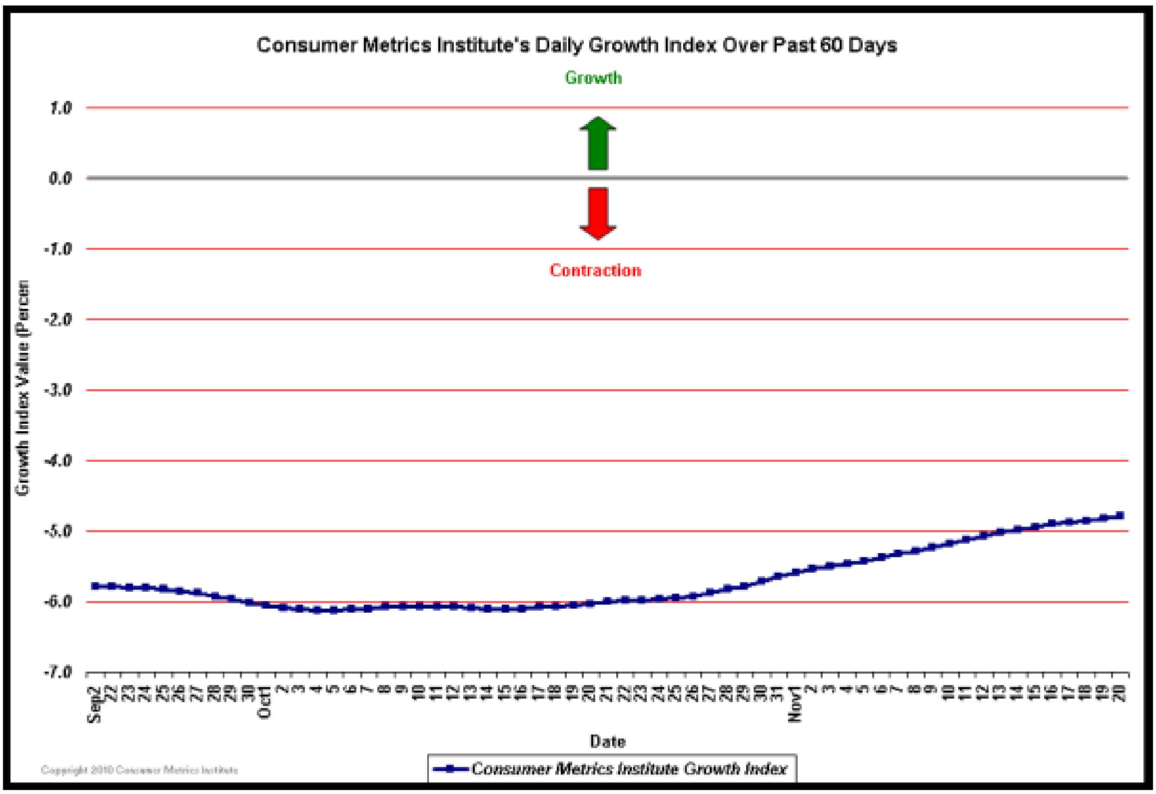
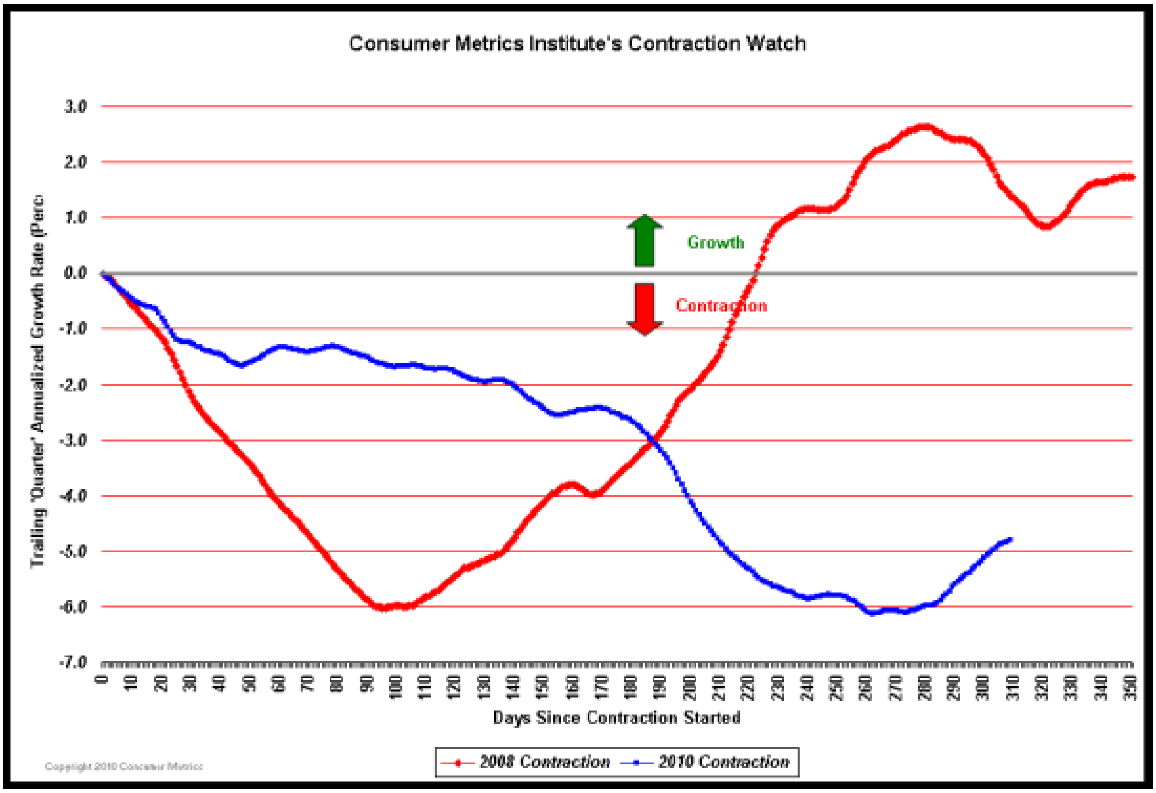
Consumer Metrics Institute News

