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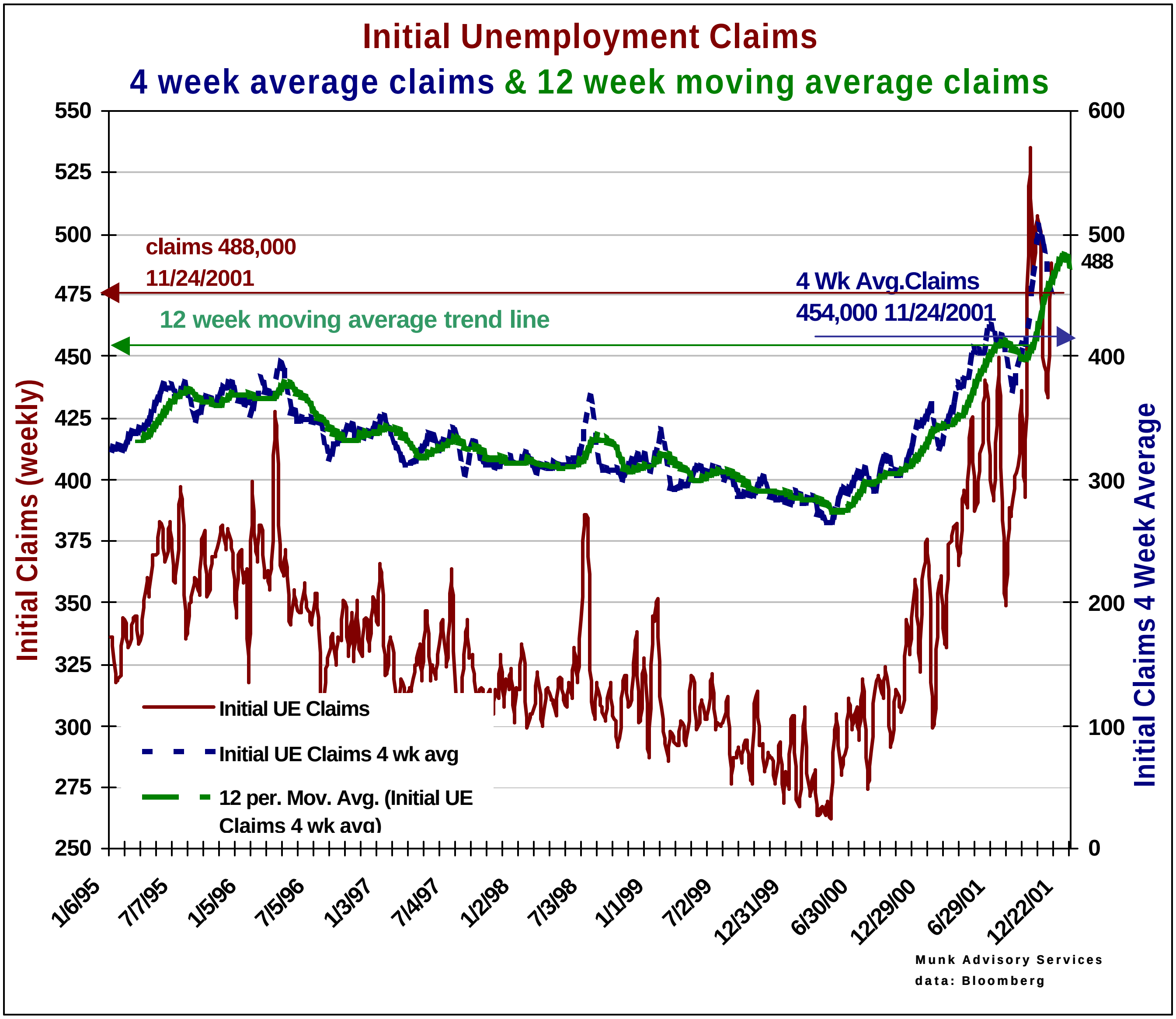
Mixed Signals: job claims and durable goods



Initial Job Claims: By rising for the week ending 11/24, the recent improving trend was broken. As the economy passes through the "bottom" of the cycle, however long that may take, we should expect to see bumps in the data series. We reiterate our view that the overall unemployment rate will continue to rise through the bottom and into the recovery phase that should come sometime in QI 2002. One of the keys to the job situation must be what is happening to the service sector. If, as we now suspect, travel and lodging begins to pick up, the rate of job attrition may lessen.

