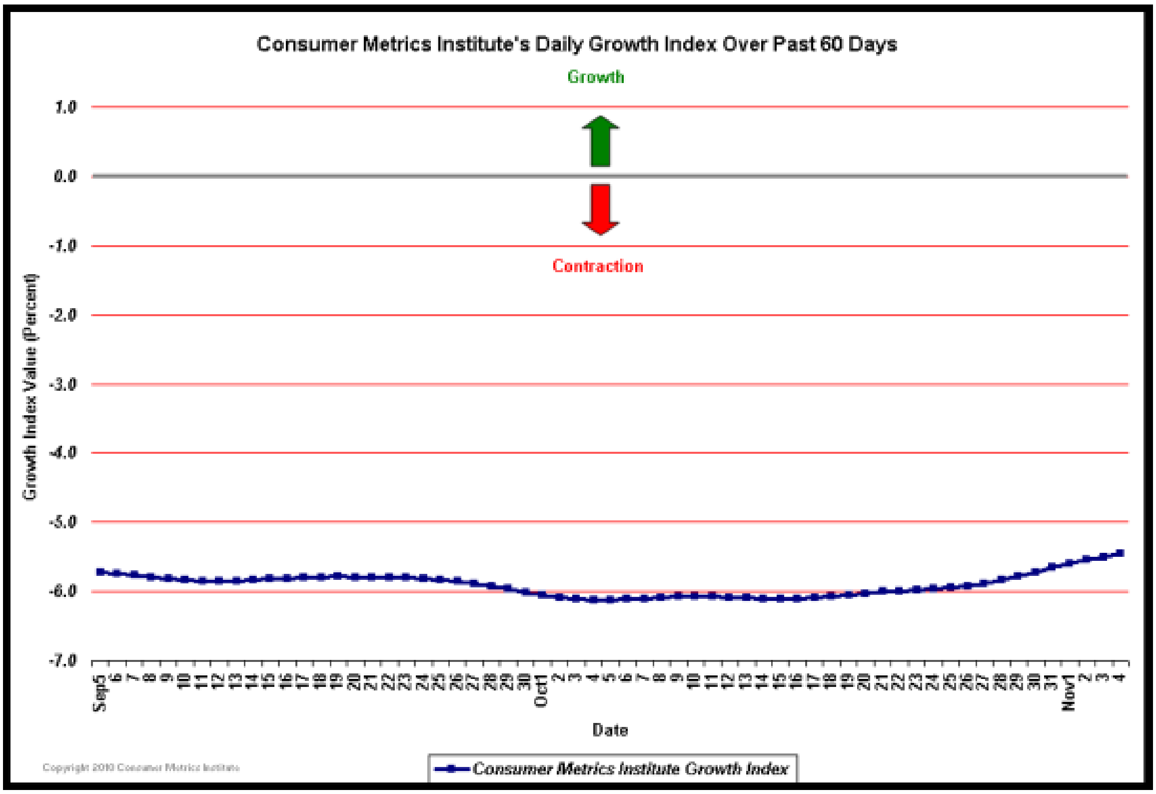
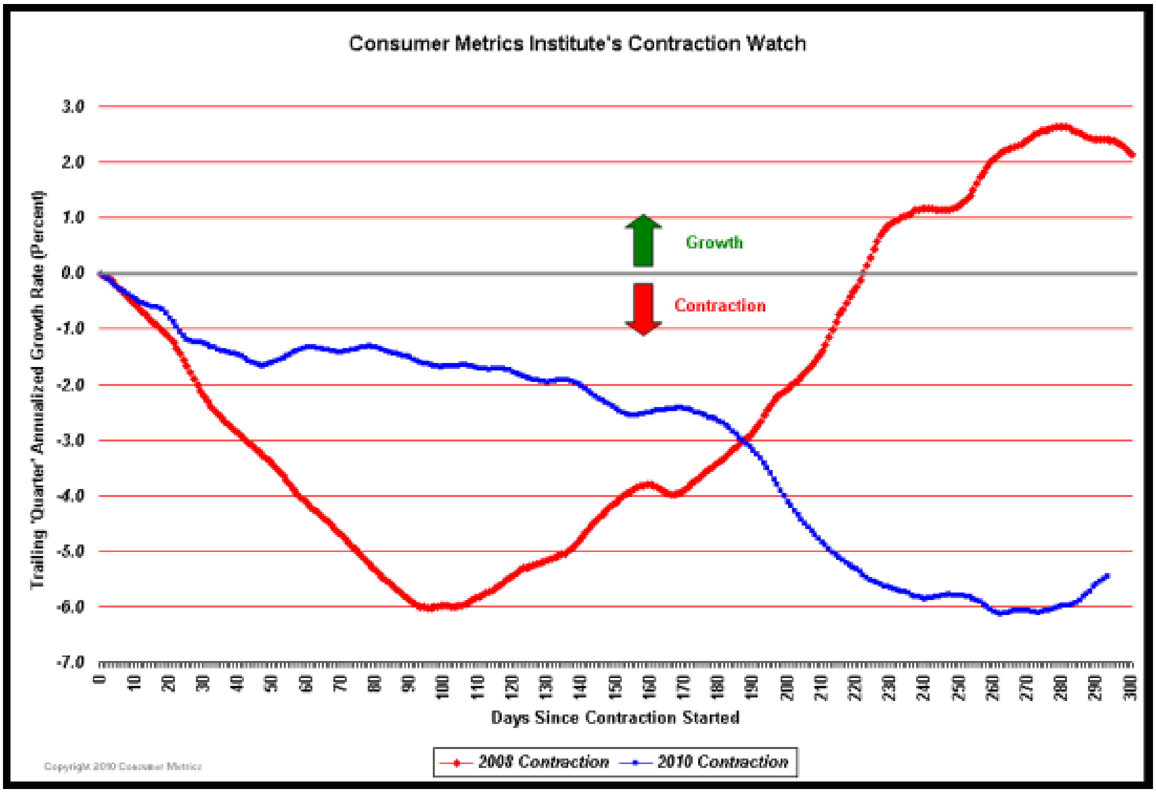
Consumer Metrics Institute Members News

