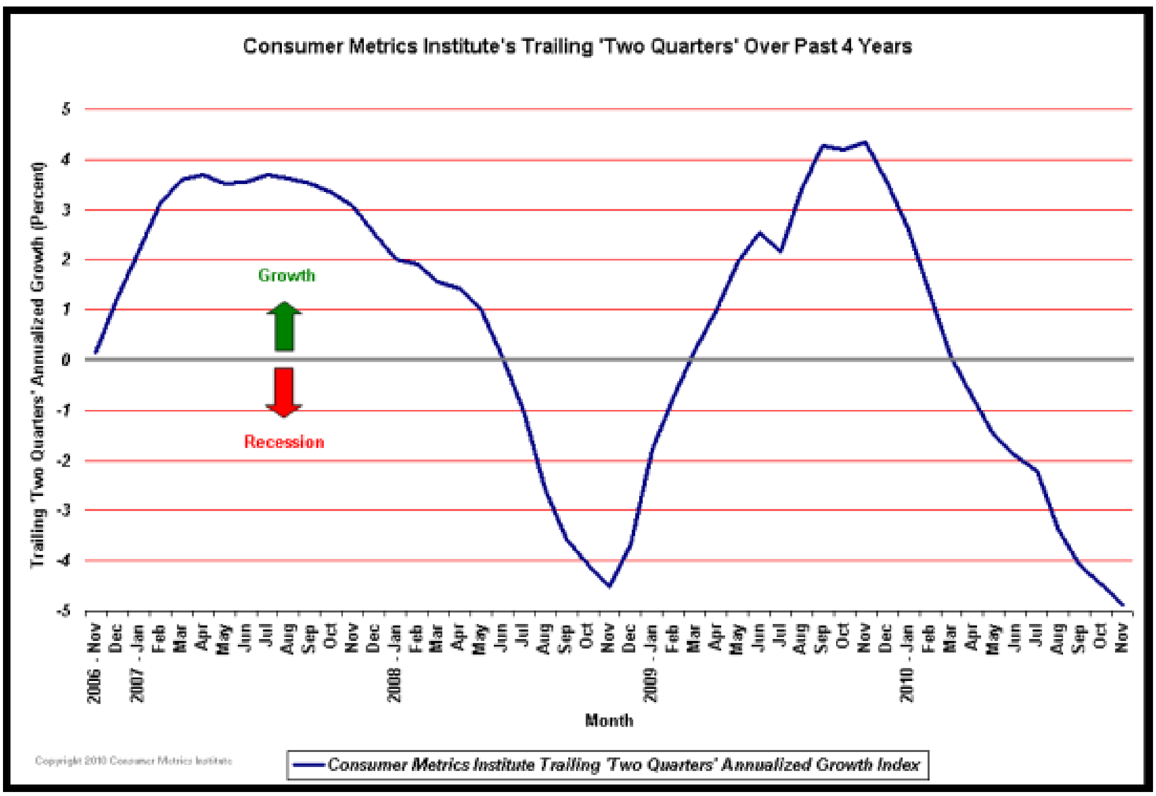
Consumer Metrics Institute Members News

November 7, 2010: Revisiting the Character of the "Great Recession"

We have commented before about how the "Great Recession" has changed character over time, evolving from a relatively normal "garden variety" and V-shaped consumer confidence recession into something far more persistent -- where a lack of jobs and negative home equity has transformed it into a "new frugality." But we haven't previously discussed how the "Great Recession" has been an uneven experience among even those living in "Main Street" America. A recent review of our data has convinced us that this has not been a recession of shared pain, but one that has cut much deeper in some demographics than in others.

First of all, a review of the way that the "Great Recession" has morphed over time:



The left-hand dip is the "garden variety" recession that the National Bureau of Economic Research ("NBER") claimed ended in June 2009 -- based on factory data that actually lags the graph above by about a quarter. The growth spurt in the right half of the above chart came from a combination of dropping energy prices, the end of a lull in consumer confidence, positive psyches during a honeymoon with the new administration, and the consumer oriented parts of the stimulus packages. All that changed when consumers realized in late 2009 that, despite widely reported "green shoots," things were not actually getting any better in their neck of the woods.

There are a number of plausible reasons for the timing of the second downturn. About then the bulk of the consumer specific stimuli ("Cash for Clunkers" and the Federal housing tax credit) had begun to run their course, all without providing significant relief to the real problems: inadequate jobs, negative home equity values and crippling debt. Furthermore, political agendas were obviously focused elsewhere (e.g., healthcare, Wall Street reforms and ARRA pork) -- all programs that most consumers realized would not materially improve their own personal job, home equity or debt situations.

