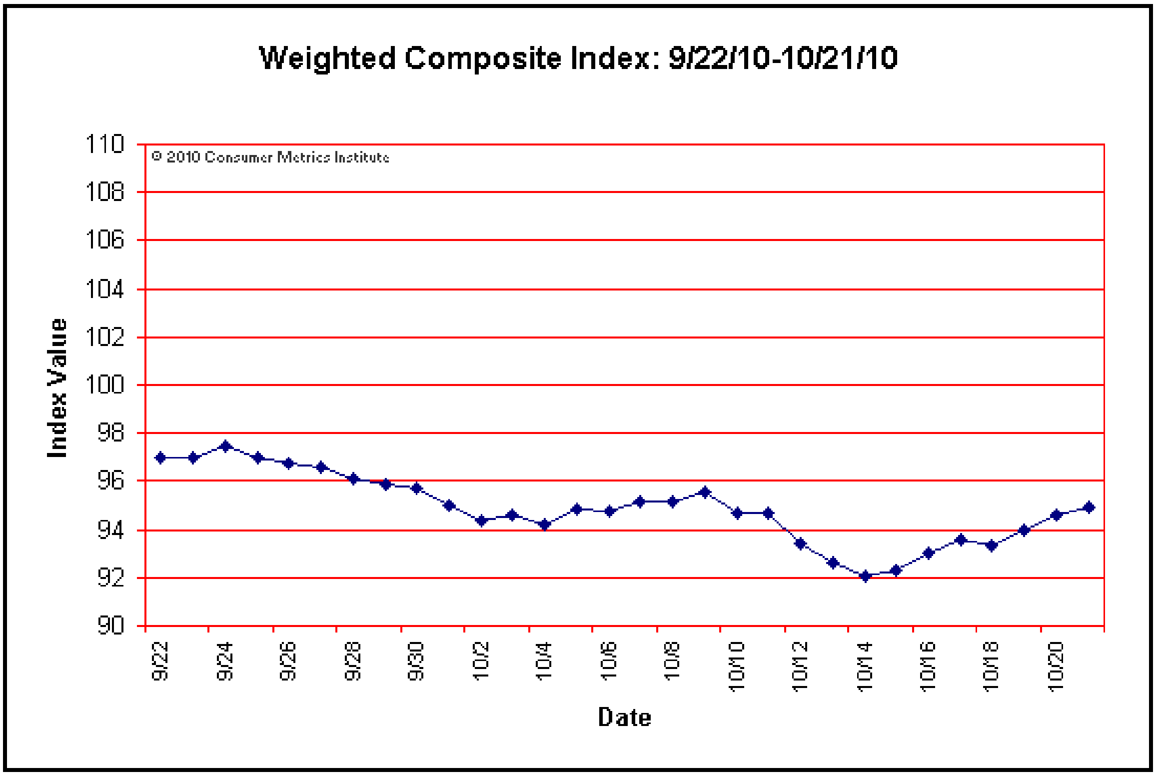
Consumer Metrics Institute Members News

October 17, 2010: Political "FUD" and the Consumer Psyche

As we predicted in August, the biennial U.S. political insanity is having its usual effect on the consumer psyche. Fear, uncertainty and doubt ("FUD") in any form increases cautious behavior, and in the case of consumers that might just reinforce new-found habits of frugality:



-- To the best of our knowledge, the daily resolution of our data provides the only major source of insight into this phenomenon. We saw it happen twice in 2008, during the Democratic National Convention and again in the run-up to (and immediate aftermath of) the election itself. However, on October 15, 2008 our Weighted Composite Index was basically neutral and our Daily Growth Index had already improved from its recent bottom by nearly 1.5%. In contrast, at the same point in this electoral cycle our Weighted Composite Index is contracting at a more than -7% year-over-year rate, and our Daily Growth Index is in record territory and has yet to form a lasting bottom.

