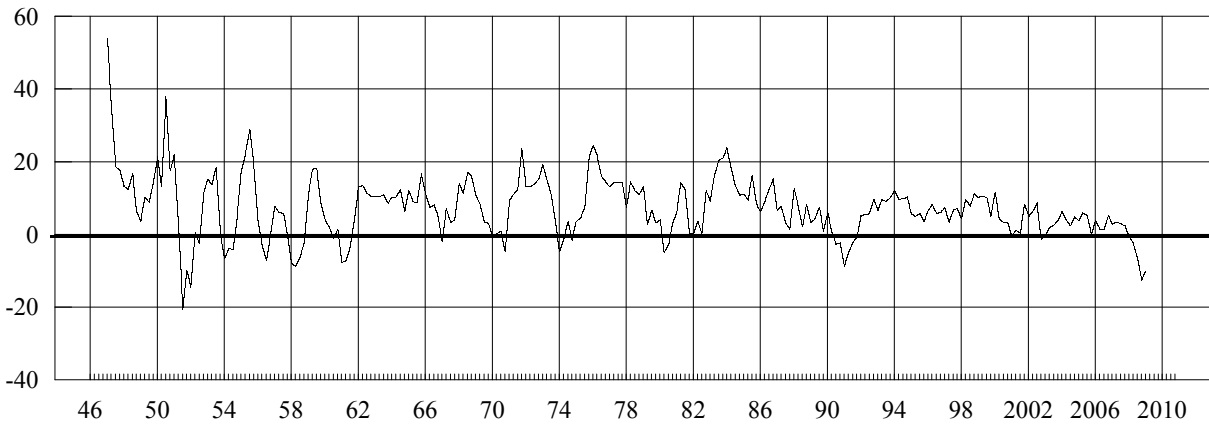
**PERSONAL CONSUMPTION EXPENDITURES FOR DURABLES  
(CURRENT DOLLARS)**

BILLIONS \$



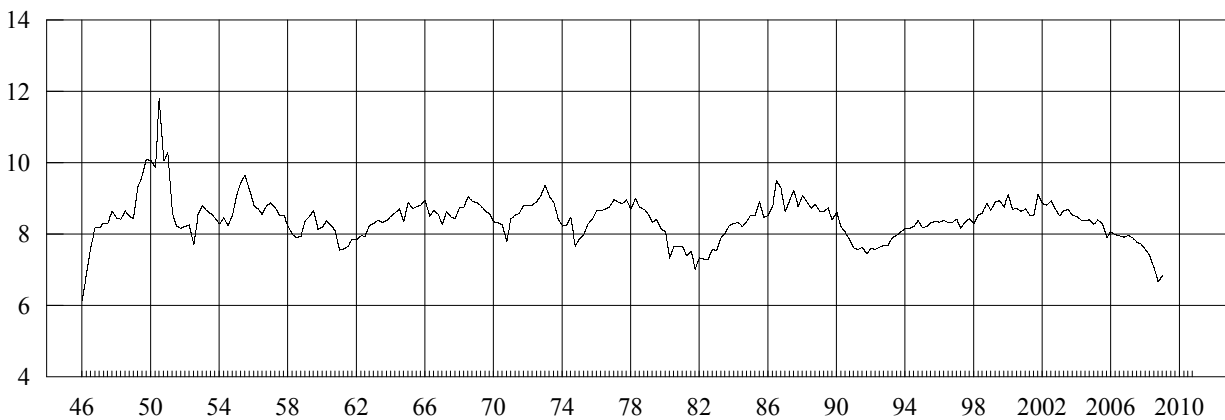
PERCENT

**YEAR TO YEAR PERCENT CHANGE**



PERCENT

**AS A PERCENT OF GROSS DOMESTIC PRODUCT**

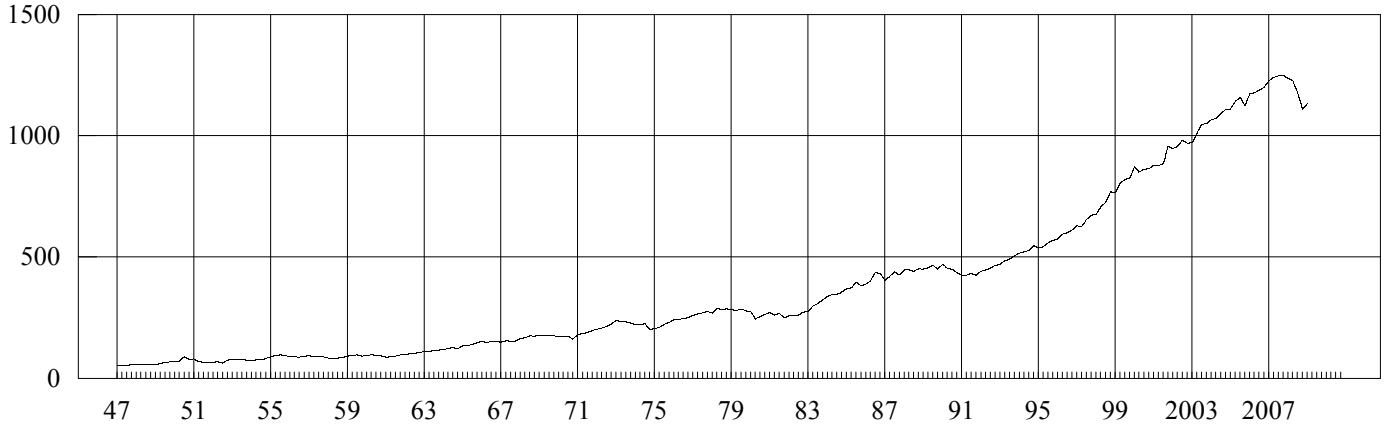


Data plotted through 1st Quarter 2009  
Source: The Department of Commerce

**An interesting aspect of this and the graph on the following page is the much lower percentage of consumer durable goods expenditures in current dollars than constant dollars as a percentage of GDP. This has been caused by the process of deflating these products by the government.**

