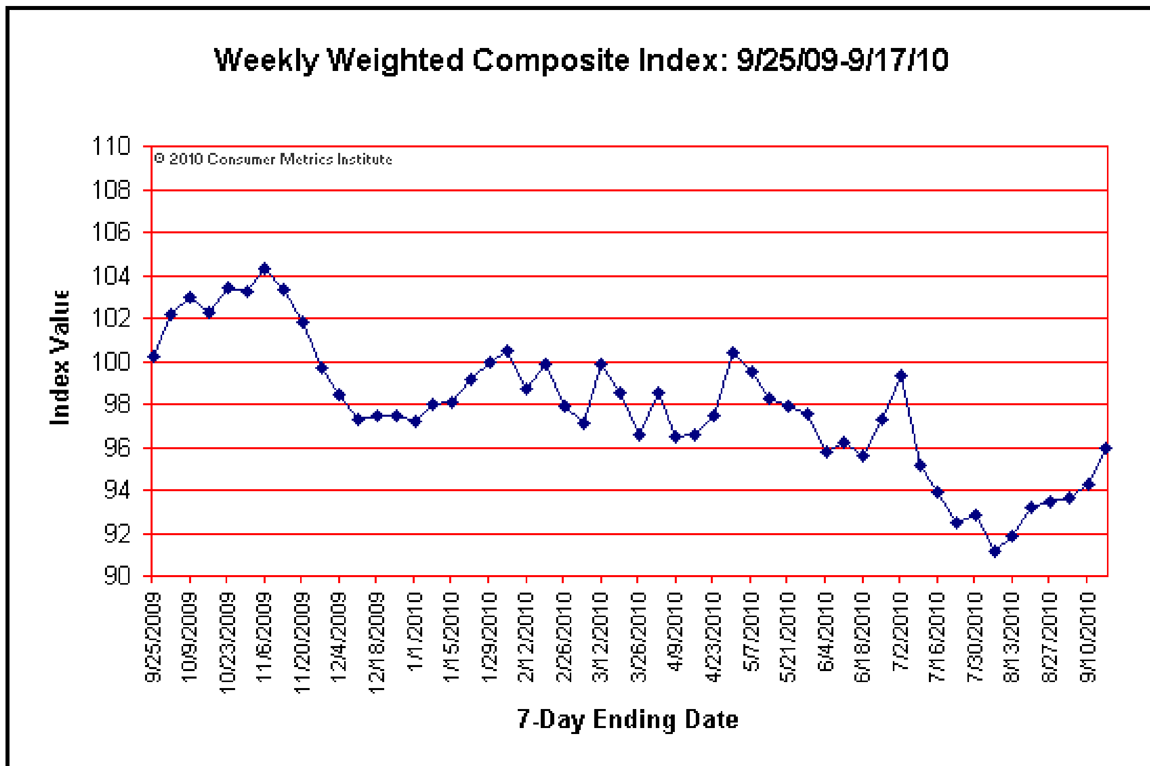
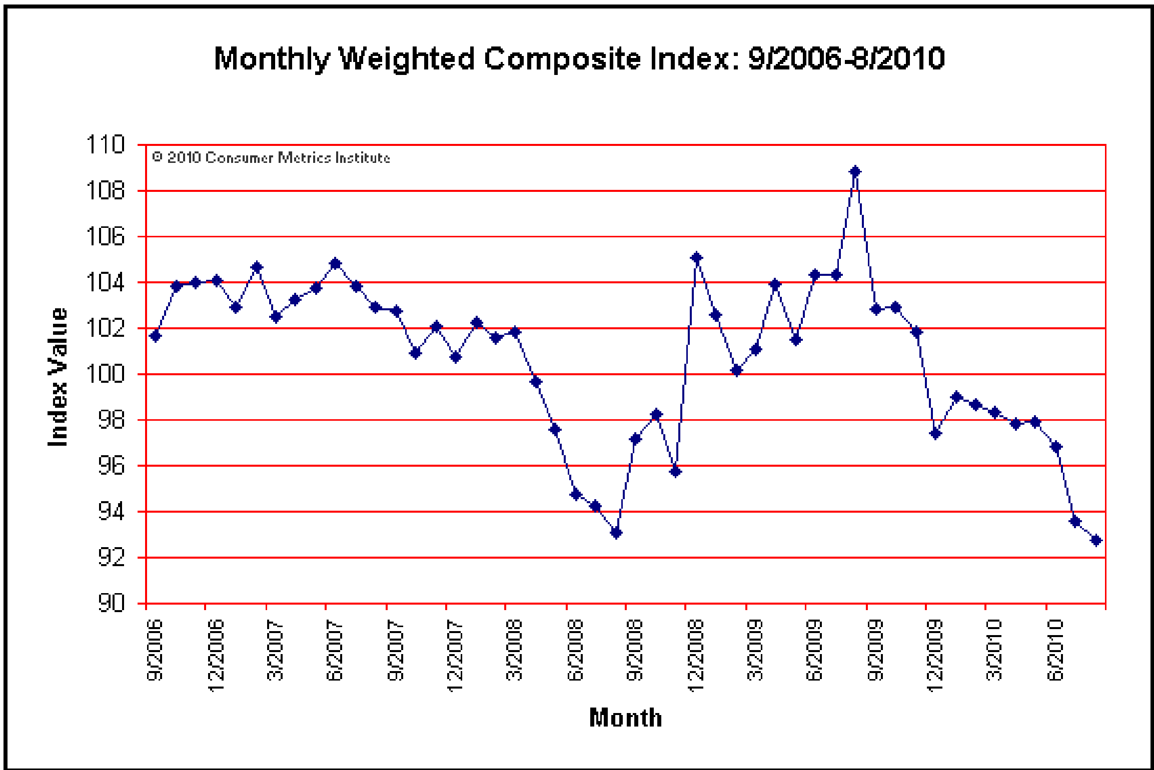
Consumer Metrics Institute Members News

