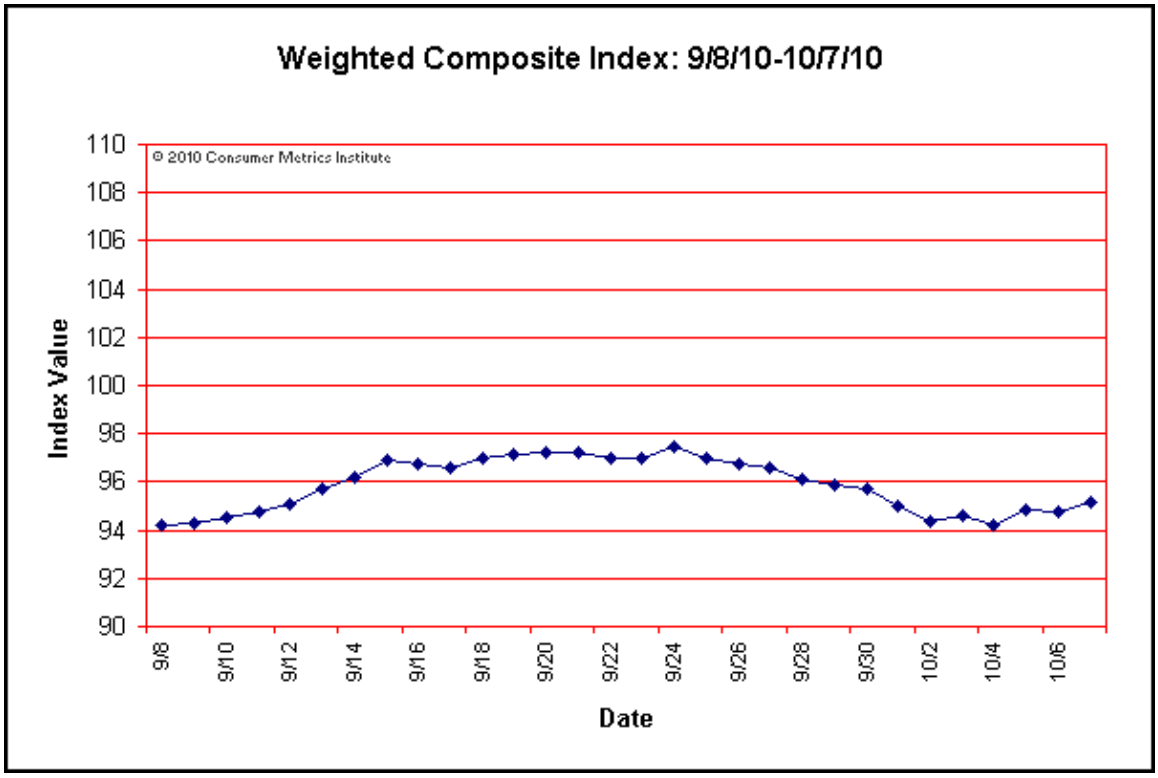
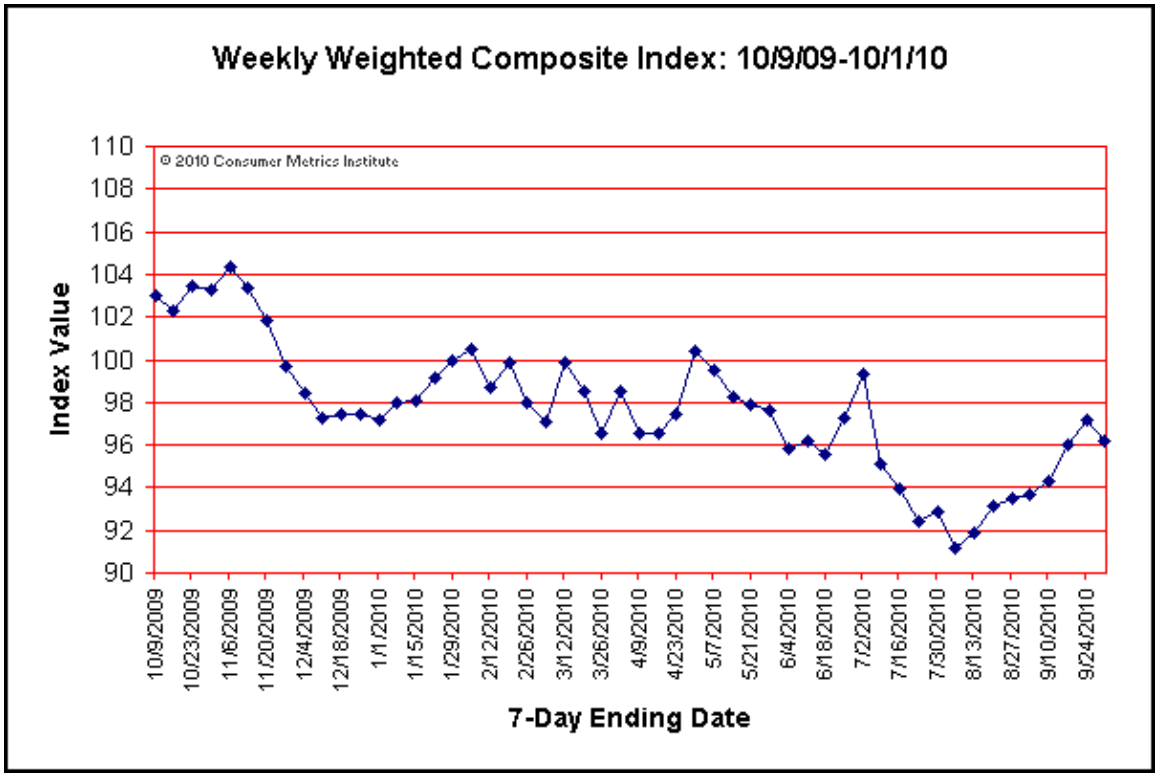
Consumer Metrics Institute Members News