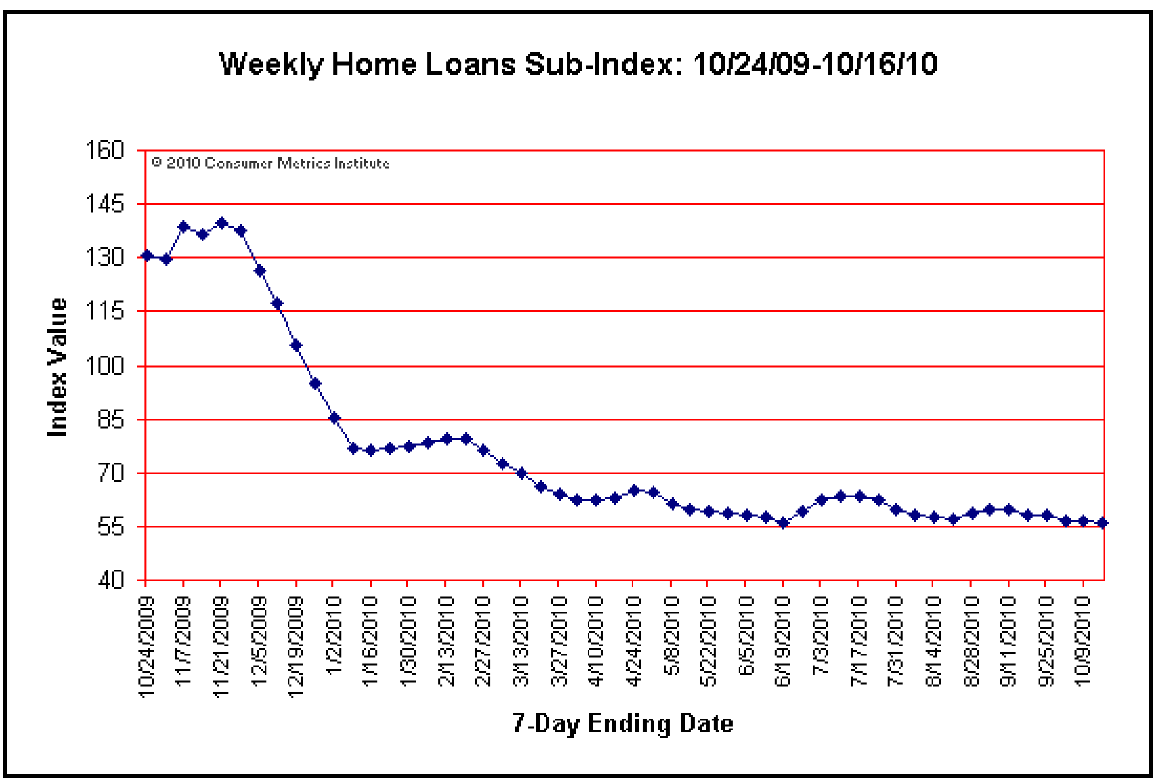
-- The political theater alone could be distracting. But the incessant and mutual mud-slinging (however merited) is actually designed to cast doubt in the minds of consumers about the competence of their current/potential leaders and the long term prospects for the economy under their current/potential leadership. Here at the Consumer Metrics Institute we are merely left to assess the collateral damage being done to the economy on a daily basis.

-- Unfortunately (and unlike earlier elections in less economically stressful times), until unemployment moderates significantly and household wealth and income start to grow, much of the mud-slinging will ring true. It's much harder to dismiss the accusations this time around as normal political hyperbole. Visions of a debt-driven economic dystopia, once unleashed via well-funded campaign ads, could to some extent be self fulfilling.