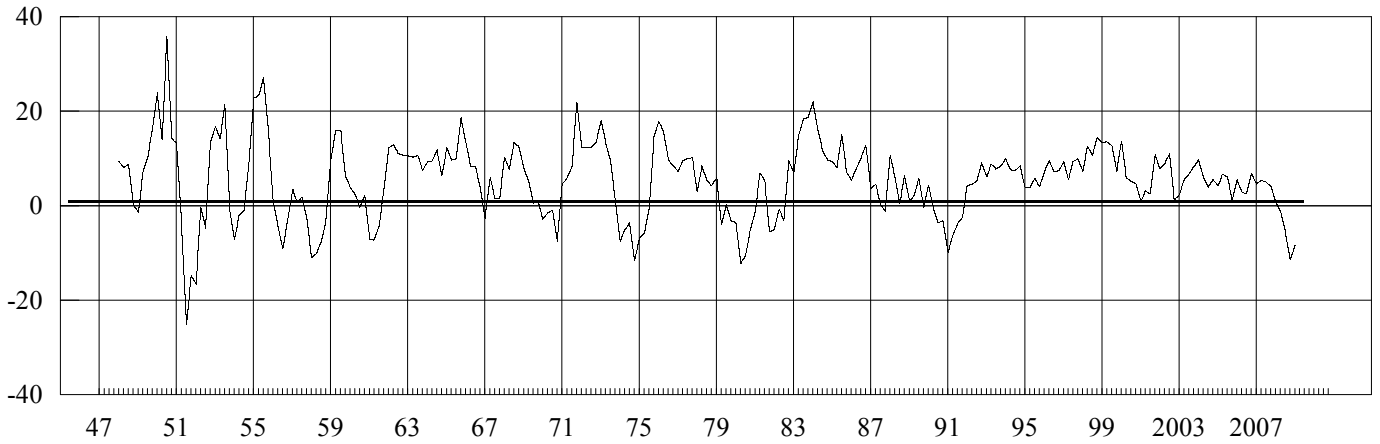
**PERSONAL CONSUMPTION FOR DURABLE GOODS  
(CHAINED WEIGHTED 2000 \$)**

BILLIONS \$



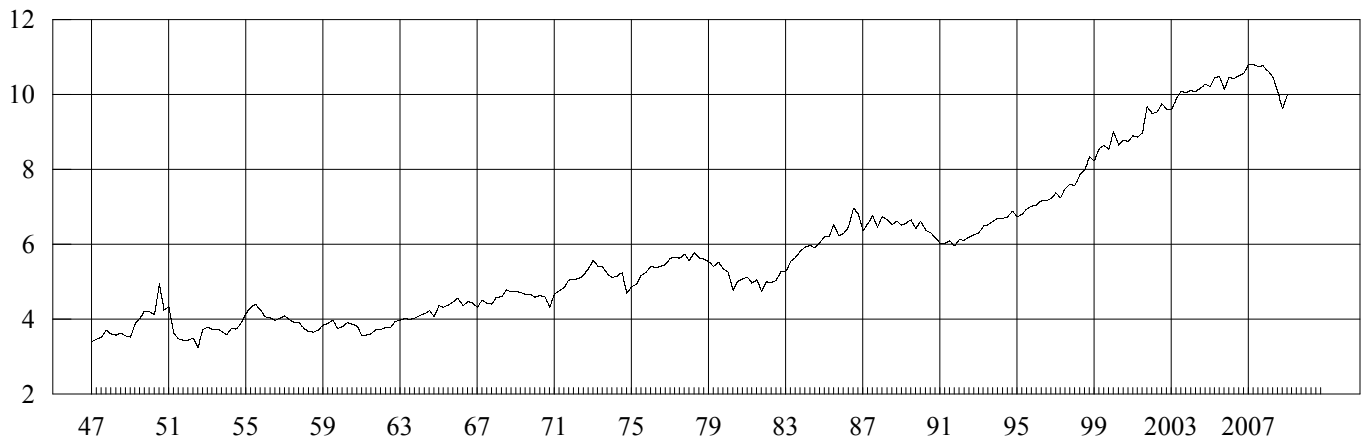
PERCENT

**YEAR TO YEAR PERCENT CHANGE**



PERCENT

**AS A PERCENT OF GROSS DOMESTIC PRODUCT**

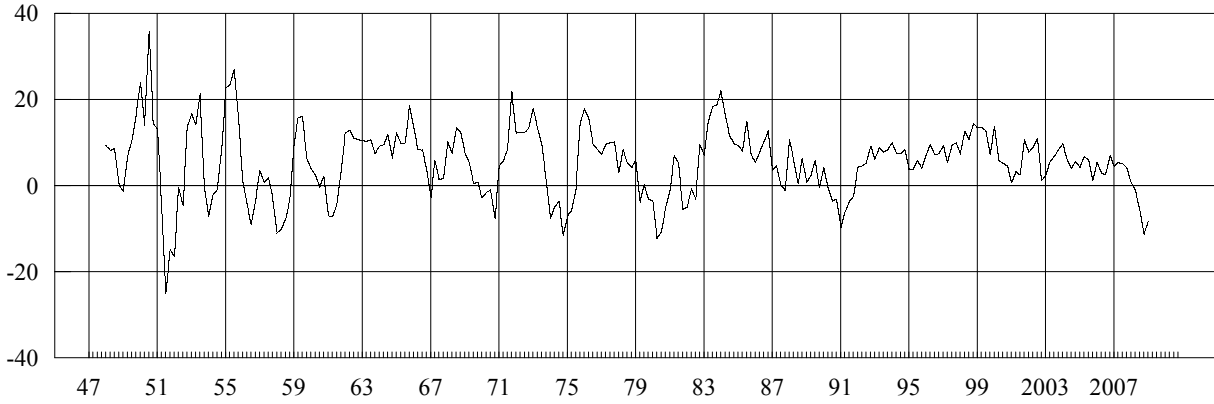


Data plotted through 1st Quarter 2009  
Source: The Department of Commerce

**Given the lower sales of autos in units we wonder if these data are reflective of the actual sales.**

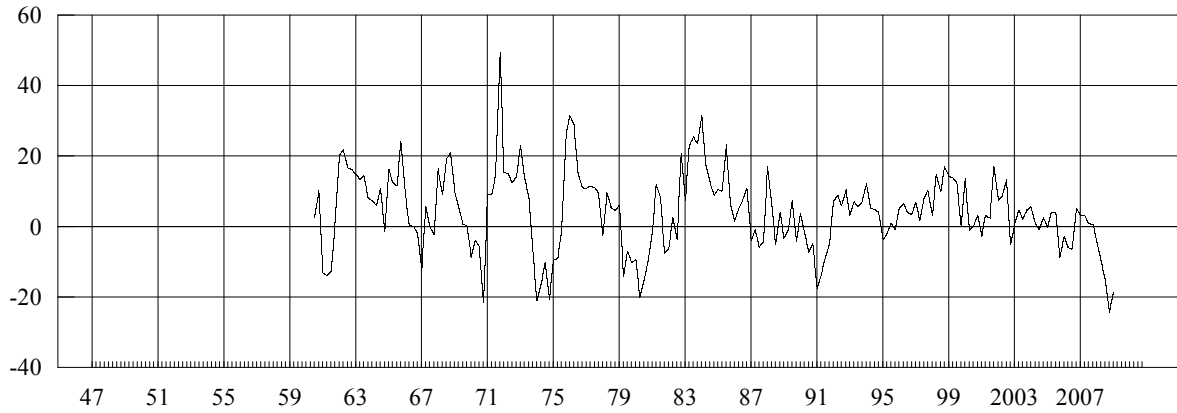
