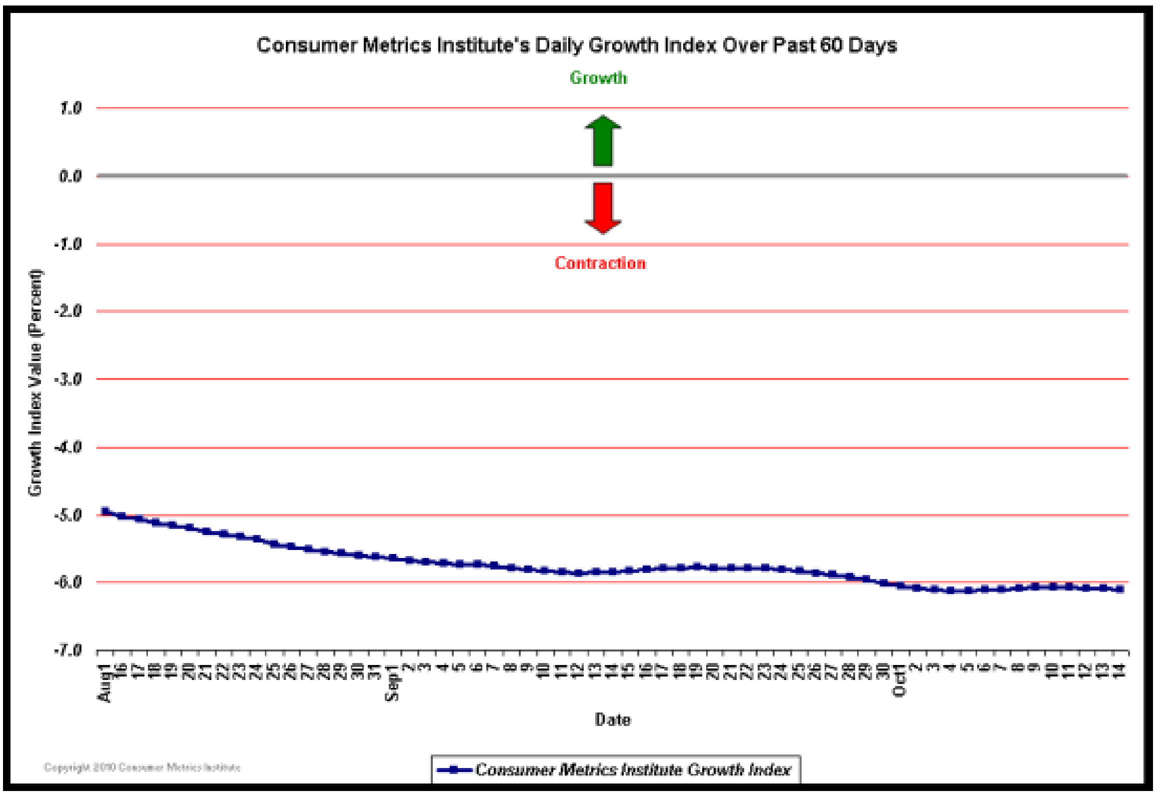
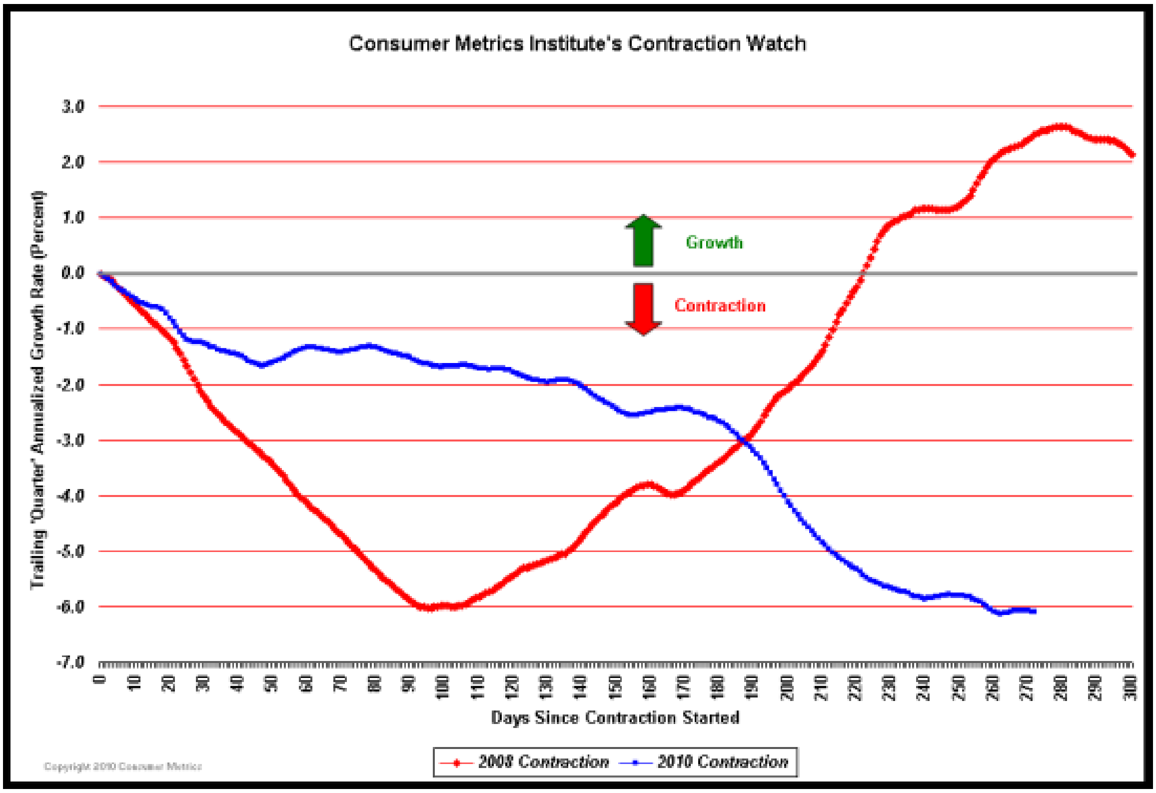
Consumer Metrics Institute Members News