October 31, 2010: The End of Political "FUD" Approaches

The upward drift of our Weighted Composite Index over the past week has been enough to cause our 91-day trailing "quarter" (our "Daily Growth Index") to start back up -- at least enough to begin to look like a bottom formation:



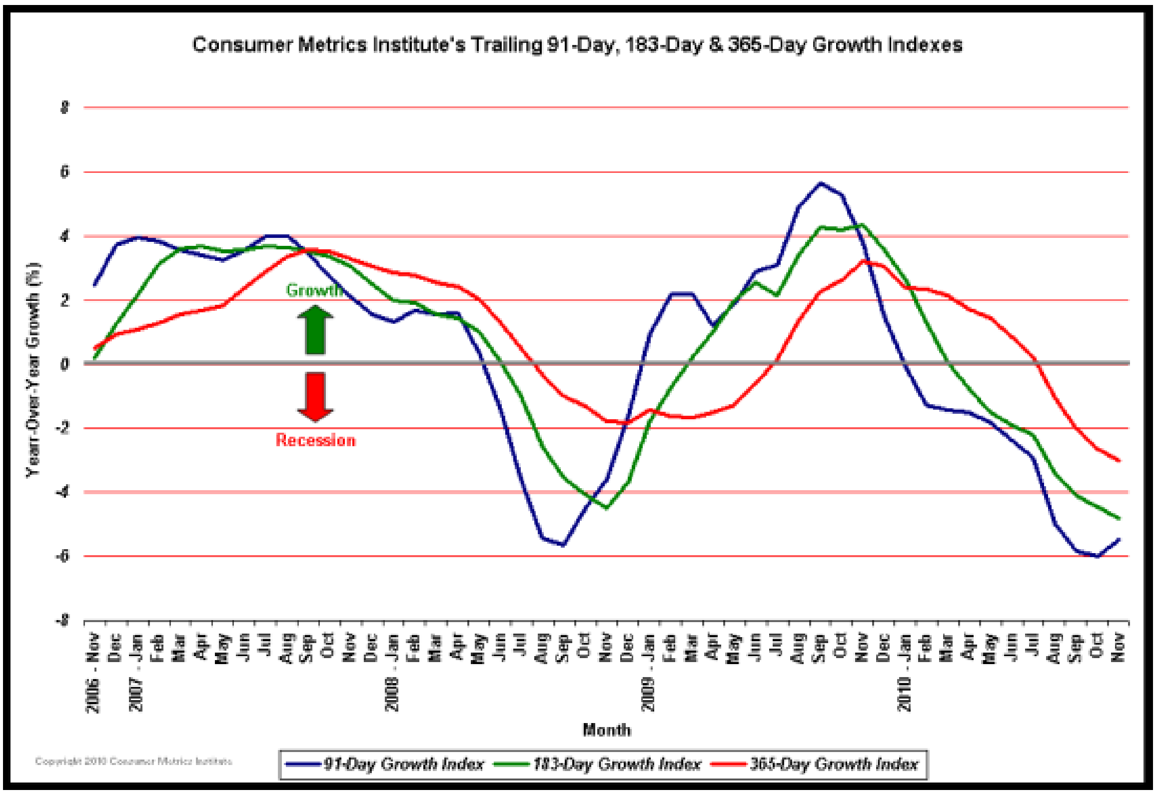
This movement has been enough to be visible in our "Contraction Watch" chart. In that chart, the day-by-day course of the 2008 and 2010 contractions are plotted in a superimposed manner, with the plots aligned on the left margin at the first day during each event that our Daily Growth Index went negative. 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 our regular readers know, we have not been expecting any remarkable turnaround in consumer demand until after the U.S. mid-term elections have passed. We have previously documented the timing and negative impact of political fear, uncertainty and doubt ("FUD") on the consumer psyche. This time a change in the political environment has been somewhat more certain, but unfortunately it has also been a great deal less civil. This probably means that not only is political "grid-lock" highly likely, but it will be accompanied by such acrimony that bi-partisan leadership will be equally unlikely. For the economy, additional massive stimuli will simply not happen to offset the existing measures (including extended unemployment benefits) that will soon begin to lapse. That leaves only the Federal Reserve to implement policies designed to combat economic contraction, and their recent efforts in quantitative easing have fallen victim to liquidity traps that have driven a bubble in financial assets instead of funding new "Main Street" commerce and jobs.