**PERSONAL CONSUMPTION EXPENDITURES**  
**CHAIN WEIGHTED 2000 ANNUAL RATES OF CHANGE**  
**DURABLE GOODS**

PERCENT



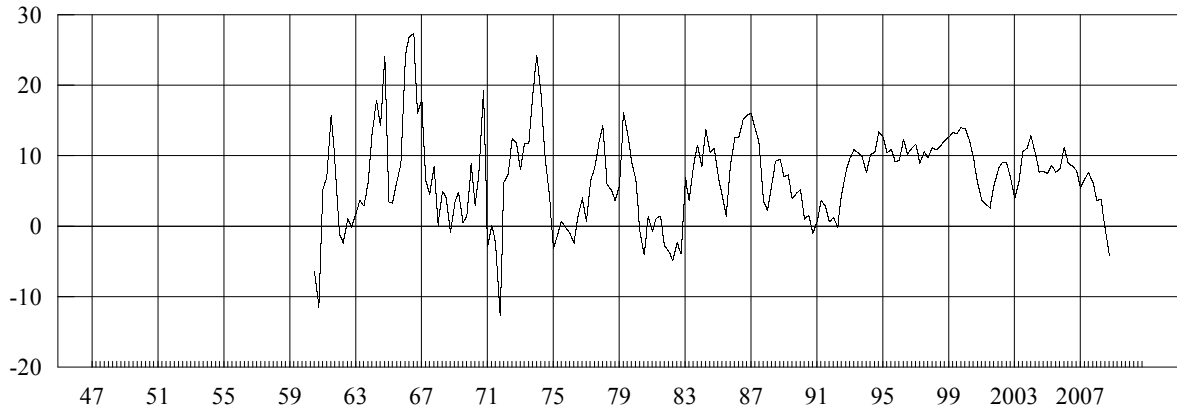
PERCENT

**MOTOR VEHICLES AND PARTS**



PERCENT

**DURABLE GOODS LESS MOTOR VEHICLES & PARTS**



Data plotted through 1st Quarter 2009  
 Source: Department of Commerce

**Undoubtedly, consumption of durable goods other than autos did not do as poorly as autos.**