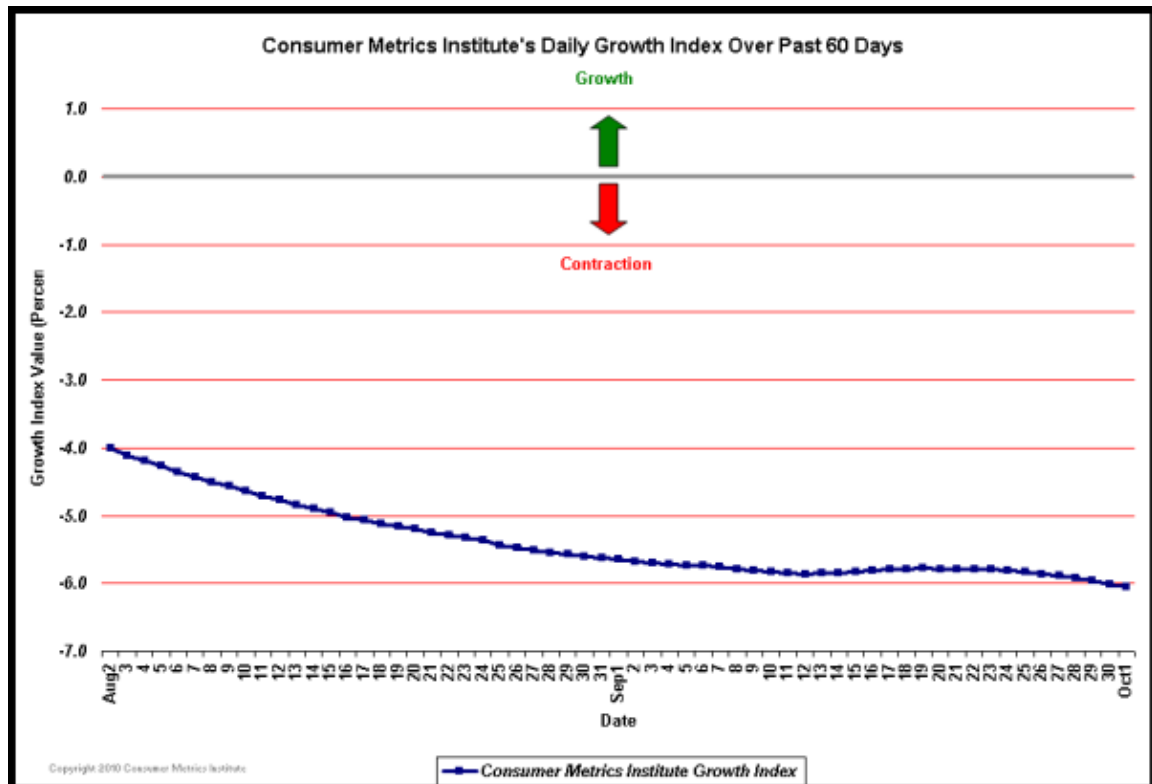


Consumer Metrics Institute News

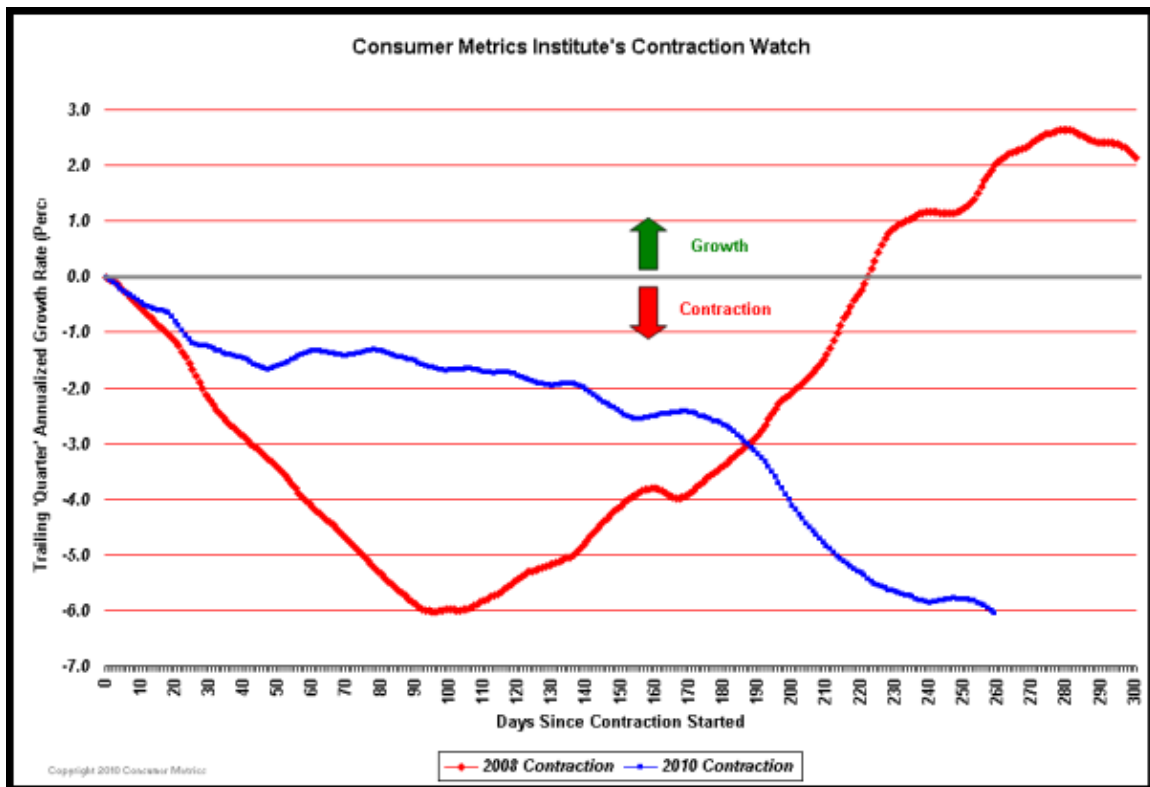
September 18, 2010: Has the Bottom Been Reached?