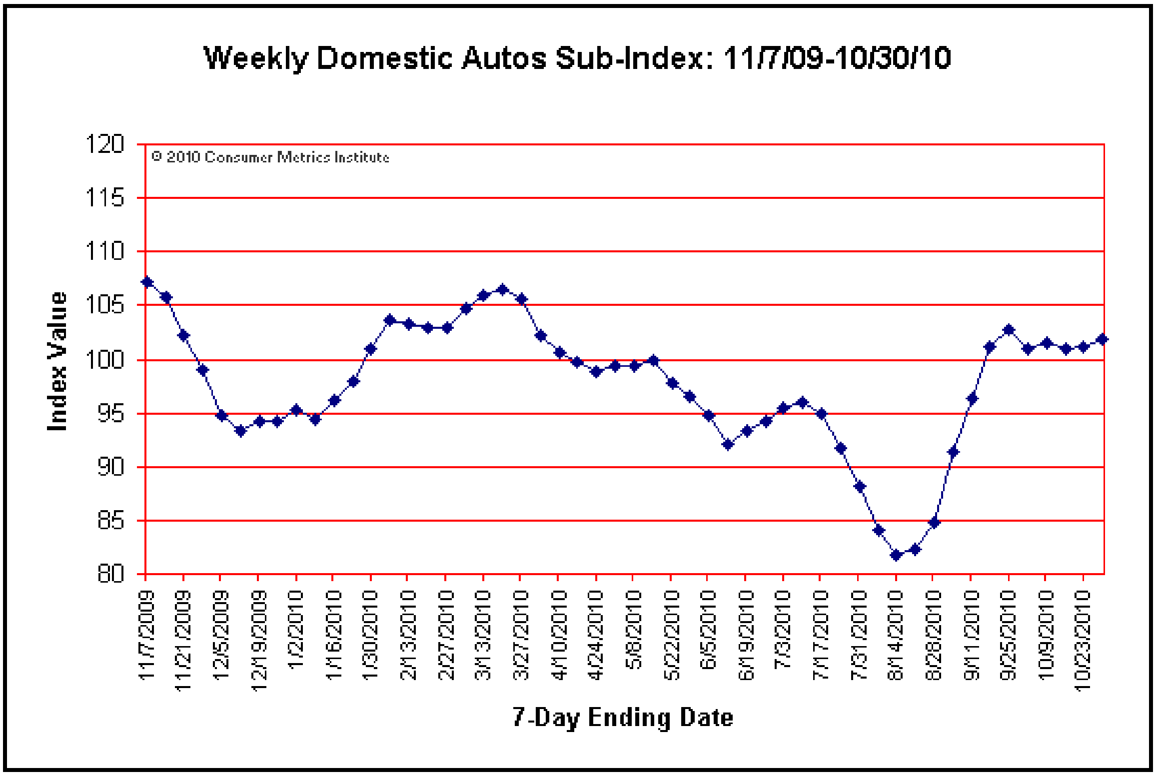
The big question posed by the above chart is whether, given the new political reality, consumers will flock to the stores and drive the blue line straight back up into growth territory. We have mentioned before that we were concerned about the gently sloping "plateau" visible in the above chart that covers the 120 days from about day 50 to day 170 in the current contraction. Our concern is the possibility that the plateau in consumer activity represents a new "norm" of frugality, quite unlike anything we have seen recently. Only time will tell, but we guess that we will have a good idea well before the end of the year.

We have said before that one of the clearest signs that the 2010 contraction differs from the 2008 contraction is the longevity of the event. Another way of looking at the longevity factor is to note that both of our longer term trailing averages have reached record territory, surpassing the previous records that they set back in 2008. A view of all three of our trailing growth indexes (the 91-day one quarter index, the 183-day half-year index and the 365-day full year index) superimposed over each other for the past 48 months looks something like this:

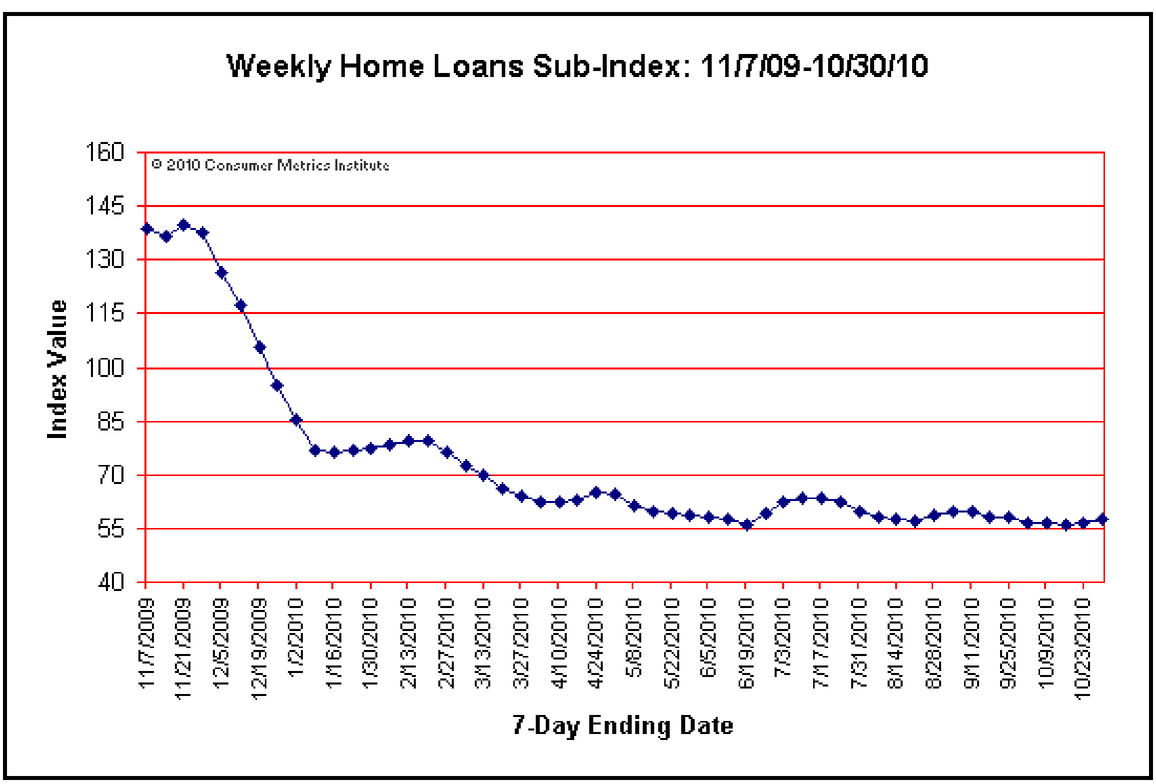


The longer term indexes tend to lag more and be smoother than the 91-day trailing "quarter." For that reason they had resisted reaching record territory for much longer than our 91-day "Daily Growth Index." But the duration of this event has now pulled both of them down to values lower than anything we saw in 2008.