October 10, 2010: Daily Growth Index Sets Record Low and Duration Marks

On October 4, 2010 our Daily Growth Index set a new all-time record low, reflecting year-over-year contraction rate of -6.13% -- substantially surpassing the "Great Recession" low of -6.02% set on August 29-30, 2008:



To give this reading some perspective, a quarter of GDP growth this low should be expected in only 1.09% of all quarters since the spring of 1947, roughly once in every 23 years. But we think that 1st percentile performance is not the only story, as is evident from a look at 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:

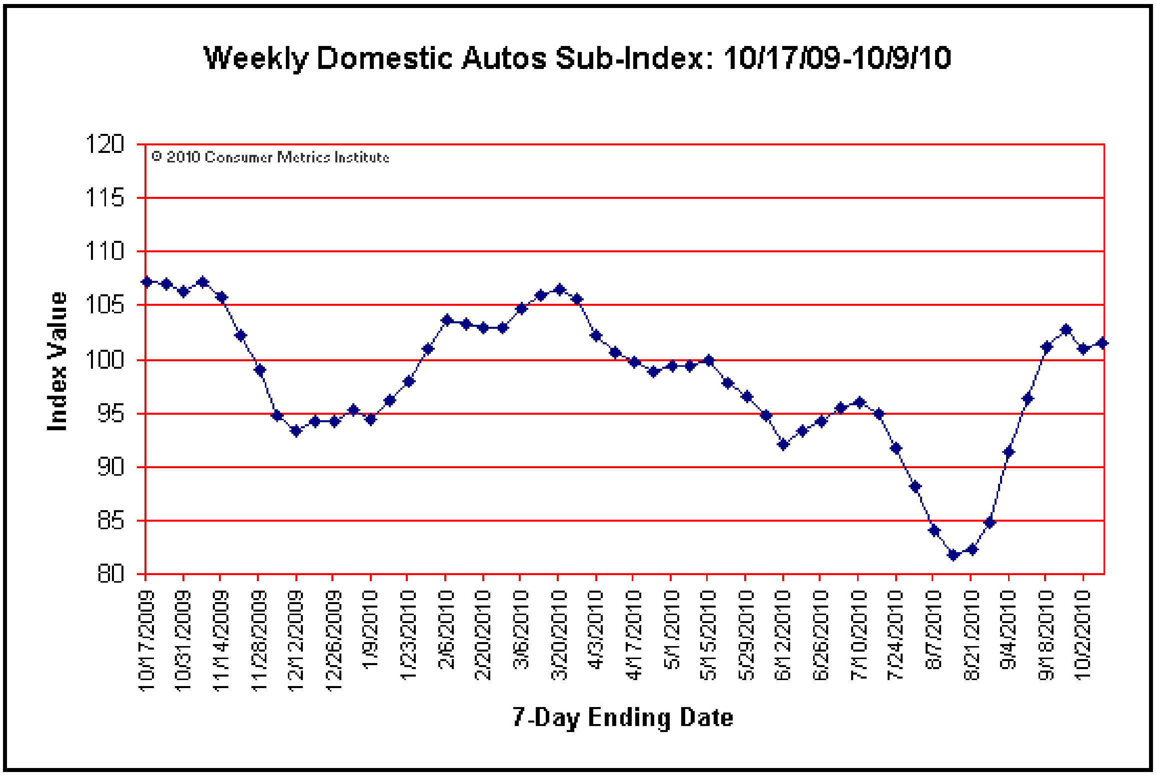


As our regular readers know, we have been watching the 2010 contraction unfold since January in a manner quite unlike the 2008 event, with the most striking difference being a much more open shape in the current contraction -- a contraction that seems reluctant to quickly recover towards growth. The most obvious sign that this contraction is lingering is the fact that it is still near record contraction levels after nearly 9 months, whereas the 2008 event had ended after only 7 months.