October 3, 2010: Weakening Weighted Composite Pulls Daily Growth Index to All-Time Low

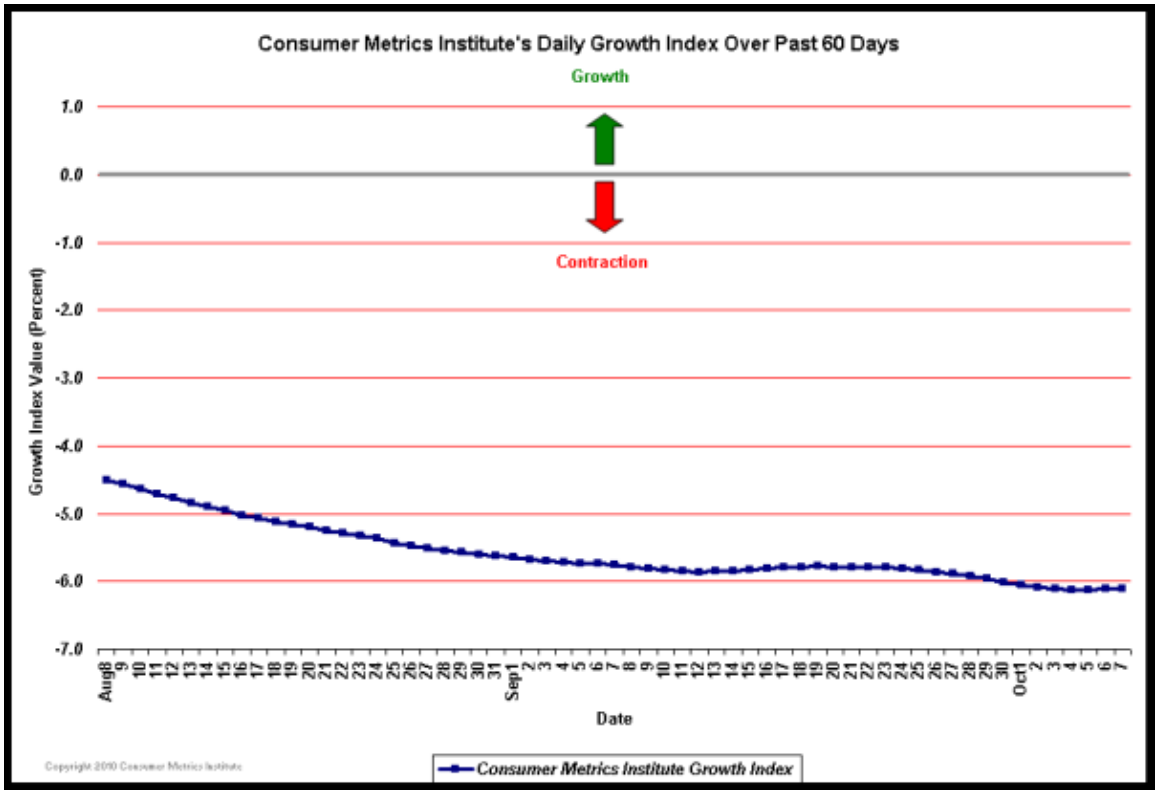
During the second half of September our "real-time" Weighted Composite Index paused and then reversed direction after previously rising throughout the first half of the month. This action can be clearly seen in the daily chart:



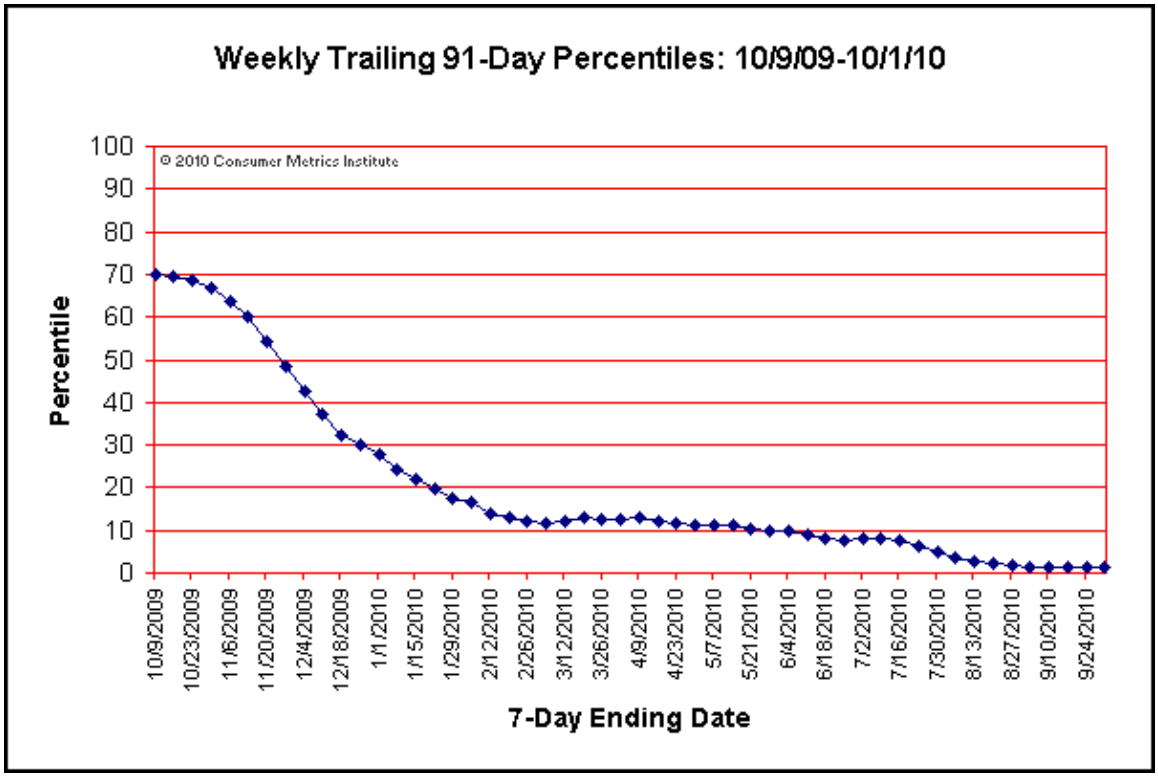
This weakening can also be seen at the far right end of the weekly chart, which is one of our favorite ways to look at the data:



This chart shows rolling weekly averages of the Weighted Composite Index, and it seems to catch substantive movements of the index while still utilizing 7-day moving averages to smooth out some of the noise. The weakening Weighted Composite Index has pulled the Daily Growth Index to the lowest level (-6.05%) we have ever recorded, surpassing our previous record low set on August 29-30, 2008:

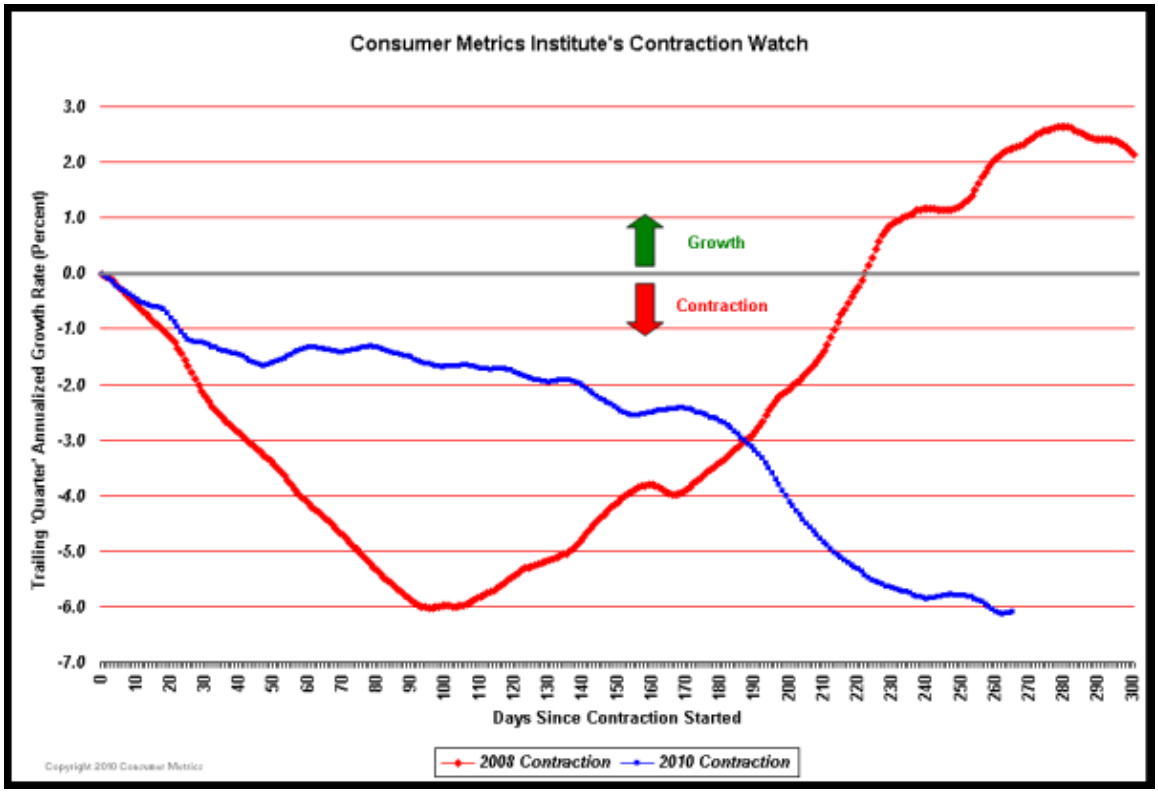


To put this low value in perspective, a quarter of GDP growth this bad should occur in only 1.14% of all quarters -- or only once in roughly 22 years:



The above chart shows how our trailing "quarter" would rank (as a percentile) amongst all GDP quarters recorded by the Bureau of Economic Analysis ("BEA") since the spring of 1947. Having a 1st percentile "quarter" occur independently twice in slightly over two years is highly implausible; the only rational explanation is that the current low is merely an extension of the circumstances that caused the first. This is, in a sense, a statistical confirmation of what everybody except the National Bureau of Economic Research ("NBER") already knows: that the "Great Recession" did not really end in June of 2009. A "double dip" vs. "giant scoop" argument is more than mere semantics, since a "double dip" would imply a real recovery. The stimulus fed "green shoots" of last year were without jobs or growth in either household incomes or wealth. Nobody on "main street" would consider that a recovery.

The real news at this time, however, is the very top chart above -- which plateaued during September and has since sunk back into 5% year-over-year contraction territory. The consequences of the continued 5% contraction are becoming obvious in our "Contraction Watch" chart. In that chart, the day-by-day course of the 2008 and 2010 contractions are plotted in a superimposed manner, with the plots aligned on the left margin at the first day during each event that our Daily Growth Index went negative. The plots then progress day-by-day to the right, tracing out the changes in the daily rate of contraction in consumer demand for two events:



As we have pointed out numerous times before, 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 over the course of 221 days, whereas the current 2010 contraction

has just reached 680 percentage-days -- already about 86% as bad. And the 2010 contraction has already lasted for 259 days, 38 days longer than the entire 2008 event. Additionally, within the past week the 2010 event has reached levels of daily contraction worse than anything recorded in 2008.

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 1166 percentage-days of contraction for the 2010 event, fully 47% more severe than the "Great Recession of 2008."

Our concern with the above paragraph is the implicit projection of the blue line "recovering" in a manner similar to the upswing seen in the 2008 contraction. The 2008 "recovery" was aided by stimuli unlike anything currently pending. And the 2008 "recovery" started with a background level of 6% unemployment. Furthermore, we don't expect any consumer driven U.S. economic miracles for the next 30 days -- until the results of the 2010 U.S. midterm elections are known. That should add another 90 to 150 percentage-days of contraction to the above totals before any "recovery" upswing will start.

The key question remains: how soon will U.S. consumers go back to the old "borrow and spend" lifestyle? We doubt that political gridlock will be the catalyst for the resumption of the old consumer behaviors, despite how Wall Street might react to such news. And we also doubt that all consumers have the option of returning to their 2005 lifestyles. And we even doubt that many of those with the option will choose to do so.

The blue line in our "Contraction Watch" is our bottom line: its course over the next 90 days will go a long ways towards telling us whether we are headed back to the U.S. circa 2005 or Japan circa 1990.
