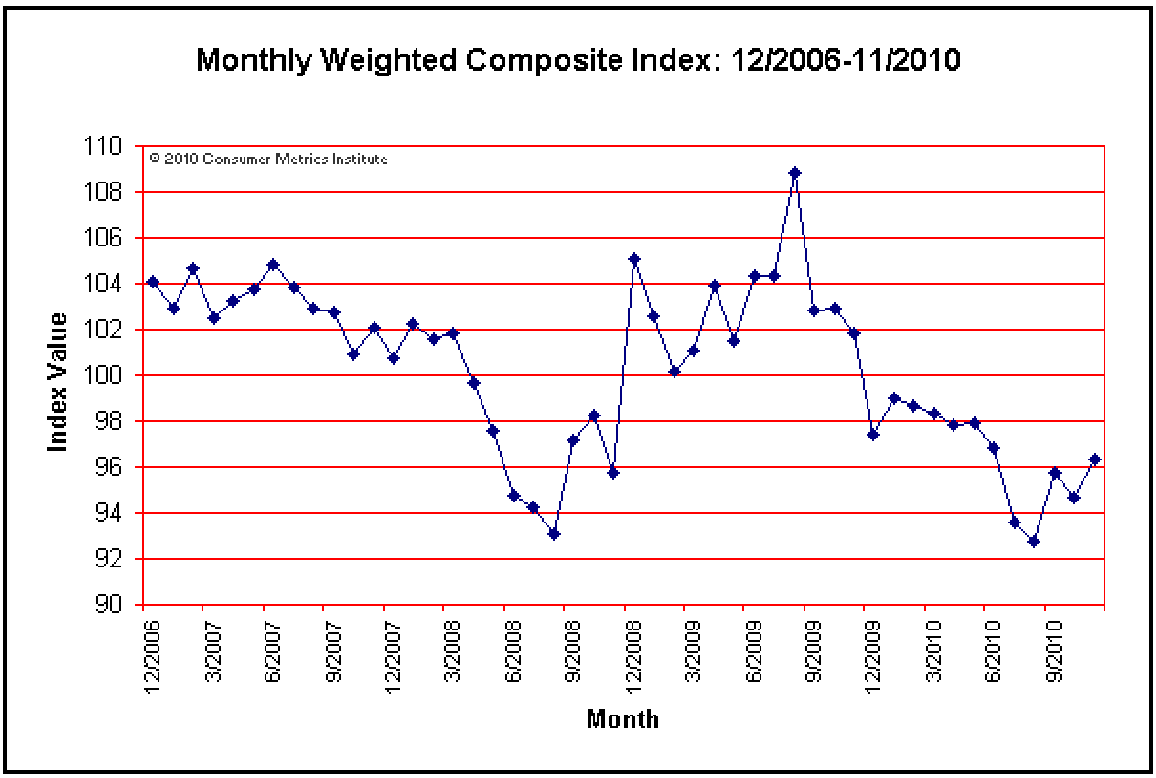
Consumer Metrics Institute Members News

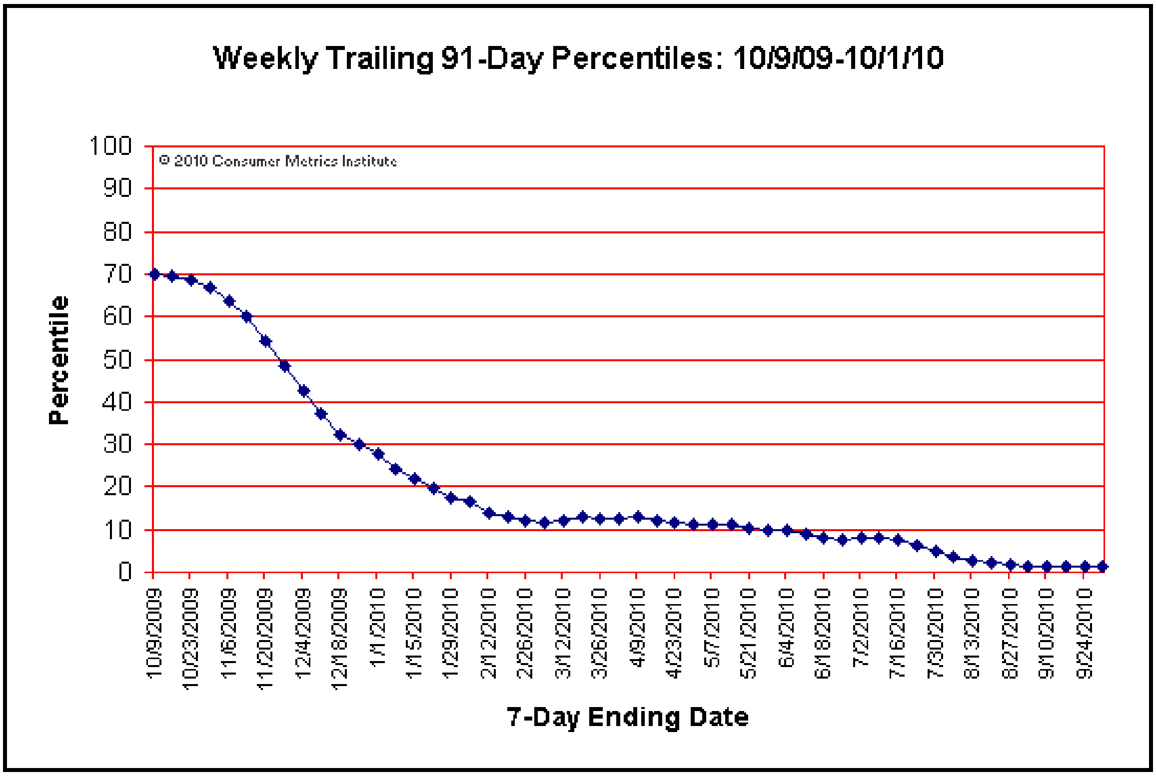
August 22, 2010: 75 Days of Fear, Uncertainty and Doubt

On August 16, 2010 our Daily Growth Index recorded year-over-year contraction in excess of 5%. The last time that we had a measurement that low (and headed down) was August 9 of 2008. If we wish to look back to that time, our Monthly Weighted Composite Index chart provides a nice four year perspective on U.S. consumer demand:



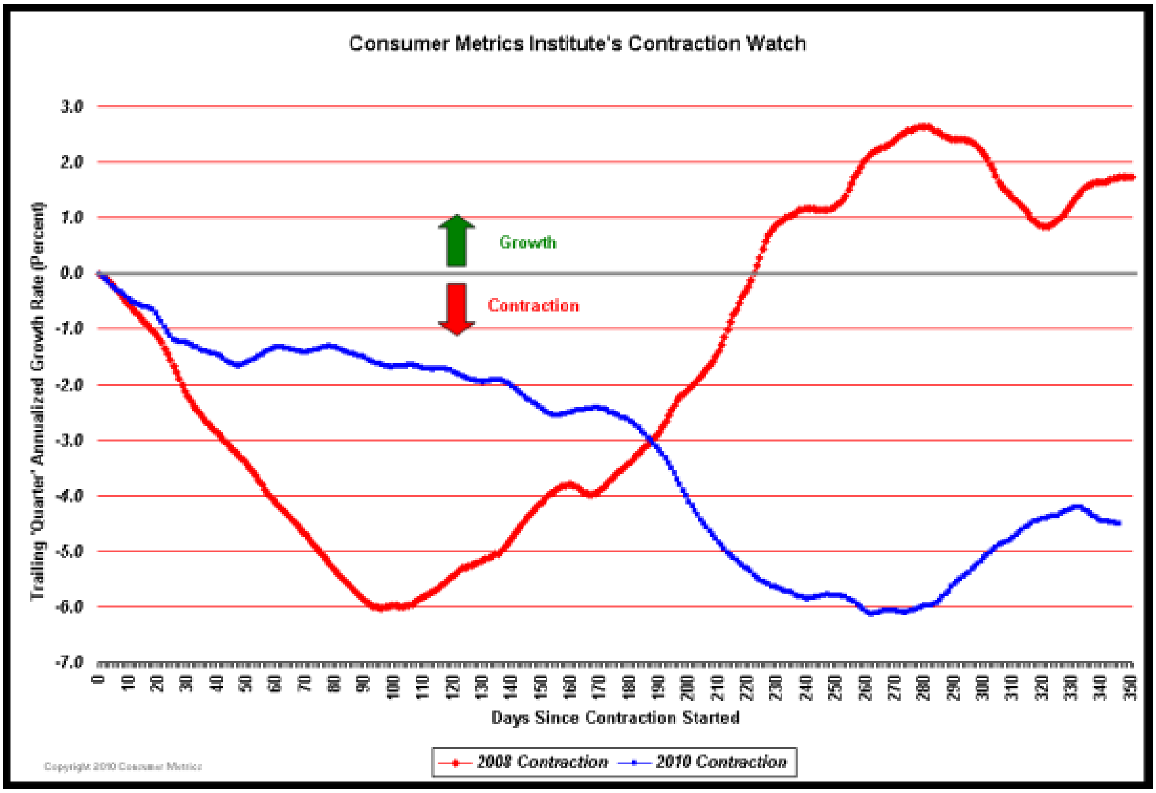
A word of caution when looking at the past three years: we follow consumer demand for discretionary durable goods --the most volatile portion of the U.S. economy -- and the economy's principal engine of growth or decay. Because of the volatile nature of those purchases, our signals are both leading and amplified. Additionally, our metrics are year-over-year. Unfortunately, since 2007 the economy has been showing a 24 month 'resonance' (somewhat mirroring the U.S. congressional electoral cycle), swinging rather dramatically with peaks and troughs spaced about 12 months apart. That 24 month cycle further amplifies our year-over-year measurements. Both of these factors mean that one should read the absolute values of our indexes with caution while still taking the overall direction and timing seriously.

That said, our 91-Day Trailing Percentiles indicate that the current 'growth' of the economy has dropped nearly to the 2nd percentile among all GDP quarters since 1947:



This level of contraction is one that we might expect to see once every 12 years, not once every two years -- as is now the case. A recurrence of such a rare event so quickly would indicate what most of us might guess from our 'gut' feelings --that this is not a new economic cycle; the 'Great Recession' simply never went away. The stimulated 'green shoots' in consumer demand this time last year were aberrations superimposed on a longer term event.

If that is true, the prolonged 2010 curve seen in our Contraction Watch chart makes more sense:



So what should we expect moving forward?

? We have recently written about indications in our data that political 'fear, uncertainty and doubt' ('FUD') can significantly depress consumer demand for discretionary goods.

? Between now and November 2, 2010, U.S. consumers will be barraged with TV ads precisely intended to seed 'FUD' within the U.S. electorate.