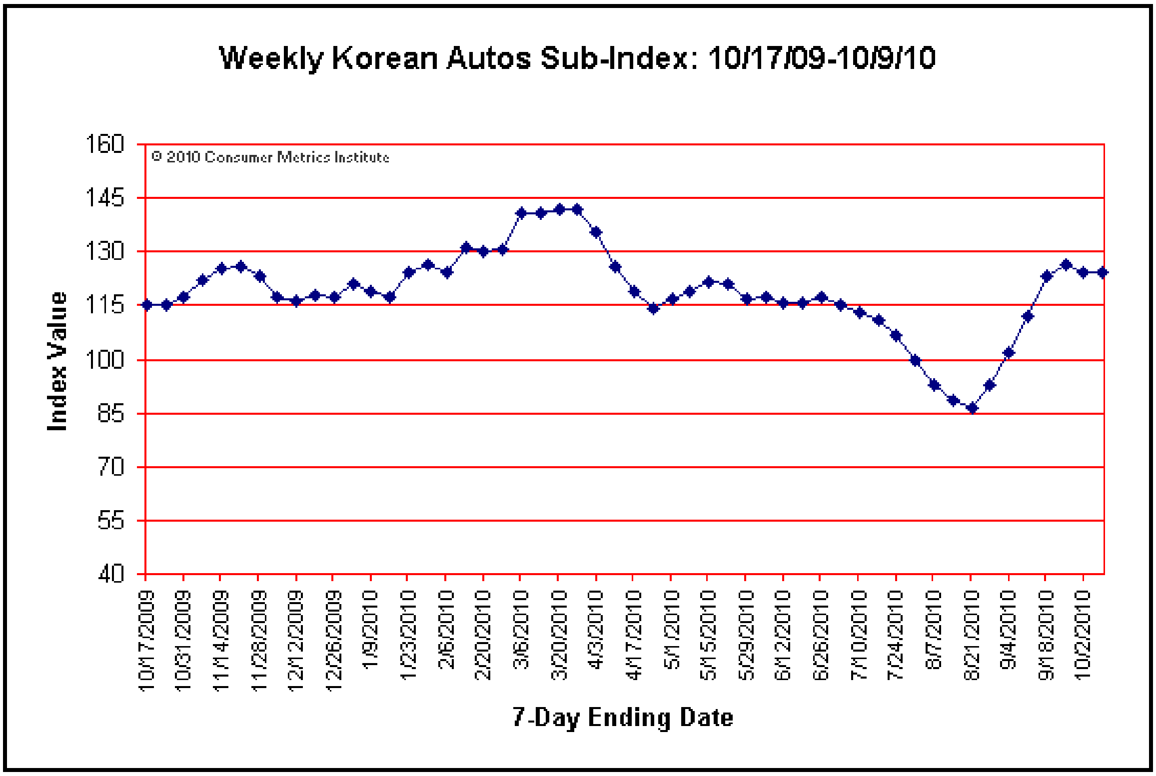
Our Daily Growth Index is a 91-day trailing "quarter" average of our Weighted Composite Index (converted from a nominal base 100 index into a +/- percentage growth number), and as such it is the quickest responding among our growth indices. Our 365-day Growth Index is designed to capture much longer term movements in the economy, and it now shows a -2.42% reading for the trailing year. This is nearly 25% worse than the previous low recorded in that index, a -1.94% reading recorded on December 1-4, 2008. Again, to place that reading in perspective, less than 1.7% of all 4 consecutive quarter "years" of GDP history since 1947 could be expected to be worse. A year that bad is entering the "once in a lifetime" realm.

We have also mentioned before our concern about the plateau seen in the blue line during its course down. The blue line lingered in the -1% to -2% zone for nearly four months, which may be the sign of a longer term "new norm" in consumer behavior. If that is true the 2010 event may not quickly recover, and could easily extend for more than another quarter -- making this total contraction last for well over a year.