September 20, 2010: Thoughts on the Recent "Bottom" in our Weighted Composite Index

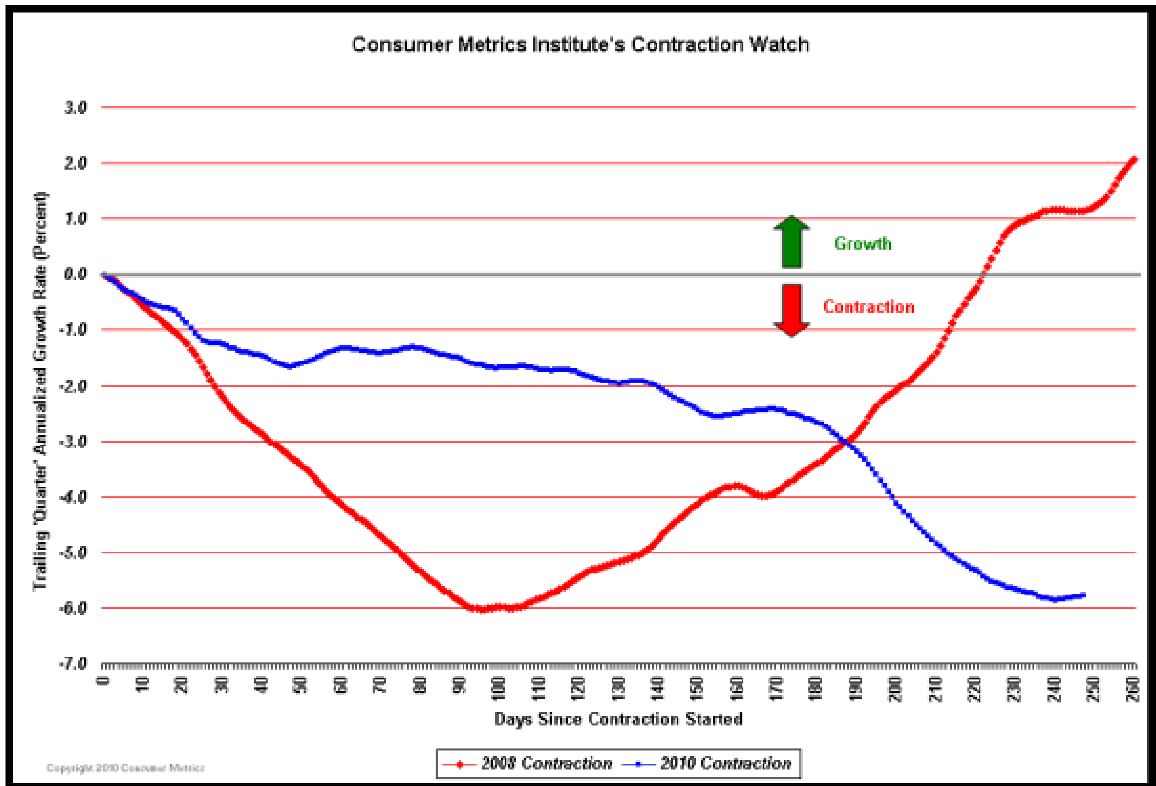
We are cautiously watching our Weighted Composite Index for signs that the recent bottoming formation is both significant and sustainable. When viewed from a weekly perspective the "bottom" appears significant:



When viewed from a monthly perspective, however, the same data shows only a moderation of the rate of decline:



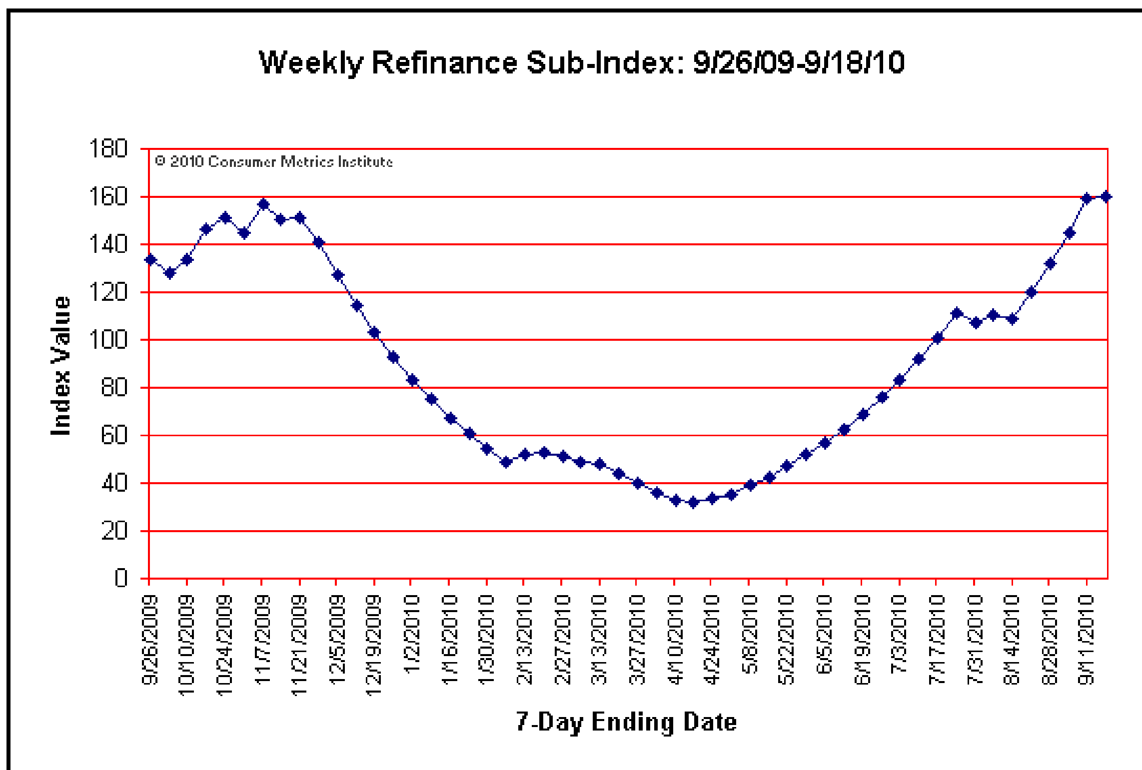
To our eyes, however, the most important perspective is our Daily Growth Index, which is simply a 91-day trailing "quarter" average of the Weighted Composite Index (converted from a nominal 100 base index to a percentage growth number). Our favorite way to look at our Daily Growth Index is through our "Contraction Watch," which overlays graphically the day-by-day progression of the current 2010 contraction onto the "Great Recession of 2008." In the chart below 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:



One of the things that we notice in the above chart is that the shape of the 2010 contraction is significantly different from that of the "Great Recession of 2008." Of particular interest is the fact that in 2010 consumer demand plateaued for some time at about an average 2% contraction rate from about 25 days through about 180 days, before falling off the plateau. That period roughly corresponds to the December 2009 through June 2010 period shown in the monthly view above.

Remembering that our data is always reflecting year-over-year changes in consumer demand, we had anticipated a sharp dip in our index as an inverted reflection of the stimuli-induced upward blip of late last summer. The long plateau described above, however, is not a reflection of any such stimuli -- and as such it may be a new normal baseline for a lingering consumer contraction. Before we get too excited about a new recovery we will wait until our Daily Growth Index breaks significantly above the plateau levels visible in the 2010 line within our "Contraction Watch."

We have commented several times before about the recent resurgence of refinancing activities within the Housing portion of the economy:



Besides the obvious month-long pause in refinancing activities immediately after Mr. Bernanke announced that the Federal Reserve had no plans to raise interest rates anytime soon, the surge in refinancing activities has taken that sub-index to levels last seen in September of 2009. Again it is important to remember that our indexes are year-over-year, which means that index levels of 160 in September of two consecutive years represents a compounded 60% growth rate.

But what does this mean to the economy? One clue is to notice that the same sub-index reached a level of nearly 190 in February 2008 (up 90% year-over-year), at the very earliest stages of the "Great Recession." The Federal Reserve's G19 report recorded total consumer credit growing at a $10 billion clip during that month -- in other words even during the early stages of the "Great Recession" refinancing activities were still resulting in increased household leverage. By contrast, in July of 2010 the same G19 report shows households de-leveraging by about $1.4 billion -- in spite of (or in some cases because of) the housing refinancing activities.

Refinancing, per se, does not directly impact consumer demand or directly fuel new commerce. It may, however, change household disposable cash flows, savings rates and total leverage. And it certainly changes the cash flows of financial institutions. It will be interesting to see how this trend continues over the next few quarters.

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