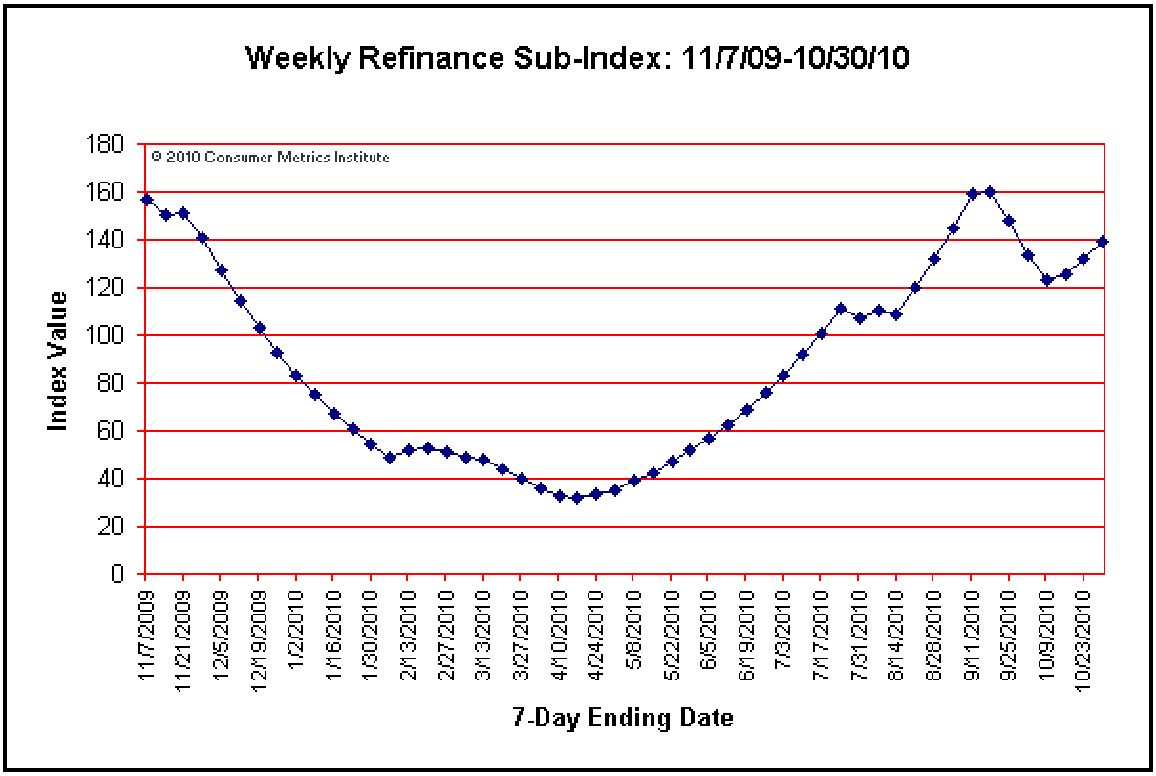
Meanwhile, a few of our favorite sub-sector indexes provide a more complete view of what has been happening in the consumer economy over the past year. First of all, a look at Domestic Autos shows how their results were impacted several months ago by year-over-year comparisons to last year's "Cash for Clunkers":