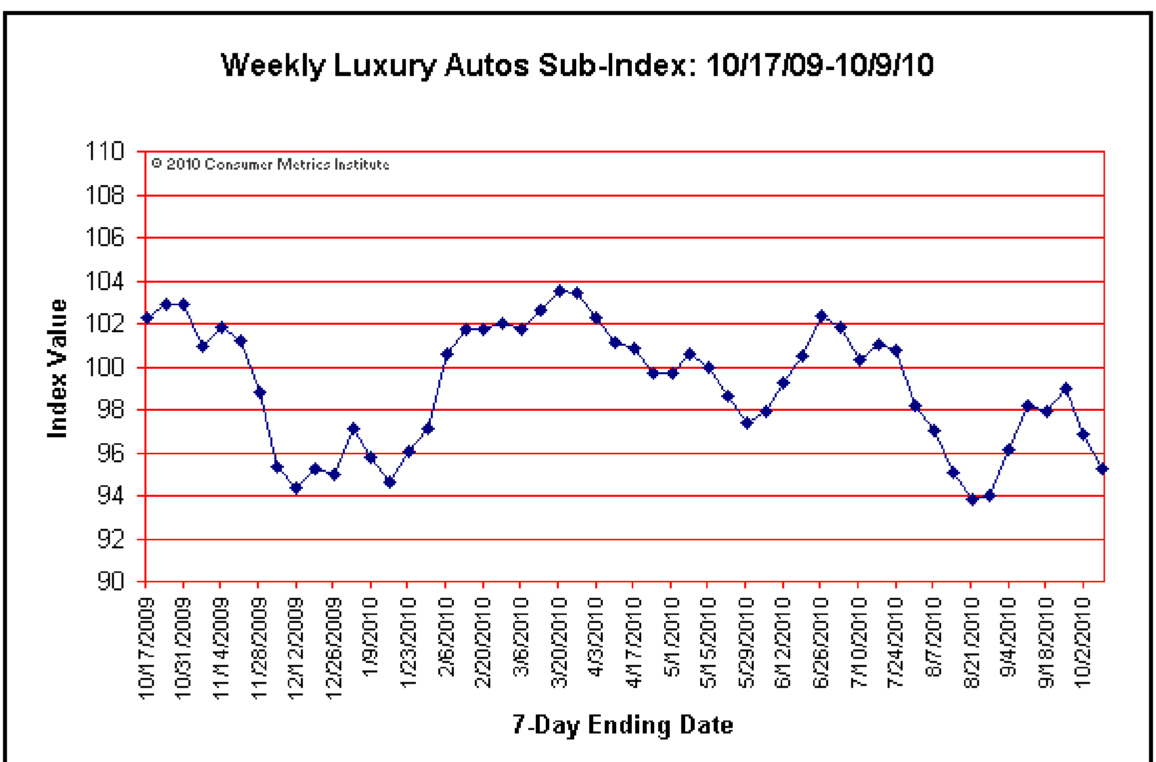
The two biggest single contributors to the "durable goods" portion of the consumer economy are automobiles and residential housing. Our regular readers have been noticing that over the past 60 days there has been a significant movement in several of our Automotive Sub-Indexes, with the Domestic Autos Sub-Index being a clear example:



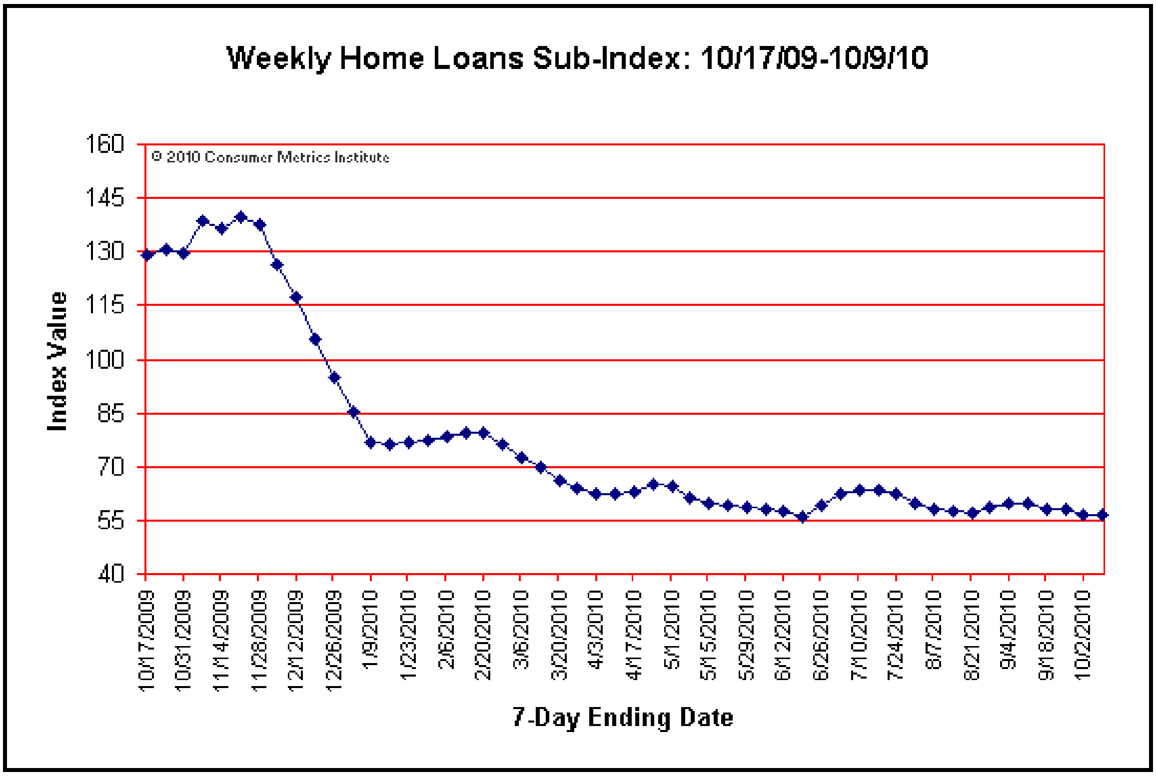
But it is not just the domestic manufacturers benefiting from the recent movements. As has seemingly been the case throughout the past few years the Korean manufacturers have echoed the movements of the domestic brands, but from a higher base level:



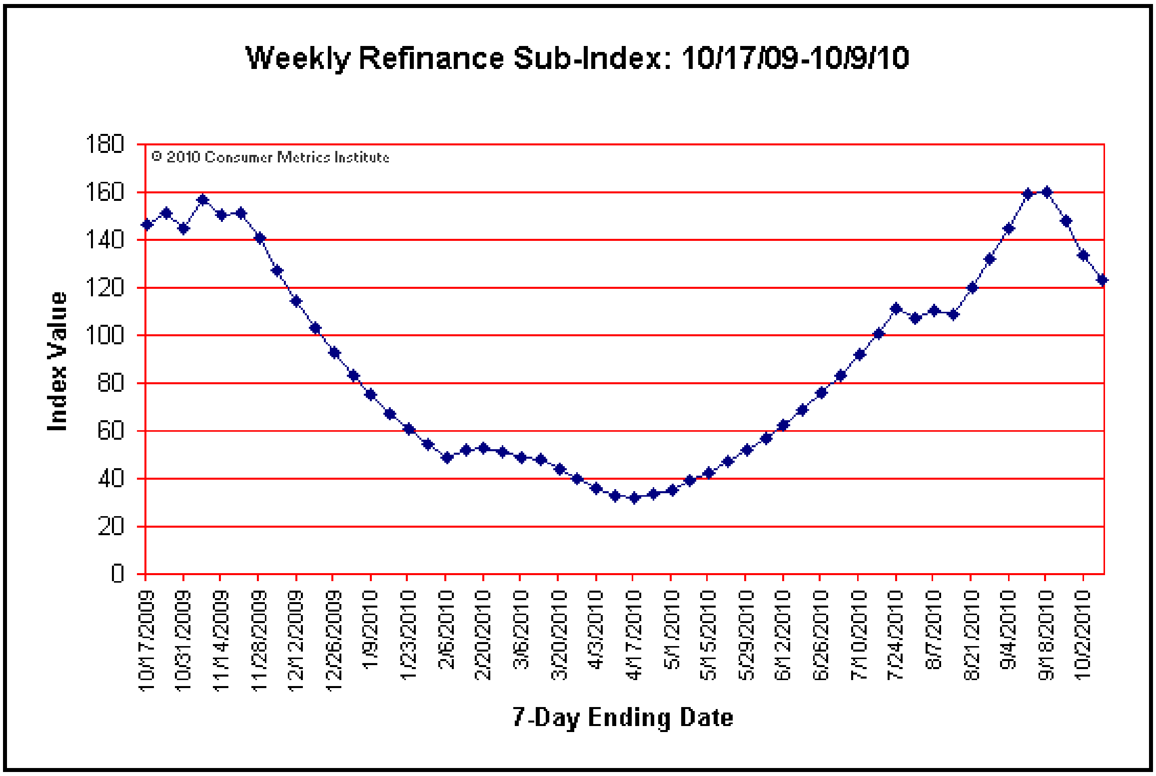
Furthermore, the recent movements have been the result of shoppers looking for economy and "popular priced" models, since the luxury automotive badges have not been showing the same levels of boost:



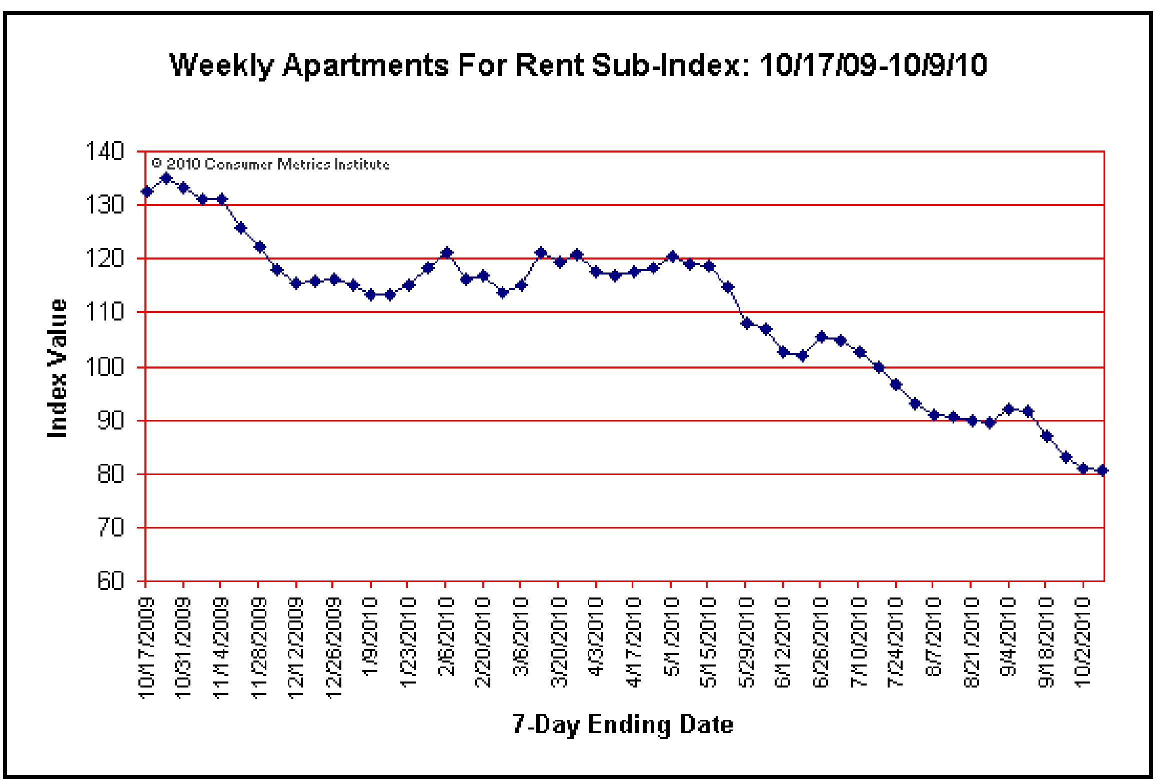
Yet even with short term positive action in the automotive area, the Housing sector continues to struggle. Consumer demand for new loans for newly acquired residential housing has shown no real signs of life since the Federal Housing Tax Credit initial deadline passed:



Even the ultra-hot refinancing arena has cooled over the past several weeks, perhaps indicating that there are limits to the number of homeowners positioned to take advantage of the phenomenally low mortgage rates:



Given the total number of foreclosures currently in process one might expect that consumer demand for rental housing would be soaring. But for a few months even that has fallen into year-over-year contraction:



This could be a sign that foreclosure moratoriums (and/or court overloads) are slowing down the eviction/vacancy process, or that the homeowners simply inclined to walk have already done so. In any event this chart tells us that over two years of sustained year-over-year growth in demand for residential rental properties has ended.