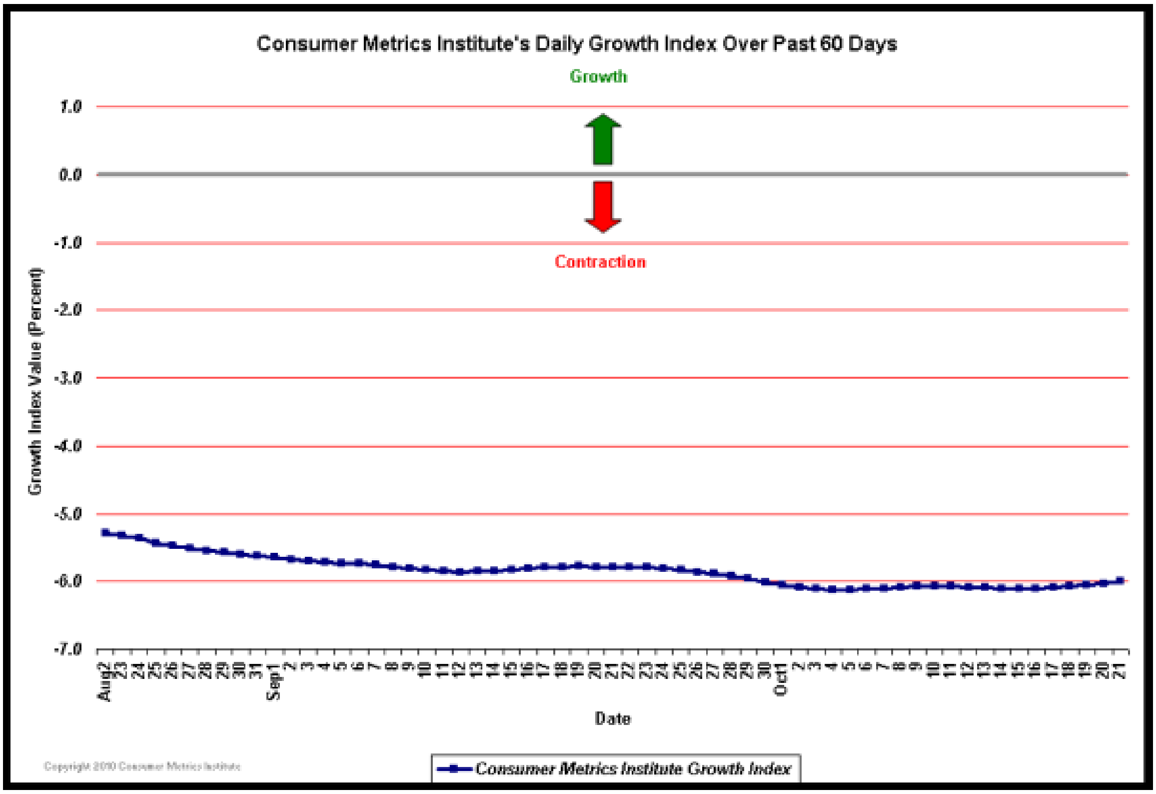
-- The conventional wisdom about this particular electoral cycle is that the fear factor is coming from uncertainty about 2011 tax rates, given both the expiring tax cuts and the need to address deficits. If taxes are about to go up, rational consumers should be expected to increase personal savings in anticipation of looming tighter budgets. However, the dramatic short term effects that we monitored in 2008 -- and are seeing again this year -- suggest that something less rational and more emotional is at the root of these changes in consumer behavior. People act on gut reactions, even if it is sometimes subconscious.

-- If consumers feel powerless in the face of a "Wall Street and Beltway" oligarchy, they may take cheer from having their collective say on November 2. Such cheer was palpable in 2008, when the incoming administration was given a clear mandate (and the legislative wherewithal) for change. This time around, however, the cheer could be muted by the realization that gridlock merely locks in the status quo.

