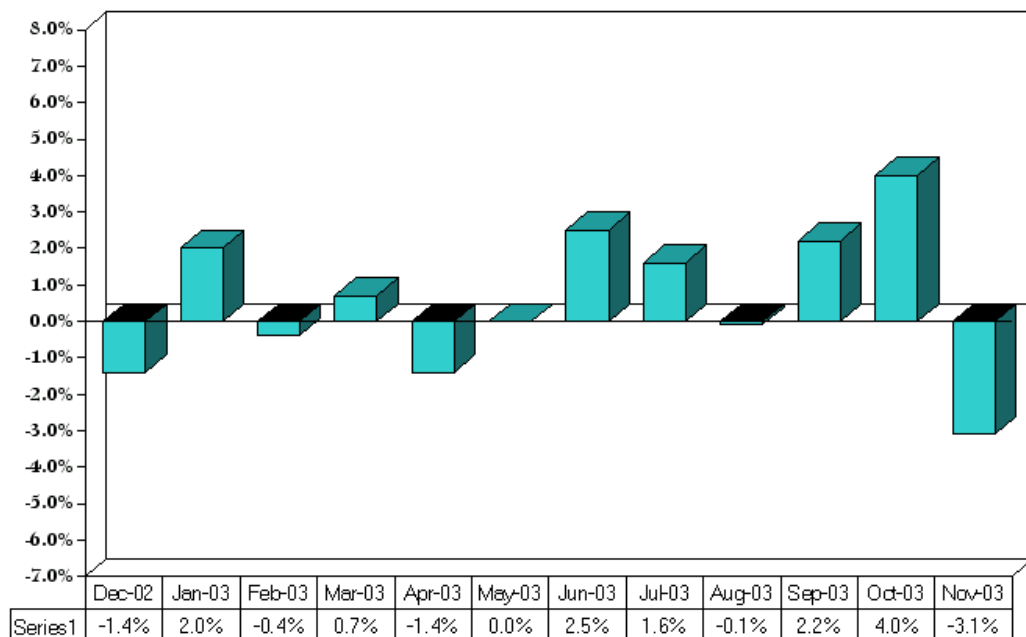




DATA REVIEW: Durable Goods, Continuing Claims and Home Sales Drop

November **durable goods** orders fell sharply (3.1% overall and 3.7% ex transportation), offsetting much of the

DURABLE GOODS NEW ORDERS 2002 - 2003
Seasonally Adjusted, Month-To-Month Percentage Change



(graph: US Department of Commerce)

reported gains from October. The apparent drop seemed to wipe out much of the sharp gains of September and October, but the tech sector was a highly sensitive component, particularly communications equipment.

In the technology sector, November's report showed a extensive declines in the New Orders Series for Computers and Electronic Products (10.5%) including a (40%) drop in Communications Equipment. That drop comes after a strong percentage gains in September and October of 19.4% and 15.2%. Computers and Related Products fell (0.3%), while no New Order data are available for Semiconductors, although shipments barely weakened (-0.4%).

Inventories and Unfilled Orders continued their prior months' trend with **Total Inventories** dropping marginally while **Unfilled Orders** continued to rise. On the tech side, inventories were only marginally different than in the prior months (down 0.1%) and by the components, down 1.9% for Computers and Related Products and up 0.1% for Communications Equipment. Unfilled orders for both of these categories declined quite moderately 0.7 and 1.7% respectively.