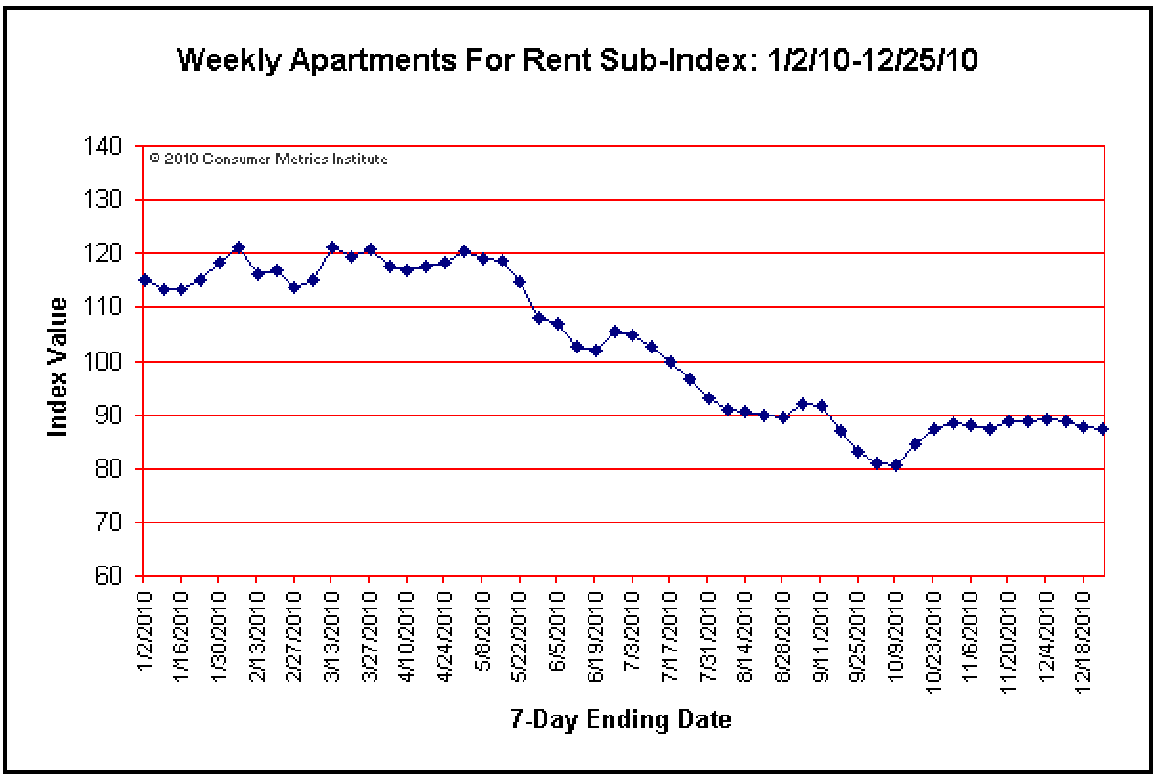
If our data from 2008 is any indication of what might happen to consumer demand during this year's U.S. congressional campaigns, we expect no significant upturn in that demand before November 3.

We have been asked from time to time to hypothesize what a new 'Depression' might look like for the average U.S. consumer. We have specifically been asked whether it might look more like the 1940 film 'Grapes of Wrath' or the background society portrayed in the 'Andy Hardy' films of the late 1930's. There is a stark difference in the views of life portrayed by the two films: in 'Grapes of Wrath' society has broken down into a real dystopia, whereas in the 'Andy Hardy' series family and neighbors are portrayed as pulling together in ways seldom seen today.