Now, a year later, those same chronic problems persist even as equity markets are buoyed by the prospects of a "muddle through" economy. But as many politicians have recently learned, a "muddle through" approach to the economy requires more patience than electorates have. Consumers are not idiots -- and if American households sense that their lot in life is not likely to change in the foreseeable future they will simply become one hundred million loose cannons fending for themselves in what Keynes mislabeled as a "paradox" of thrift.

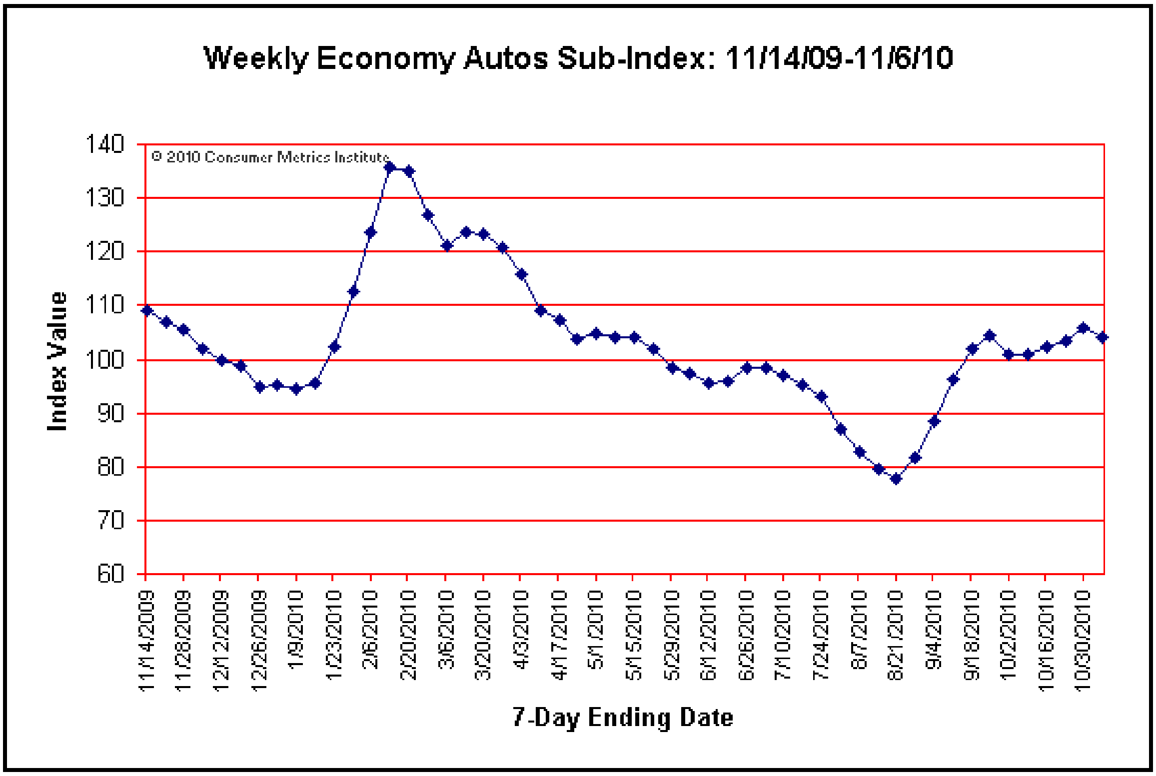
Unfortunately, the above picture paints the participants in this economy as having a shared experience. That is clearly not true for businesses, where size apparently does matter. As a glaringly obvious example, the companies comprising the equity indexes have fared far better during the "recovery" than their much smaller brethren -- putting into sharp contrast Wall Street earnings reports and surveys of small business owners.

But there is also evidence within our data that suggests that some consumers have been harder hit during this recession than others. And by "consumers" we don't mean the 10% at the top of the economic ladder (and arguably also the 10% at the bottom of that ladder) that don't have their circumstances change much in a recession; but rather we refer to the vast majority of constituents who have just chosen to share their pain with Washington. A close look at our data indicates at least a demographic bias to the experiences being felt.