During the month and a half from August 1 to September 15, our Weighted Composite Index has improved substantially, rising from recording a year-over-year contraction rate in excess of 9% to recently registering a contraction rate near 3%. This is the largest positive movement that we have seen over half of a quarter since late 2009. The improvement has stopped (at least temporarily) the decline of our 91-day trailing quarter average (our Daily Growth Index):



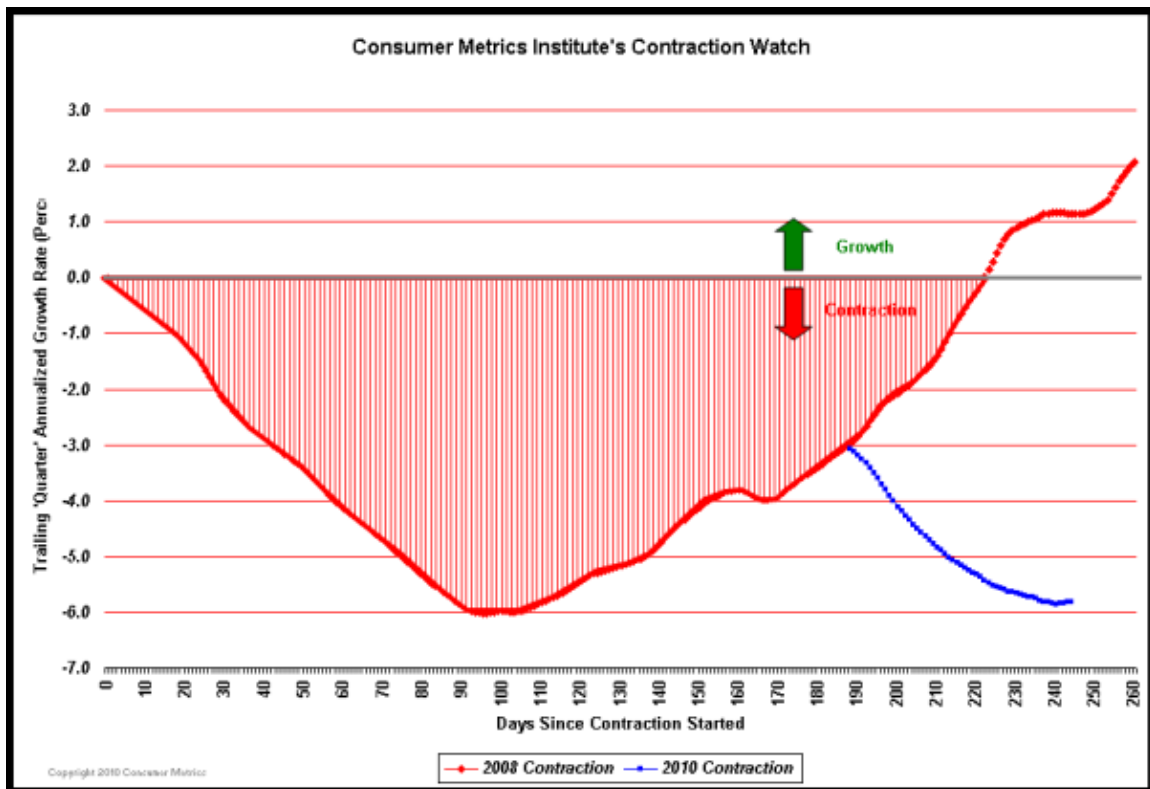
Our Daily Growth Index reached a -5.86% contraction rate on September 12, which was fully 97% as bad as the worst contraction rate reached during the "Great Recession of 2008" (-6.02% on August 29, 2008). A calendar quarter of comparable GDP growth has occurred among only 1.29% of all quarters of U.S. GDP growth recorded by the Bureau of Economic Analysis of the U.S. Department of Commerce, since the spring of 1947. This corresponds to level of contraction that should be expected only once in 19.4 years, and it comes close on the heels of the 2008 contraction that should occur only once in every 21.4 years.