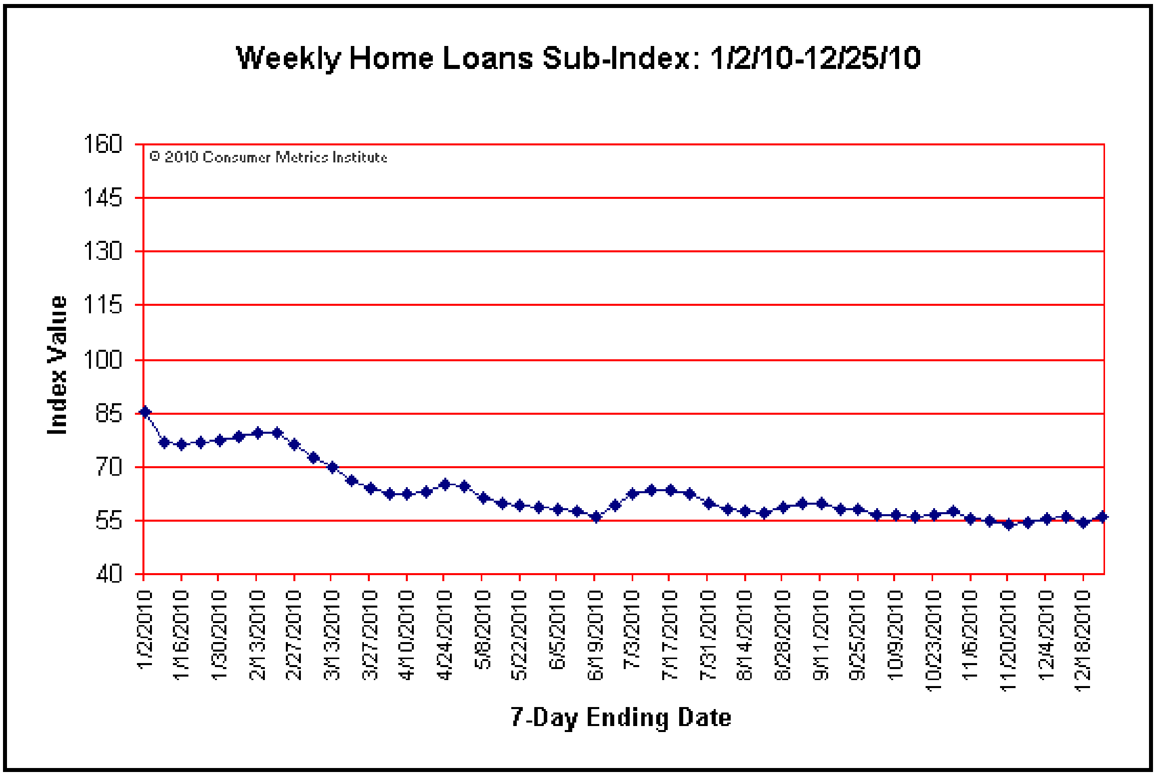
While we don't think that either the Joad or Hardy families typify the experiences of American families during the Great Depression, we do believe that most Americans never experienced true dystopia, and that most people grew tighter socially as times got worse. Basically, they developed habits of personal frugality and generous mutual aid that they kept for the rest of their lives.

The real question being asked above can be restated a little differently: what consumer behaviors would indicate that real-world Americans are experiencing significant economic stress? Home ownership rates dropped