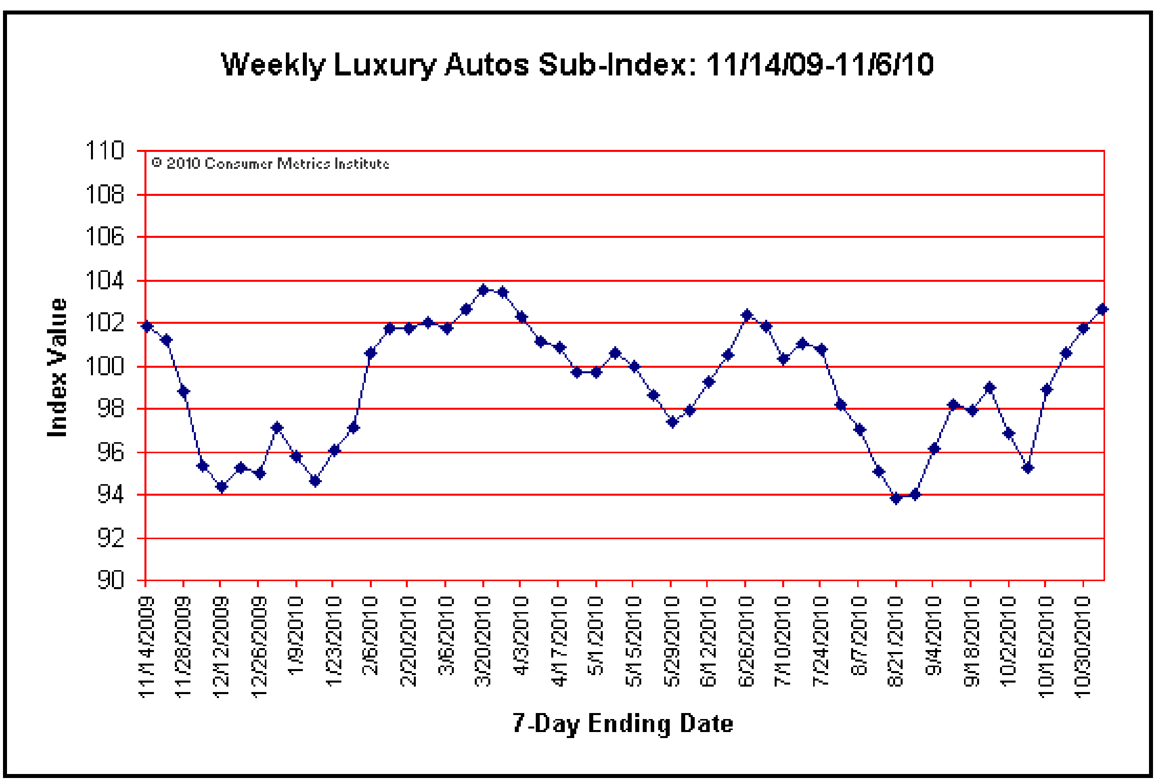
We have pointed out many times that the demographics of the consumers that we track are probably different from "typical" consumers. In fact, a number of studies have indicated that on average internet consumers are younger, better educated and more affluent than the demographic profile of a "typical" U.S. consumer -- all as a direct consequence of the technologies involved. Thus our samples are biased accordingly, with at least some tilt towards buyers in their 20s and 30s.

Historically this bias has resulted in our indexes providing a leading and amplified signal, since those same shopper demographics represent relatively new households indulging in a once-in-a-lifetime spurt of discretionary durable goods spending. But the same demographics also carry disproportionate levels of low job seniority, recently acquired residential properties, and overextended credit. Unfortunately those particular circumstances have proven to be a lethal mix during this downturn.

