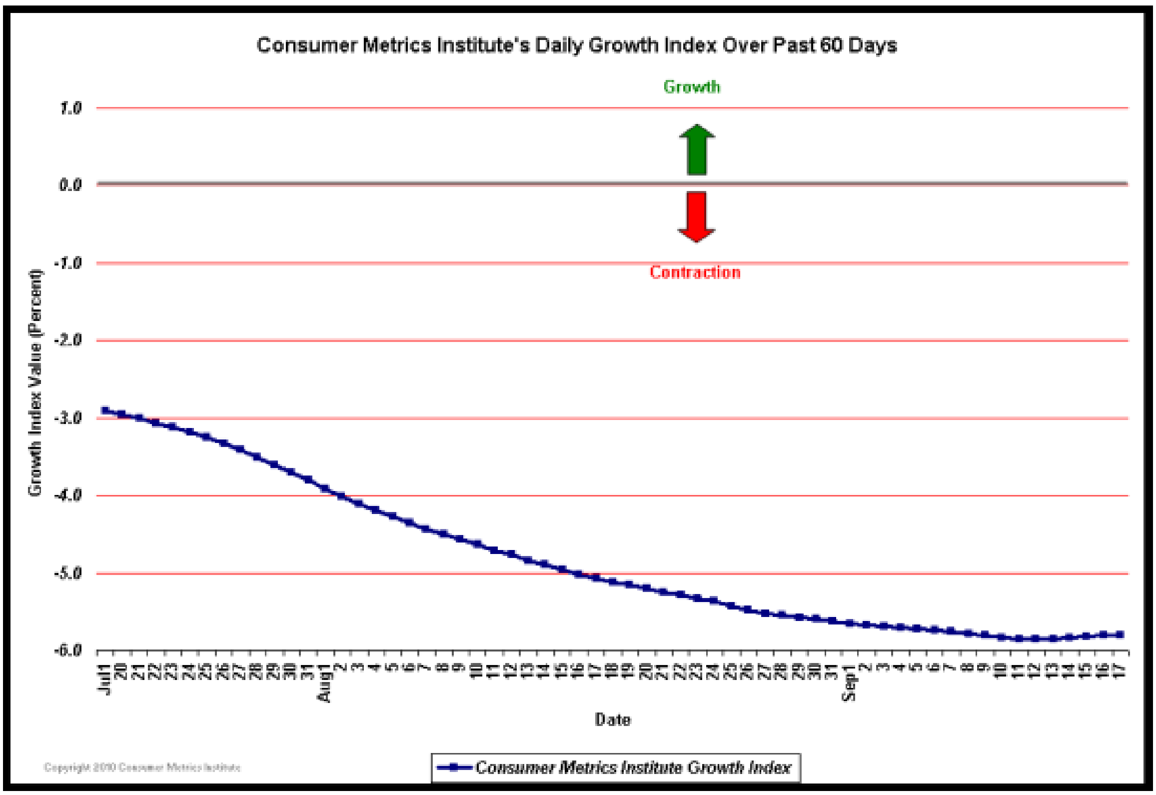
Consumer Metrics Institute Members News

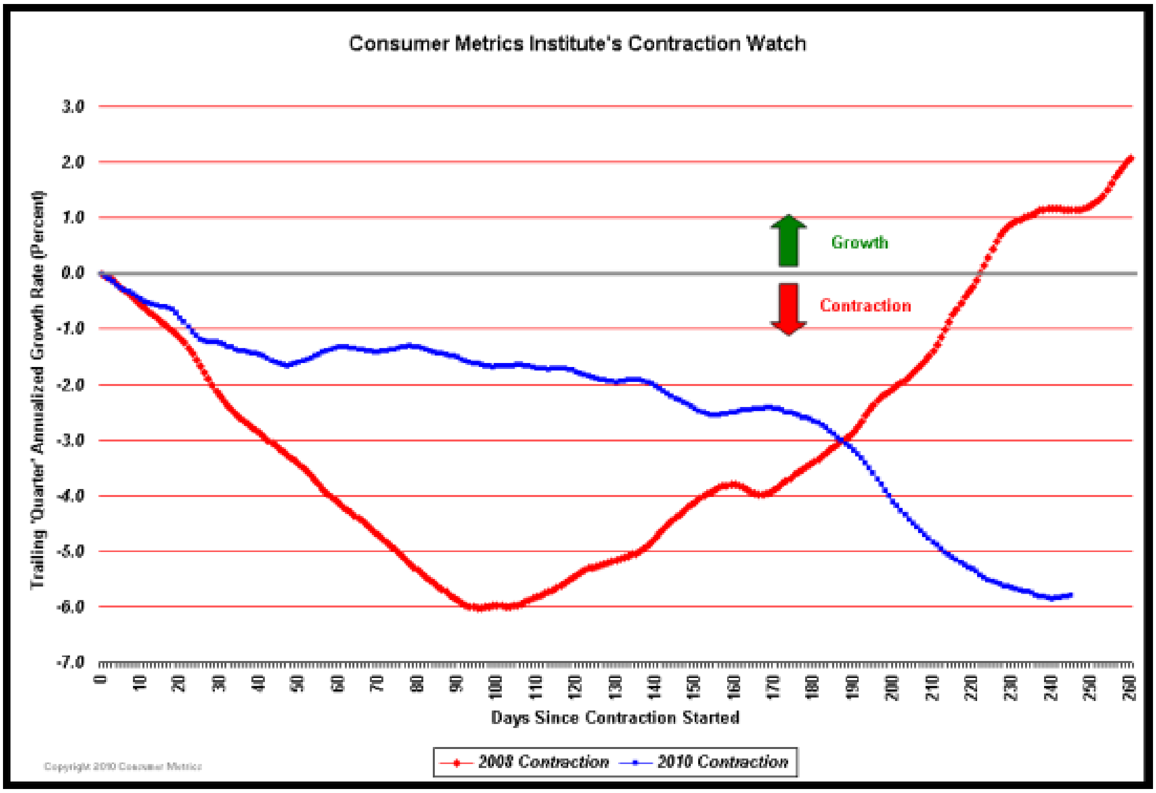
September 11, 2010: The Big Scoop and Housing

Since the beginning of September our Weighted Composite Index has moved laterally in a narrow range of values that are between 93.86 and 94.39, roughly reflecting a 6% year-over-year contraction. Although this is much better than the 9% contraction rate observed just a month ago, it is still low enough to be pulling our 91-day trailing quarter average (our Daily Growth Index) progressively lower:



Our Daily Growth Index has now reached a -5.8% contraction rate, and it is challenging the maximum contraction rate reached (-6.02% on August 29, 2008) during the "Great Recession of 2008." A calendar quarter of comparable GDP growth should be expected to occur among only 1.33% of all such quarters, or once-in-every-19-years (similarly the 2008 bottom corresponded to a once-in-every-21-years event). Since the current level of economic activity is preconditioned to a large extent by recent economic history, the most plausible explanation for two once-in-every-two-decades events occurring only two years apart is simply what most people fully understand: the first event never actually ended. Think of this not as a "double dip," but as a big scoop of evolving and distasteful flavors that happened to have a sugar-coated stimulus halfway through.

Perhaps we have contributed to the false impression of a "double dip" by graphing the "two dips" super-imposed upon each other as if they were independent economic cycles:

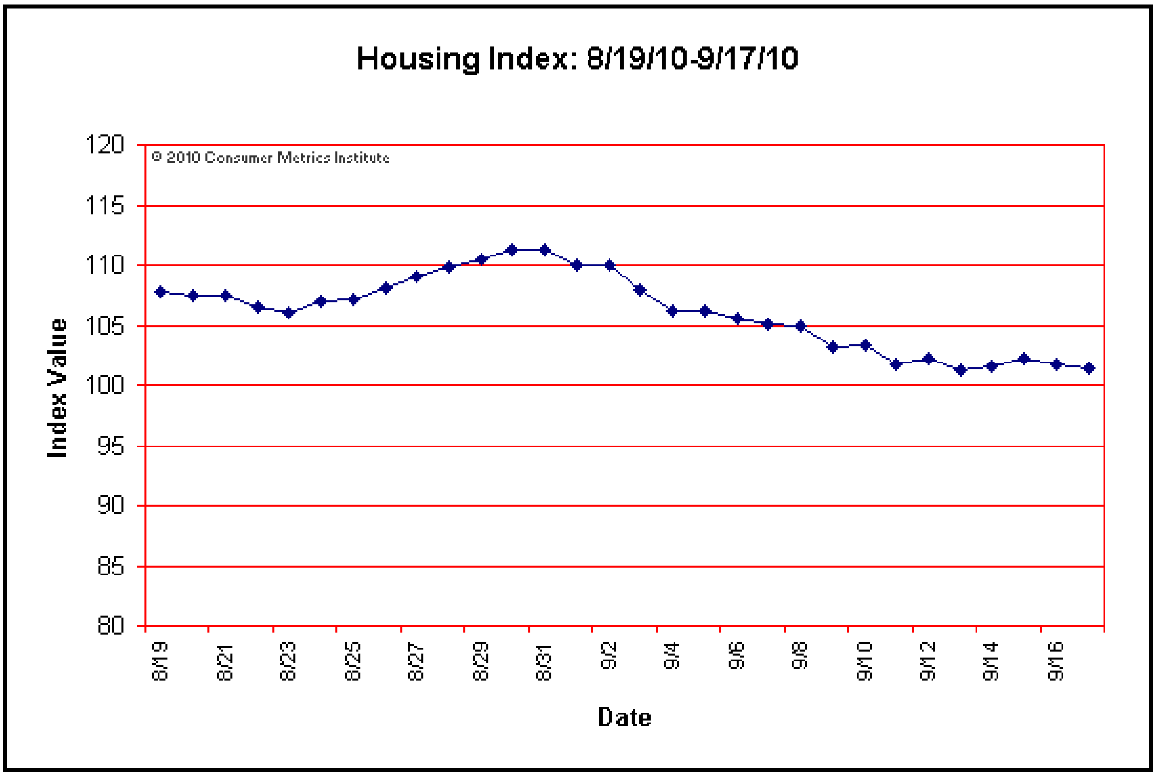


However, this chart does convey important information about the "second dip," in particular how it differs in profile from the first. It has now lasted 16 days longer than the "Great Recession of 2008" without yet forming a clear bottom. Furthermore, that bottom is likely to be at least as low as the one experienced in 2008. Even if the 2010 contraction immediately starts to retrace the recovery pattern seen in 2008, we should expect another 120 days or so of net contraction before the consumer portion of the economy is growing once again.

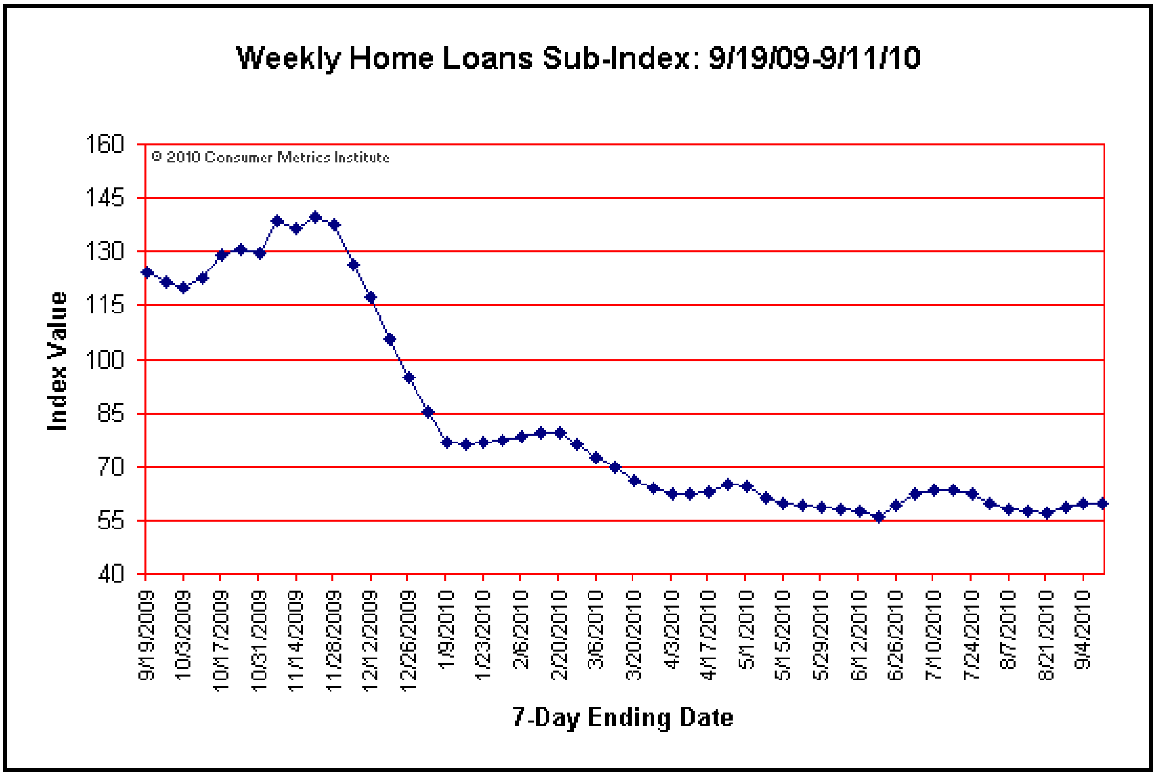
We have previously pointed out that the true severity of any contraction event is the area between the "zero" axis in the above chart and the line being traced out by the daily contraction values. By that measure the "Great Recession of 2008" had a total of 793 percentage-days of contraction, whereas the current 2010 contraction has just reached 552 percentage-days -- only about 70% as bad. But looking ahead, should the 2010 event recover from its bottom exactly like the 2008 event did, it would still experience another 486 percentage-days of contraction before ending -- resulting in a grand total of 1038 percentage-days of contraction for the 2010 event, fully 31% more severe than the "Great Recession of 2008." This, of course, assumes that stimuli comparable to those seen in 2008-2009 will be available to cause such a recovery during 2010-2011.