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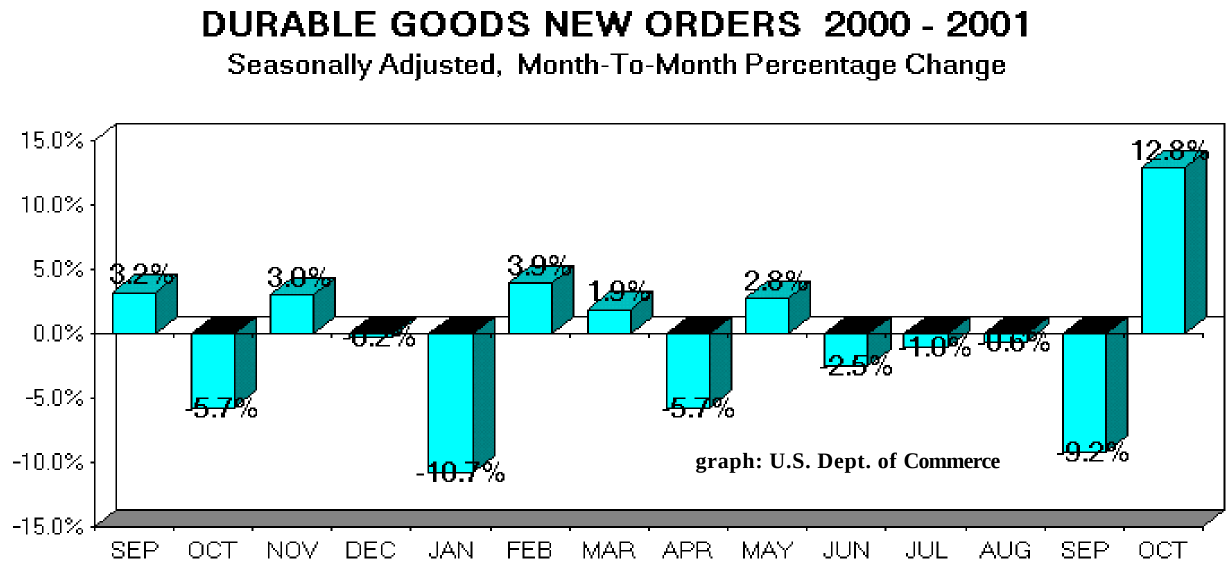
Durable Goods: The principal push in **new orders for manufactured goods** came on the defense side, with



the transportation goods element bulking large in the 12.4% year over year data. Excluding transportation, the change was 3.4%. There was a much-desired 10.3% increase in computers and electronic products, the largest since May 2000.

Shipments of durable goods increased for the first time since May 2000 but remain 7.8% below the year ago period. Considering the difficulties in shipments that arose in the immediate aftermath of the attack, there was undoubtedly some bunching in the October data. Inventory de-cumulation appears to be continuing, but it is possible to read the data as suggesting a slowing of the inventory run-off rate.

We stress again the significance of looking at old data as the economy begins to make a transition. It is helpful but the old adage 'trend is your friend' should be remembered. In "normal times' that axiom holds. At turning points, **look for breaks in the trend**. What counts is when that trend is upset---as it seems to be in these data. If there is some continuation in November, these data will have more significance.

In that regard, we should remind ourselves of the amazing response to "zero cost financing" combined with just in time inventory practices should begin to affect the traditional manufacturing sector. In addition, the high rate of sales of homes and continued residential construction activity has to be causing some inventory replacement or slowing down of the rate of inventory run-off, particularly in light of the continued ease on the finance side. Industrial production has declined for 13 straight months, which is a lengthy period if this recession turns out to be less fearsome than the sharp declines in the high tech first signaled. In any event, some caution in rushing to judgment on this data series is in order since month-to-month 'reversals' are the major characteristic of the series.