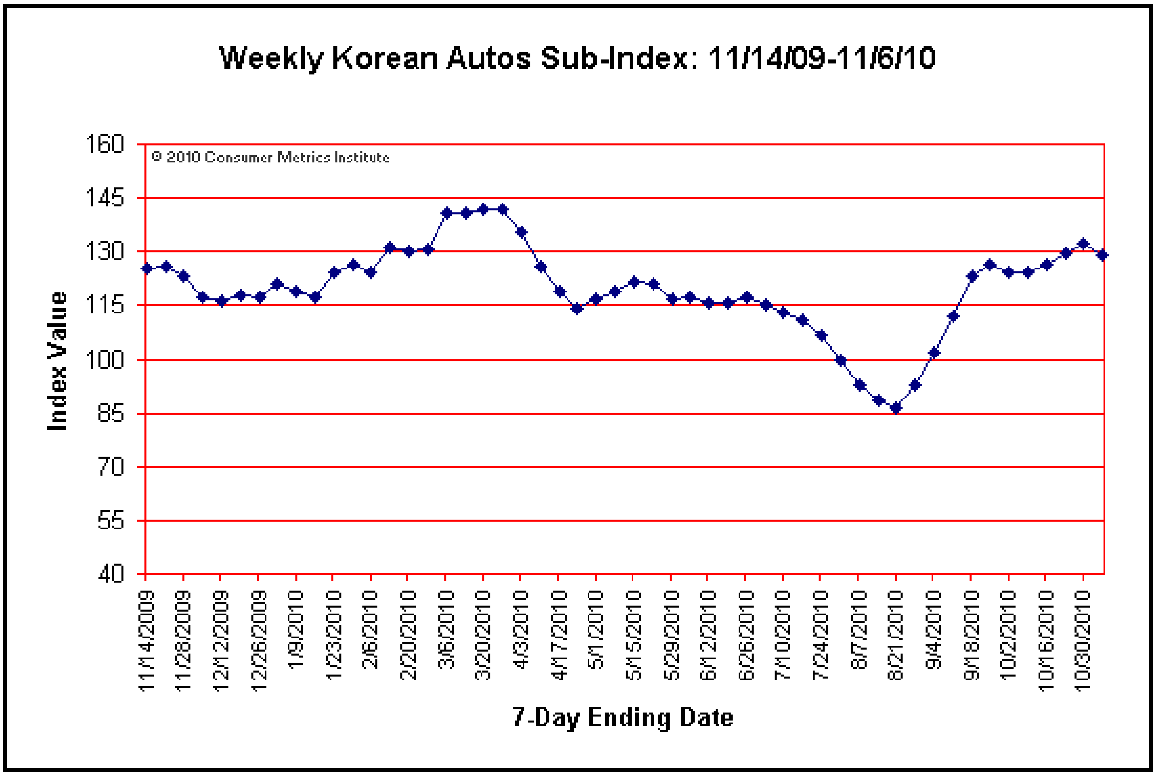
Brand loyalty (or lack thereof among younger buyers) can provide some insight into demographic divergences during this recession. In just one example, the recession has resulted in significant market share shifts among automotive brands competing in the "economy autos" market segment. Overall, that segment of the market:



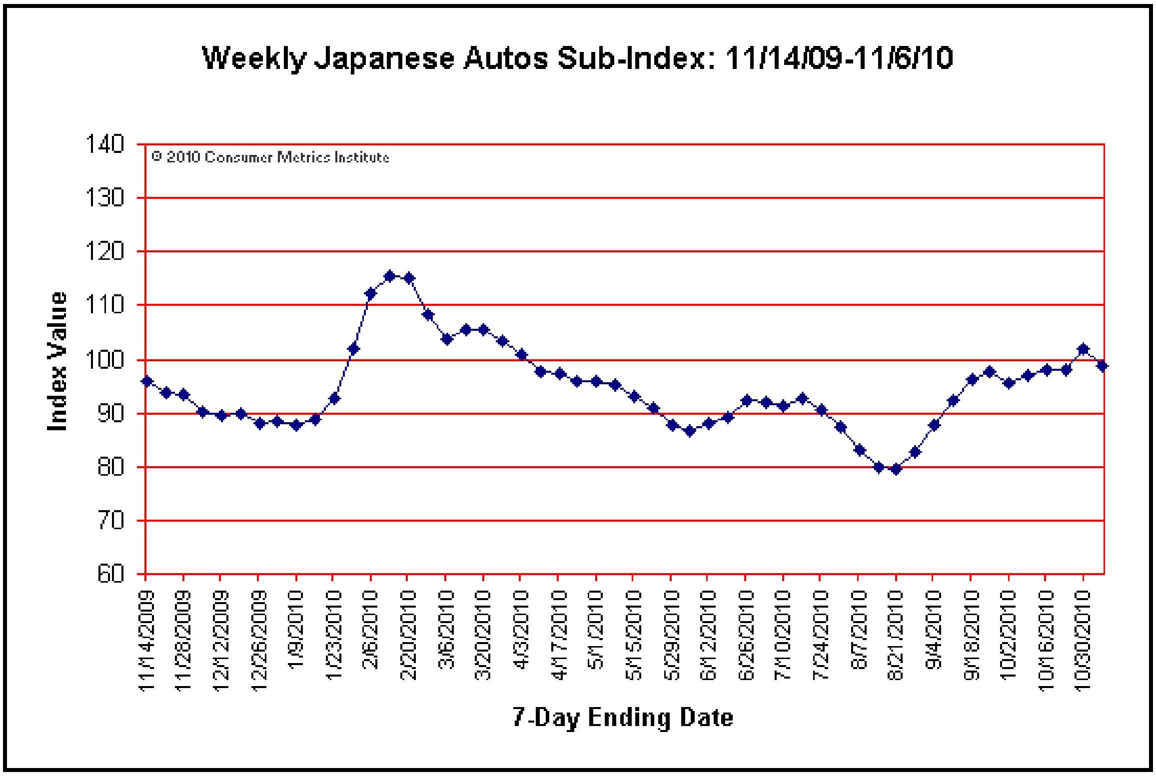
has performed much better than the "luxury autos" segment:



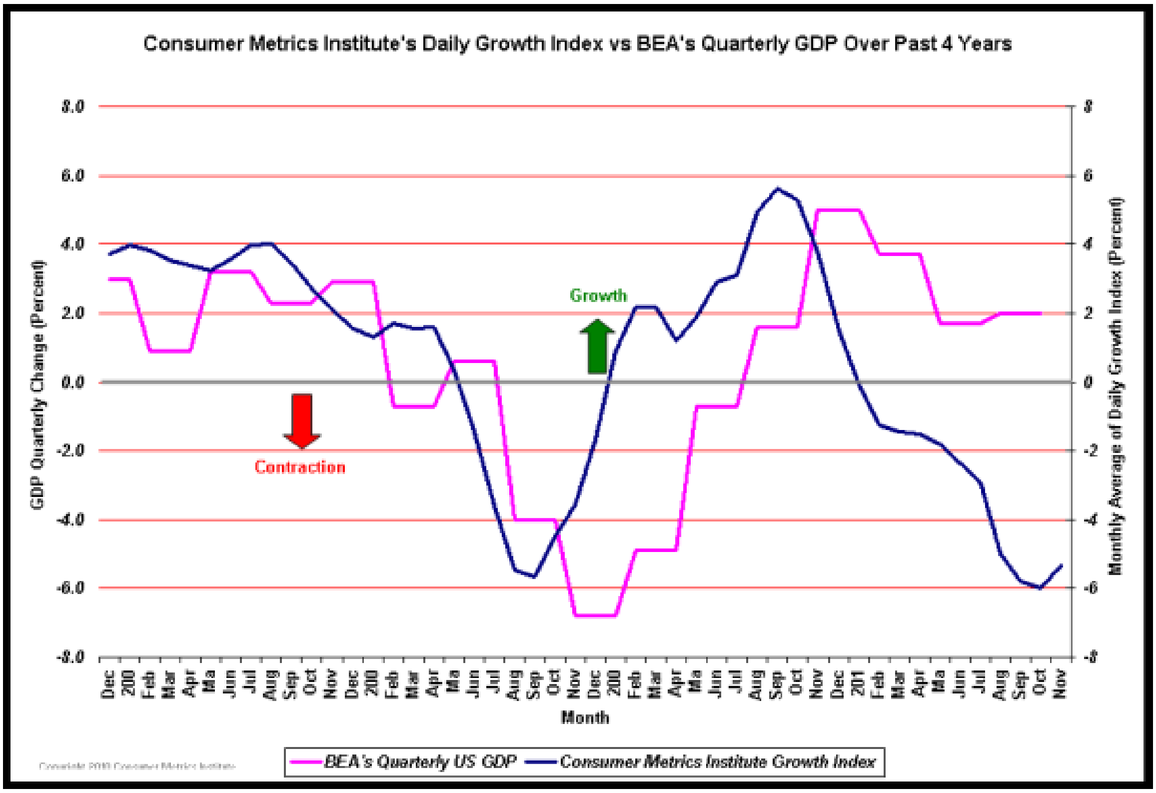
But a careful look at the specific brands involved indicates that a disproportionate share of the market shift was picked up by the non-traditional Korean brands favored by shoppers in their 20s and 30s:



while the more mature Japanese brands familiar to older shoppers fared less well:



In this case younger shoppers appear to have been "down-scaling" much more aggressively than older shoppers. The shift to non-traditional brands began to appear in late 2008, at a time when our overall indexes were just starting to pick up. The shift accelerated in late 2009 and into 2010, coincidental with the first signs of significant divergence between the behavior of internet shoppers and more traditional measures of the economy:



The demographic character of this recession is probably poorly understood. But it is becoming clear from our data that an entire generation of young households may have taken the brunt of this recession -- a generation that was serially victimized by education and housing that they ultimately could not afford.