November 9, 2010: Daily Growth Index Shows Signs of Bottom Forming

Since the middle of October our Daily Growth Index has begun to show signs of forming a bottom to the contraction event in consumer demand that we have been closely monitoring throughout 2010:



This upturn is most clearly visible in our "Contraction Watch," where 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:



Several points should be made about the upturn clearly visible in the above charts:

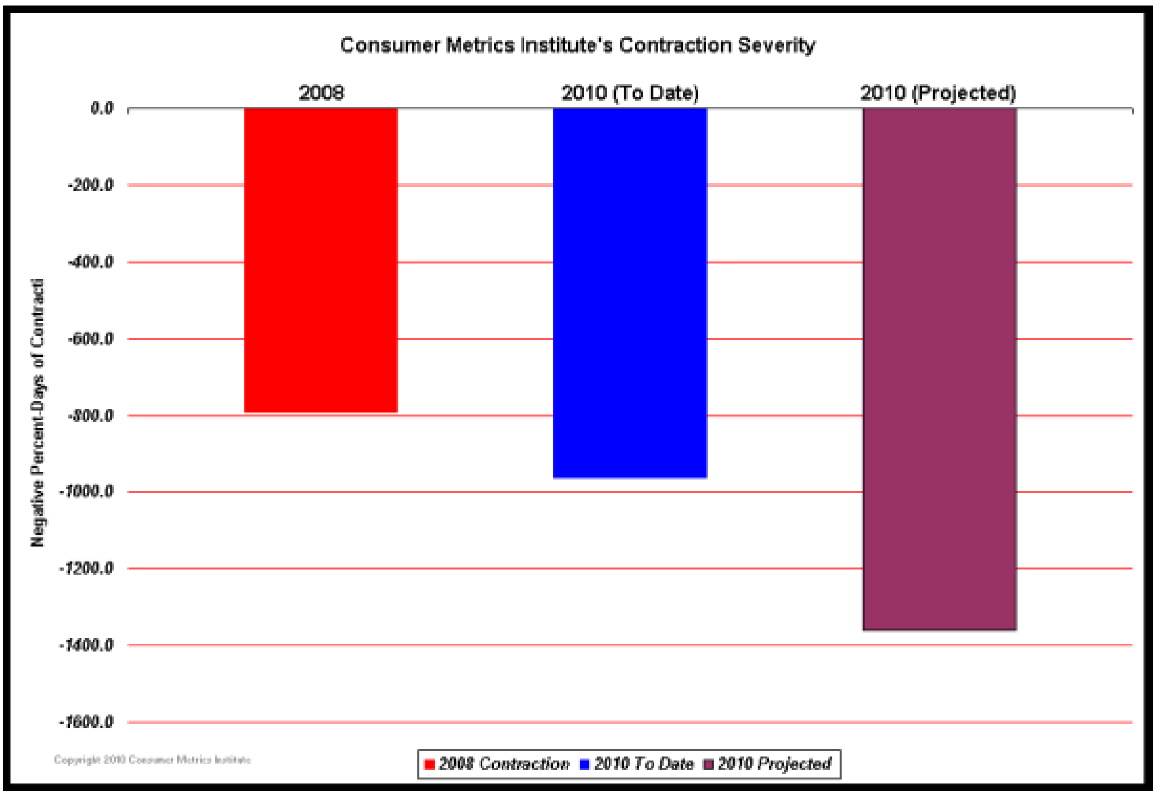
-- Our Daily Growth Index is a 91-day trailing "quarter" moving average of our Weighted Composite Index (converted from a nominal base-100 index into a +/- percentage). As a result of the moving average process this upward movement in the index is largely a consequence of very depressed July and August levels in the Weighted Composite Index now falling out of the average.

-- The current daily values of the Weighted Composite Index now entering the averaging process correspond to a Daily Growth Index contracting at about a -4% rate. While this is a substantial improvement over the July and August values (which reached a nearly -9.5% daily contraction rate on August 1), it still represents substantial year-over-year contraction -- far short of a new round of "green shoots."