We have used the analogy before of our data being far "upstream" in the economy. We are sampling the behavior of internet shopping consumers on a daily basis. Those consumer activities flow "downstream" to factories over the course of weeks or quarters. It's not unlike being upstream on a great river and watching a water-level gauge predict that downstream communities will be flooding catastrophically in a few days or weeks. The downstream damage is inevitable, it just hasn't arrived yet. From our perspective the economic damage has already been done, it just hasn't reached the BEA's factories (or the mass media) yet.

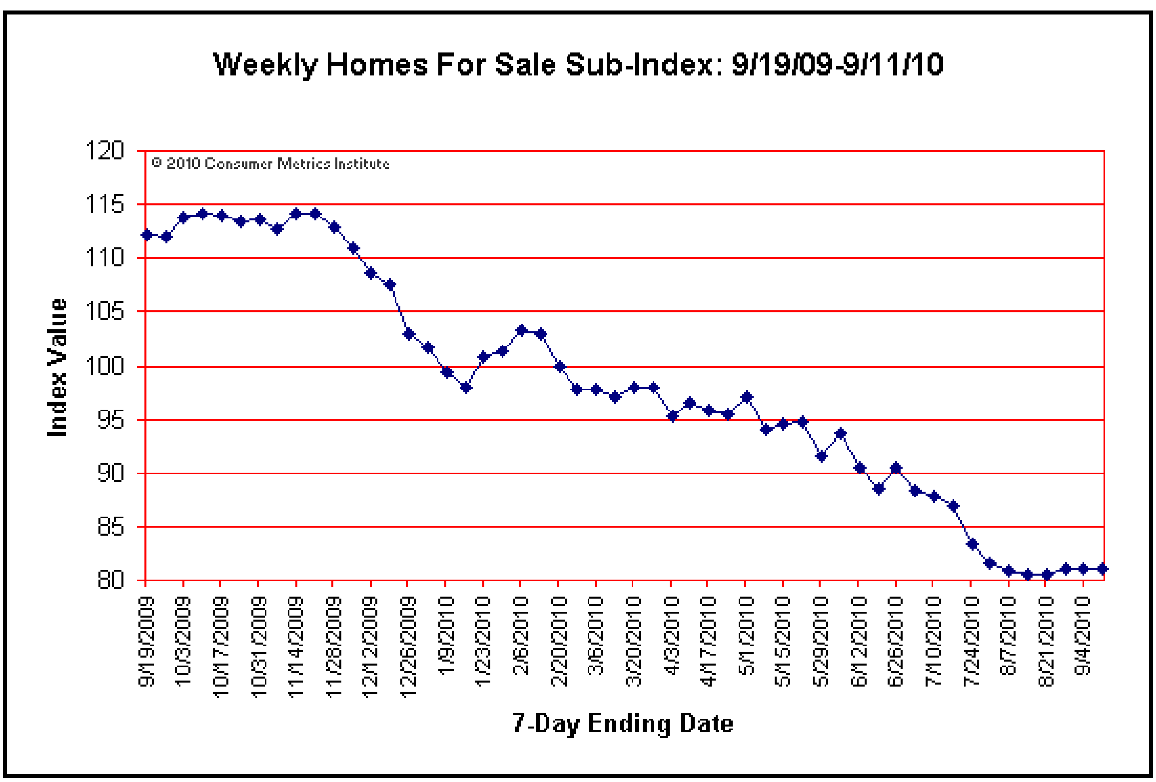
Housing continues to be in the news. Our Housing Index has shown continued strength over the past 30 days:



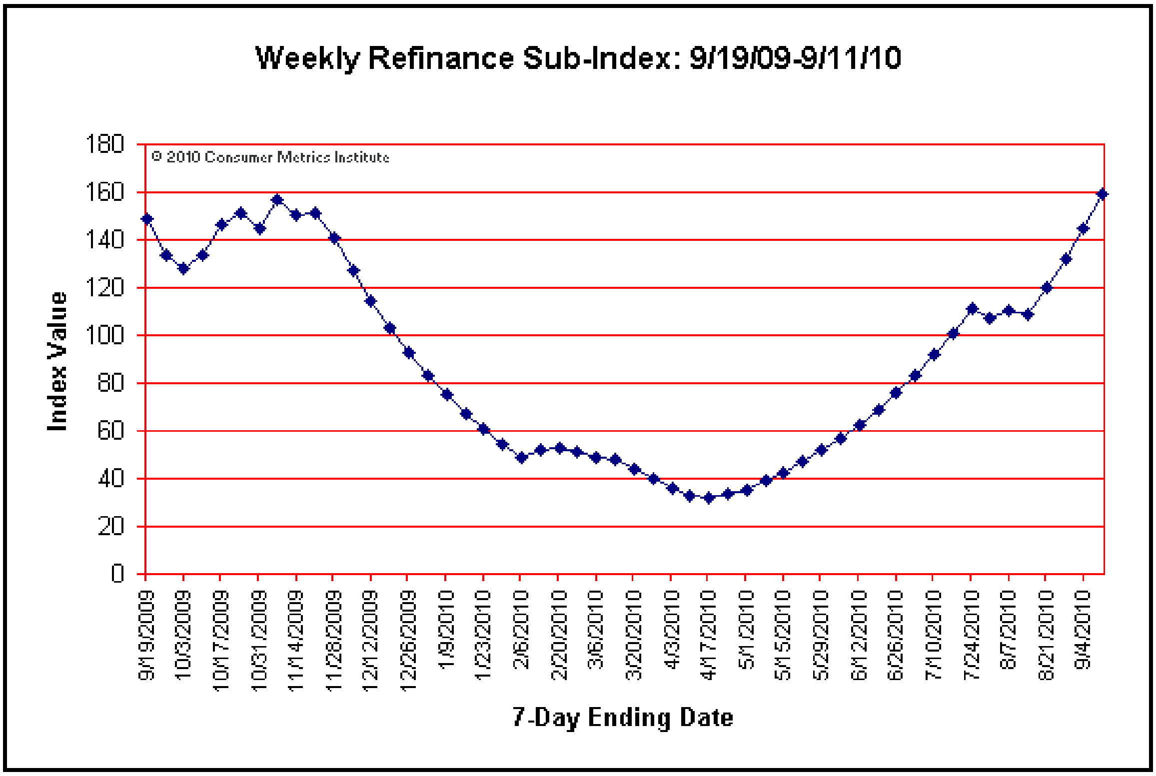
On the surface this seems to be good news. But a closer look at the data shows that loans for new homes remain very weak:



And consumer pursuit of new home listings tells much the same story:



So, what's driving the recent day-to-day rise in the Housing Index? And why is that strength not reflected in the Weighted Composite Index, since housing has such a leveraged effect on the total economy? The answer to both questions can be answered in one chart:



Refinancing has once again gone nuts, after pausing for a couple of weeks in the wake of Mr. Bernanke's announcement that the Federal Reserve has no intention of raising rates anytime soon. The Housing Index is sensitive to refinancing activities, since several of the required tasks are common to both refinancing and to loans for newly purchased homes. However, refinancing does not contribute significantly to the GDP, and therefore has no substantive weighting in the BEA's NIPA tables. For that reason the chart immediately above has little impact on our Weighted Composite Index. That said, if the net result of refinancing activities is increased free cash flow for consumers, the end result will be positive once those consumers feel a little more confident about the economy.