among younger working Americans during the 1930's for many of the same reasons that it is dropping now, and movies from that era show young people either living with their parents, living in boarding houses or banding together to jointly rent undersized apartments. If the background societies portrayed in movies from that era carry at least a modicum of truth, many of the remaining homeowners took in boarders to augment family income.

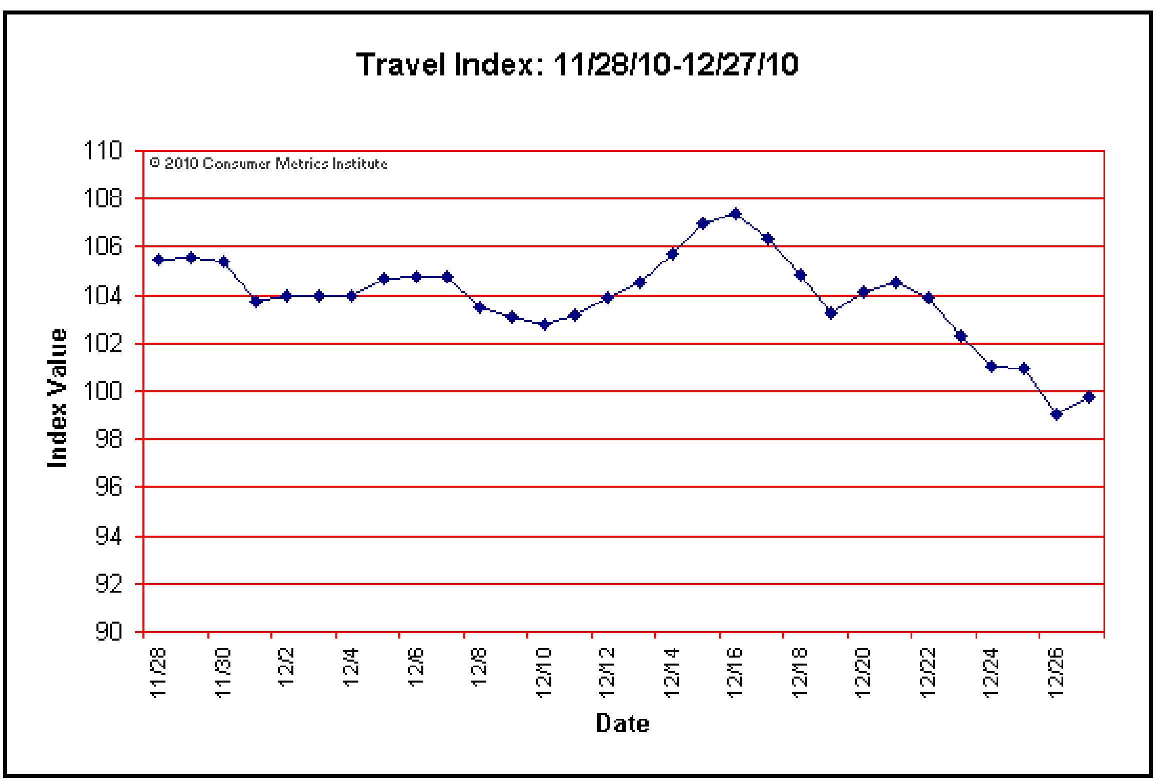
While modern zoning laws may push equivalent boarding arrangements underground, we have noticed that consumer demand for apartments remained relatively strong:



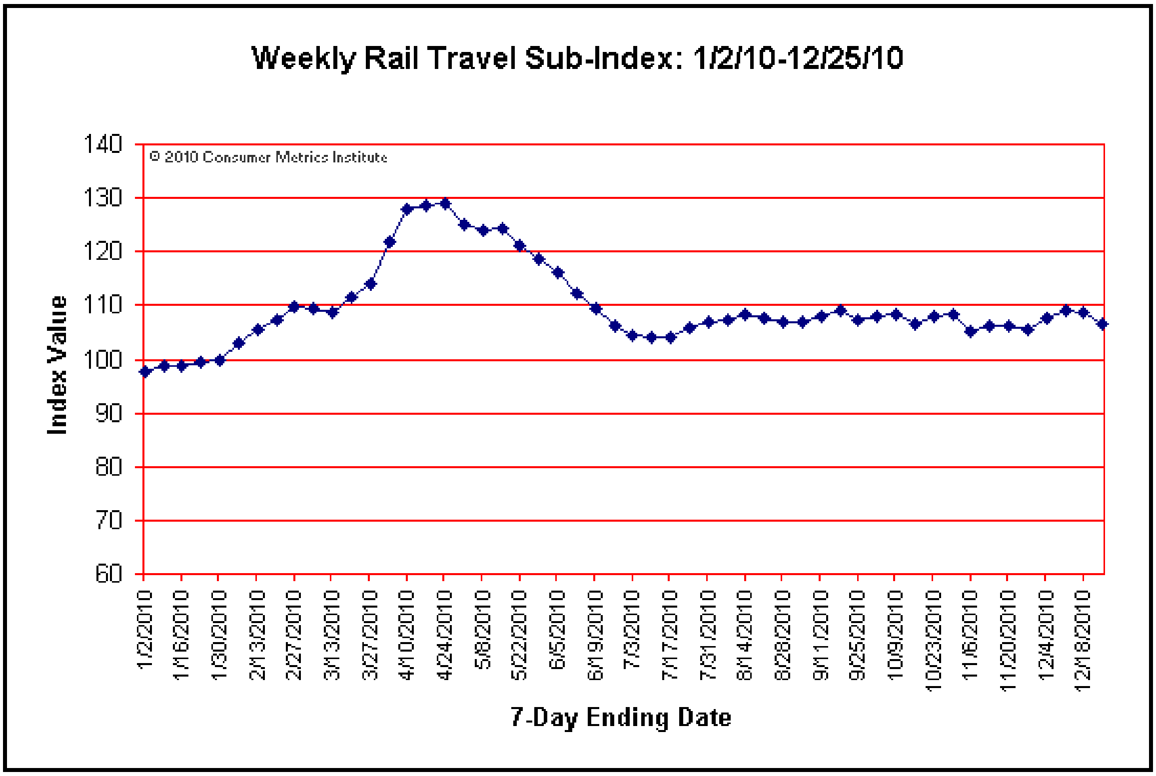
even as demand for new residential housing purchases plummeted:



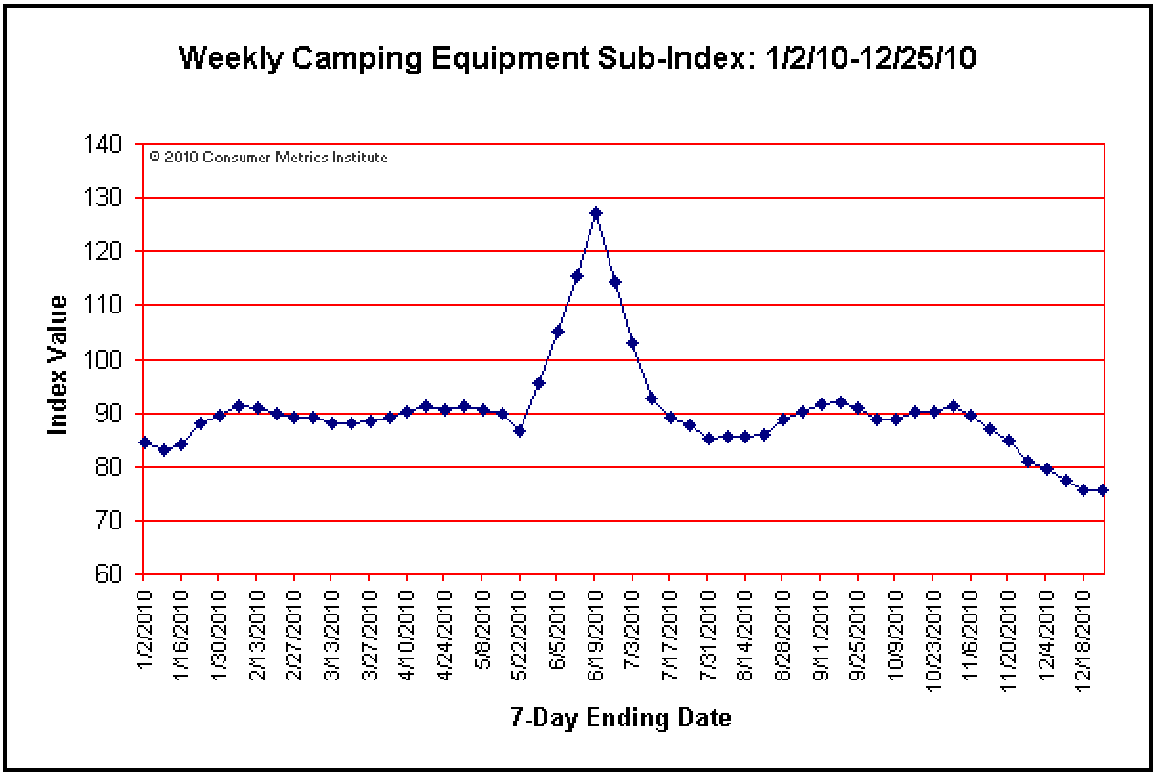
Meanwhile, another sector that has shown recent strength is Travel:



This may seem paradoxical since recent-era travel has often meant air fares, hotel rooms, or cruises -- all 'big ticket' items. But our Travel Index is also sensitive to family travels by more frugal means:



which continue to show year-over-year gains. The ultimately frugal family vacation this past summer might have been by car to such destinations such as Yellowstone Park. The mystery over why the Travel Index as a whole is up while cruises and resort destinations languish is probably contained in the tremendous early summer upward blip shown below:



The ultimate in frugal family travel is the camping trip. Coupled with camping statistics from U.S. National Parks, it is likely that (at least for this summer) U.S. consumers were taking some pointers from the Joads in the 'Grapes of Wrath', and setting off cross country heavily loaded but without ritzy destinations in mind.