-- We have commented before that the "Contraction Watch" chart above has something resembling a gently sloping plateau in the blue 2010 line that starts at about Day 50 in the contraction and extends perhaps as far as Day 170. We understand that the sharp downturn after Day 170 is a reflection of poor year-over-year comparisons to a period in 2009 when the "Cash for Clunkers" and Federal Home Buyer Tax Credits were in full effect. But the sloping plateau represents year-over-year comparisons to a less stimulated point in the consumer economy, and may therefore be an indication of a new longer term baseline level of spending -- some 1.5% to 2.5% below 2009 levels. We think that it would be prudent to reserve enthusiasm for the current upturn until the blue line breaks above that zone.

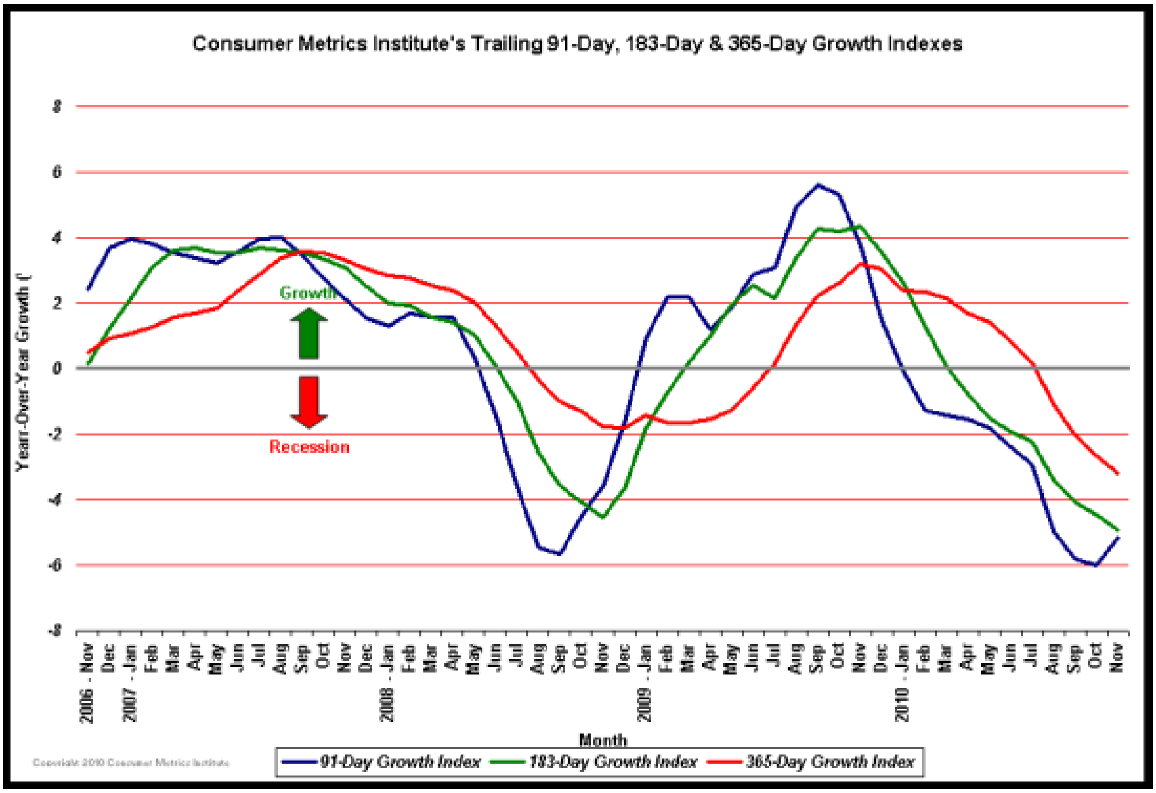
-- The true severity of any contraction event is the area between the "zero" axis in the above chart and the line being traced out by the daily contraction values. By that measure the "Great

Recession of 2008" had a total of 793 percentage-days of contraction over the course of 221 days, whereas by November 7 the 2010 event had reached 899 percentage-days of contraction over the course of 296 calendar days. The damage to the economy is already 13% worse than in 2008, and the 2010 contraction has already lasted 34% longer than the entire 2008 event. If the blue 2010 contraction line in the above chart follows a recovery trajectory similar to what the red line experienced in 2008, we would project that the final tally for the 2010 event would be about 1350 percentage-days of contraction, some 70% worse than in 2008:



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 and that the plateau visible in the "Contraction Watch" chart is not a new norm for consumer frugality.

Since late spring our primary concern about the 2010 contraction has been about its duration, rather than the maximum contraction rate observed. An indication of the longevity of this contraction is that even our longer term moving averages have reached record levels of contraction:



To us it was almost incidental that during 2010 the 91-day contraction rate eventually reached (and even slightly exceeded) the maximum contraction rate recorded in 2008. To our eyes the real problem in the above chart is that our 365-day trailing year index has exceeded its lowest level of 2008 by over 50%. We are far beyond wondering about how many dips there may be. Our concern is simply that this episode is something neither we nor any policy makers at this side of Japan have ever seen before.