Transcript of Andrew Dowie's Markets Update – 25 February 2011

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Andrew Dowie:

Good morning, this is Andrew Dowie from Advance Asset Management with a rundown of the data releases for yesterday, Thursday 24 February.

Initial jobless claims for the week ending 19 February, now we were hoping to get a clearer picture of things here as this is the first jobs report in several weeks that was not distorted by the severe winter weather; so consensus was after a 405,000 figure, the previous week we were at 413,000 and the actual release came in at 391,000. So not only down by 22,000 folk last week, but only the third time since the recession ended in June of 2009 that fewer than 400,000 requested unemployment benefit assistance.

Turning now to the less volatile four week moving average, it hit 402,000, the lowest level since late July 2008. So things definitely heading in the right direction, but we really need to see a string of prints below 375,000 before we see significant dents in the jobless rate.

Turning now to the manufacturing sector and January's durable goods orders, at first glance things look rosy, but the details of the report caused a little concern. So the headline release was up by 2.7% on the month, consensus was for a 2.7% to 2.8% kind of figure for this release and indeed December's shock down 2.5% decline was revised to a pretty modest down 0.4%.

So why am I being hesitant? Well if we take the transport component out of things, durable orders fell by 3.6%; the market was anticipating a 0.5% increase. Now this negative 3.6% decline last month was the biggest drop in activity since January of 2009. Now just as an indication of the impact the transportation factors can have on proceedings, in December orders for commercial aircraft totalled some US$148 million. In this latest January report, they amounted to some US$7.5 billion.

If we turn now to orders for non-defence equipment, excluding aircraft, this fell by 6.9% on the month. This segment of the report is closely watched as it is perceived as being a good proxy for business plans to purchase capital goods to both expand and upgrade equipment and productivity.
So the take here is that this decline is but temporary. The Obama Administration's tax changes to allow businesses full deductions on capital equipment purchased this year should prove stimulatory. The take from 40,000 feet is that given the latest survey evidence, I'm referring here to the various ISM reports, orders and shipments should remain quite strongly as weather related factors are reversed.

Finally, looking at the America housing sector, January's new home sales; these fell by 12.6% from December to just 284,000 homes. Now a healthy market traditionally posts 600,000 sales per year. The drivers of this week's release were essentially the large amount of cheaper foreclosed properties on the market and also the bad weather, which kept folk at home. Regionally, the monthly declines were concentrated in the west and the south. The expiration of a home buyer tax credit in California impacted proceedings here; encouragingly sales picked up in the west and were very robust in the north east.

Thank you.

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