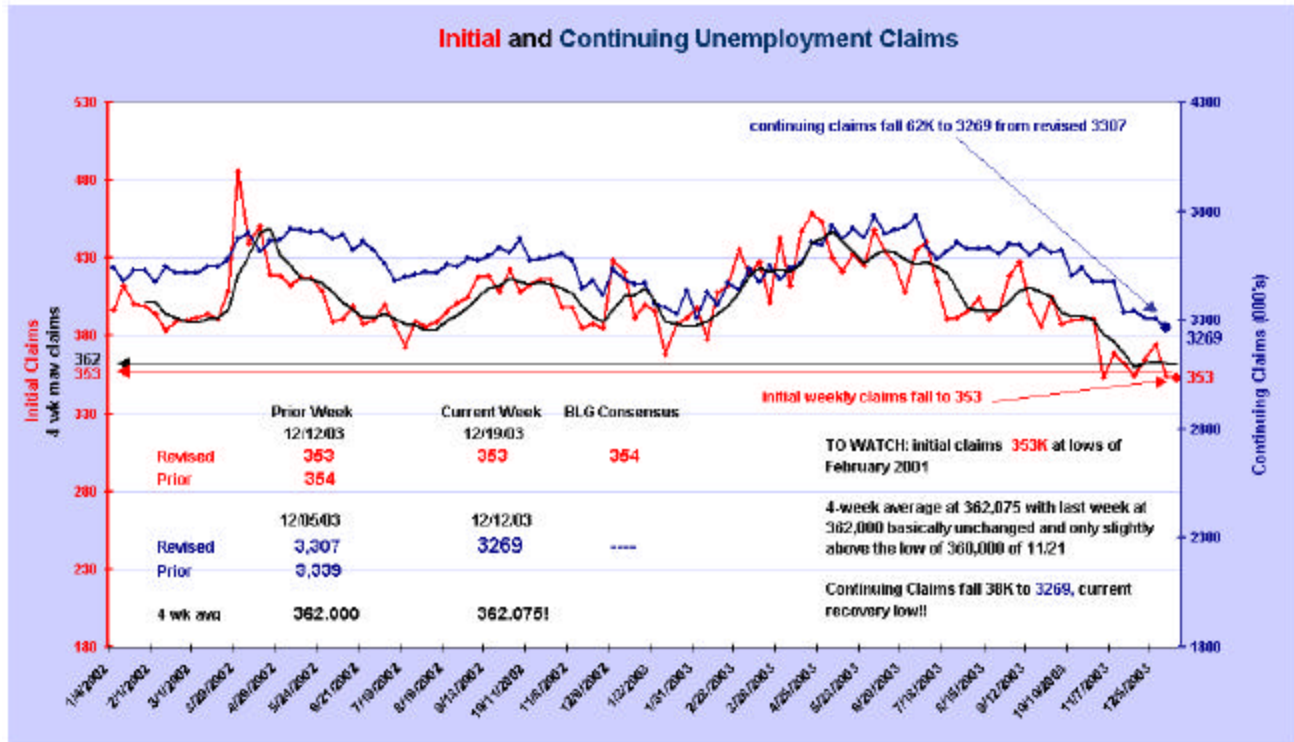


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Is this a sign of a U turn? One month's data is not usually reliable, particularly when account is taken of various survey data such as the New York Fed and the Philly Fed and recent ISM reports. Were it to persist, however, into December and January, we would be forced to think through the implicit business pessimism, but that is getting far in front of the data. More attention than usual may focus on the Chicago PMI (December 30) and the Manufacturing ISM (January 2) in order to fill in an important background for this decline.

Initial and Continuing Claims

Initial Claims were hardly unchanged (353K versus 354K revised) but **continuing claims dropped to 3269K**, a new 'recovery low.'



New Home Sales slip for the third month in a row while new mortgage applications drop. The drop in sales was not large, but the pattern of the last five months (a drop of 9.83%) clearly marks a shift in home sales. The shift is not striking but only suggestive since in November given a divergence between "Starts" and "Permits." A modest decline in sales should be taken in the context of the huge surge in New Home Sales during much of the year, but there is a hint that modest declines could continue unless offset by a large drop in mortgage rates. For GDP purposes, absent a sharp decline back toward the June lows, housing may not add much punch to GDP growth in 2004. That underscores the importance of the business sector generating new investment demand, net export growth and the need for growing personal incomes to sustain the economy's growth in 2004. Already scheduled tax cuts will help in this regard.



Existing Home, New Home Sales