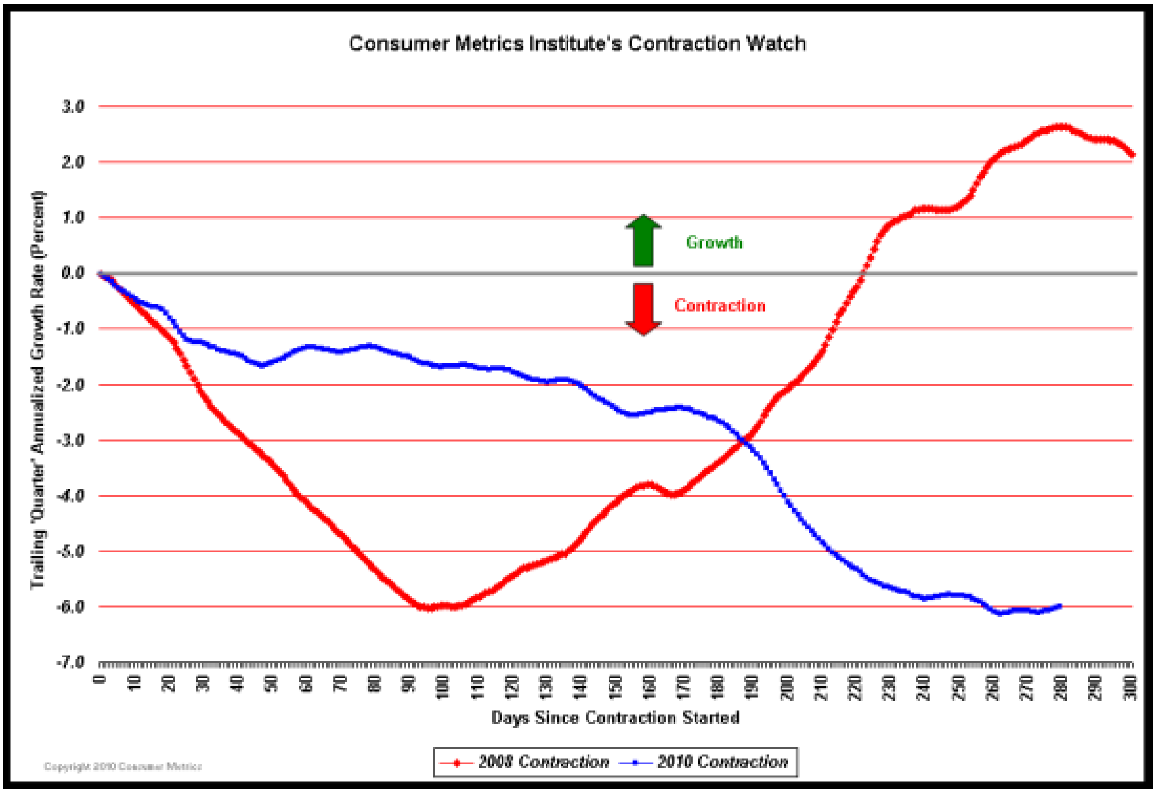
-- In 2008 we saw a rapid improvement in consumer demand after the electoral smoke cleared. In fact, we saw demand for durable goods (as reflected in our Weighted Composite Index) return to net year-over-year growth by November 30, and our trailing 'quarter' Daily Growth Index return to net growth by January 3. This growth was led by a strong housing sector, which by the end of the year was growing at a 50% year-over-year clip. Considering the backdrop for that sector heading into this electoral cycle, this time the lead will need to come from somewhere else:



Although we hate to beat a dead horse, until our numbers begin to improve our message must remain unchanged. Political FUD has again reared its ugly head, and (as expected) it has driven our Daily Growth Index back down again towards record territory:

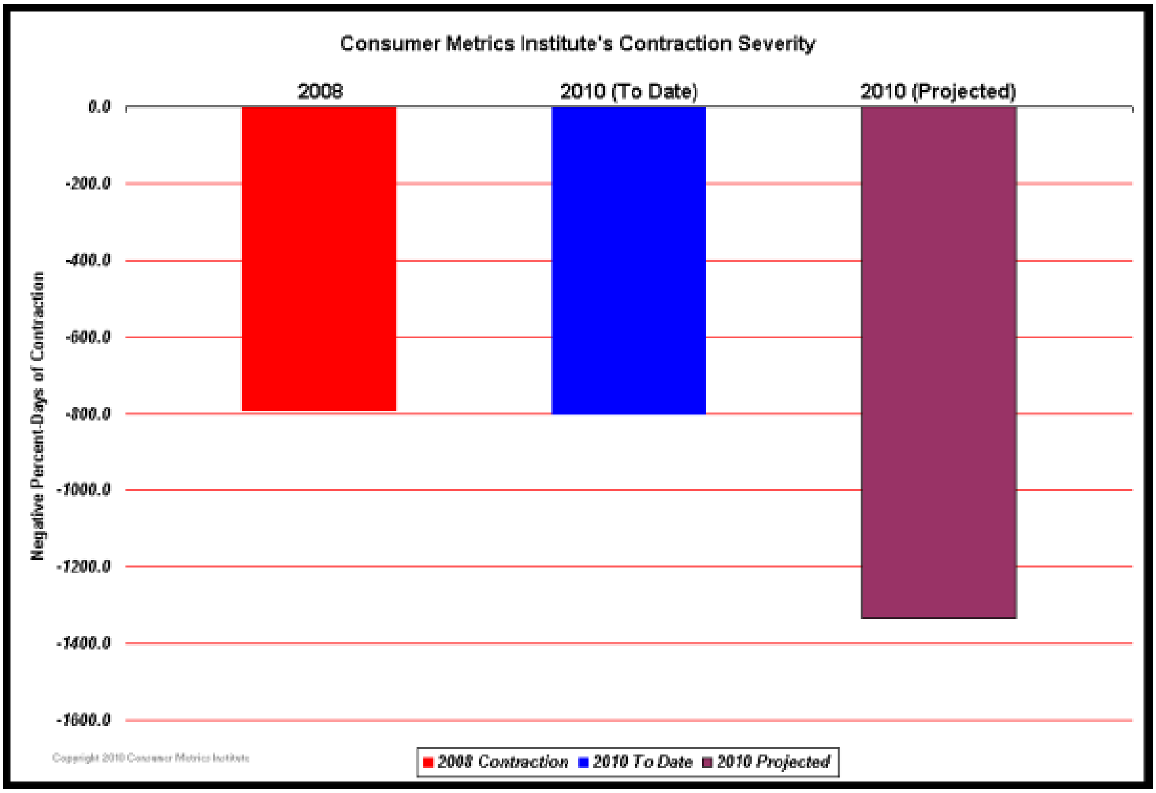


The broader and more extended impact of this election cycle's FUD is evident from a look at our "Contraction Watch" chart. In that chart, the day-by-day courses of the 2008 and 2010 contractions are plotted in a superimposed manner, with the plots aligned on the left margin at the first day during each 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 the two events:



We have mentioned before 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 over the course of 221 days, whereas the current 2010 contraction has just reached 766 percentage-days over the course of 273 days -- without yet clearly forming a bottom. The damage to the economy is already 97% as bad as in 2008, and the 2010 contraction has lasted 24% longer than the entire 2008 event without yet starting to recover.

We have constructed a new graph to assist in the visualization of the "percentage-days" severity of the two contraction events:



In the above chart the red vertical bar represents the -793 percentage-days of contraction in consumer demand that we measured in 2008. The blue vertical bar represents the same measure (to date) for the 2010 event. But since the 2010 event is not yet over, we have projected the eventual full extent of the 2010 event with the purple vertical bar. That projection is an average of several recovery scenarios, all of which conservatively assume that the bottom has already been reached.

We are keenly aware that many people consider us to be in the lunatic/delusional fringe -- all because we simply report current data that has been collected using methodologies unchanged from the ones that tracked 2008 with uncanny accuracy. In early 2009 our "delusions" saw the first signs of the infamous "green shoots" long before more conventional data sources had begun to turn around. We fully understand that our current data has diverged significantly (and for a more extended time) from the conventional "muddle through" vision for the economy. We hope that the "muddle through" vision is correct. But in the meantime we can't help but wonder who's delusional.