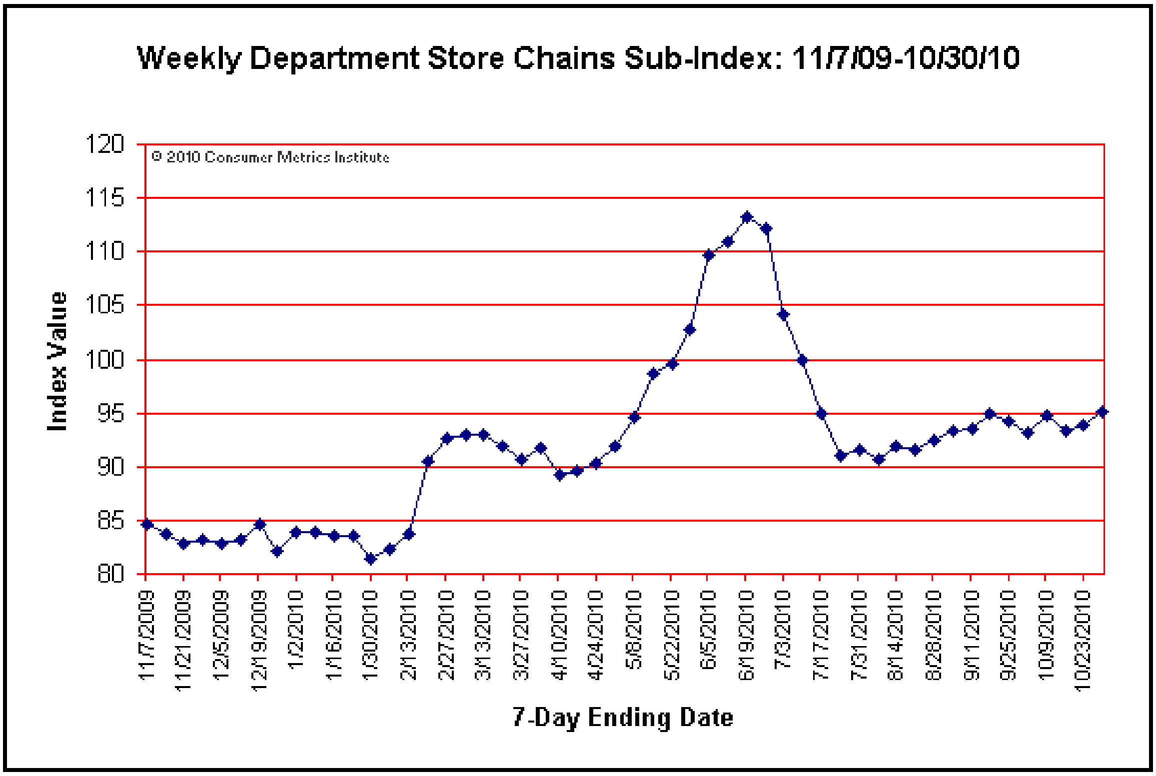
They "bounced back" when the year-over-year comparisons started to look better, and they are currently showing modest growth on the same basis. One of our other favorite charts is for new loans made for initial purchases of new housing:



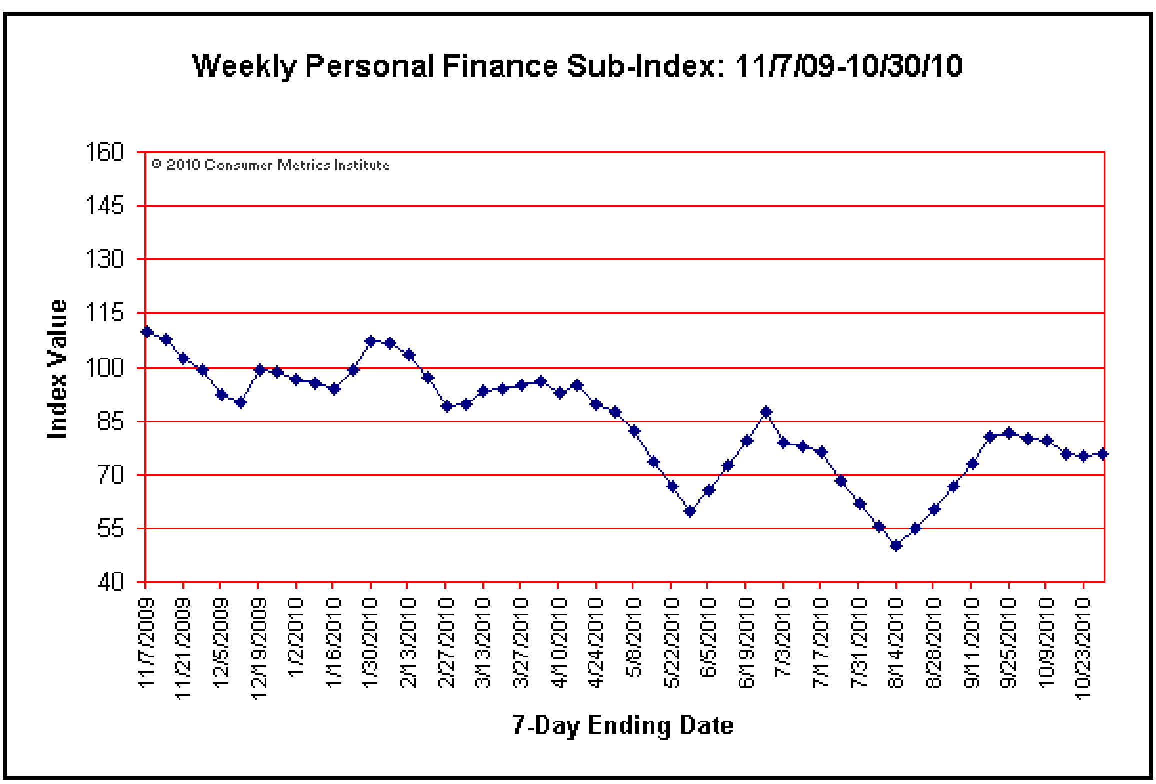
Although that remains seriously depressed, refinancing activity is still showing life:



Retail chains have also had a volatile six months, with very recent signs of weakness now beginning to persist:



And finally, our personal finance sub-index continues to show year-over-year contraction:



This index is a composite of several factors that measure consumer concerns about their personal financial situation -- including preparations for defaults and foreclosures. That index has generally been a good leading indicator for fresh rounds of foreclosure activities, and the August dip is at least a little foreboding.