One of the tools that we have used to monitor the 2010 contraction event is a chart that we call our "Contraction Watch," which overlays graphically the day-by-day progression of the current 2010 contraction onto the "Great Recession of 2008":

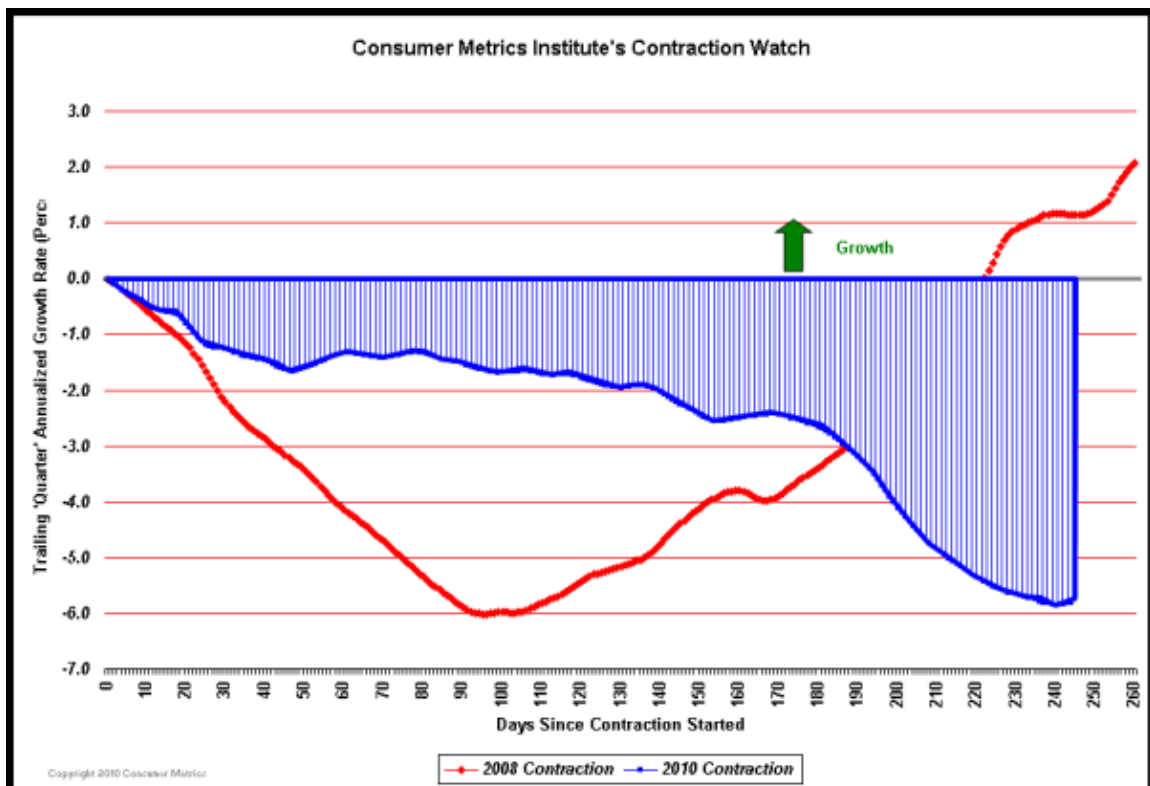


In the above chart the two contractions are aligned on the left margin at the first day during each event that our Daily Growth Index went negative, and they progress day-by-day to the right, tracing out the daily rate of contraction. This chart conveys important information about the 2010 event, in particular how it differs in profile from the "Great Recession of 2008." It has now lasted three weeks longer than the "Great Recession" and is perhaps only just now forming a bottom. Furthermore, that bottom is very nearly 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 at least 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, and its severity can be visualized as the amount of area covered by the red stripes in the chart below:



Similarly, the current 2010 contraction has just reached 592 percentage-days, and its severity can be visualized as the amount of area covered by the blue stripes in this chart:



The blue stripes above already cover about 75% of the area covered by the 2008 "Great Recession", and the curve has only just begun to start back up. Looking ahead, should the 2010 event recover from its bottom exactly like the 2008 event did, it would still experience another 466 percentage-days of contraction before ending -- resulting in a grand total of 1058 percentage-days of contraction for the 2010 event, fully 33% 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 -- and that unemployment quickly returns to the levels that helped consumer demand start to rebound in late August of 2008: about 6.1%. Absent fresh consumer stimuli and dropping unemployment rates, the consumer demand contraction we are witnessing could very well linger.

Over the past month and a half we have seen a substantial reduction in the year-over-year contraction of consumer demand. That said, it is important to remember that consumer demand is still contracting, albeit at a slower rate. We have previously used the analogy that our data is 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. Although our flood-gage may have just peaked, the downstream damage remains inevitable -- it simply hasn't arrived yet.

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