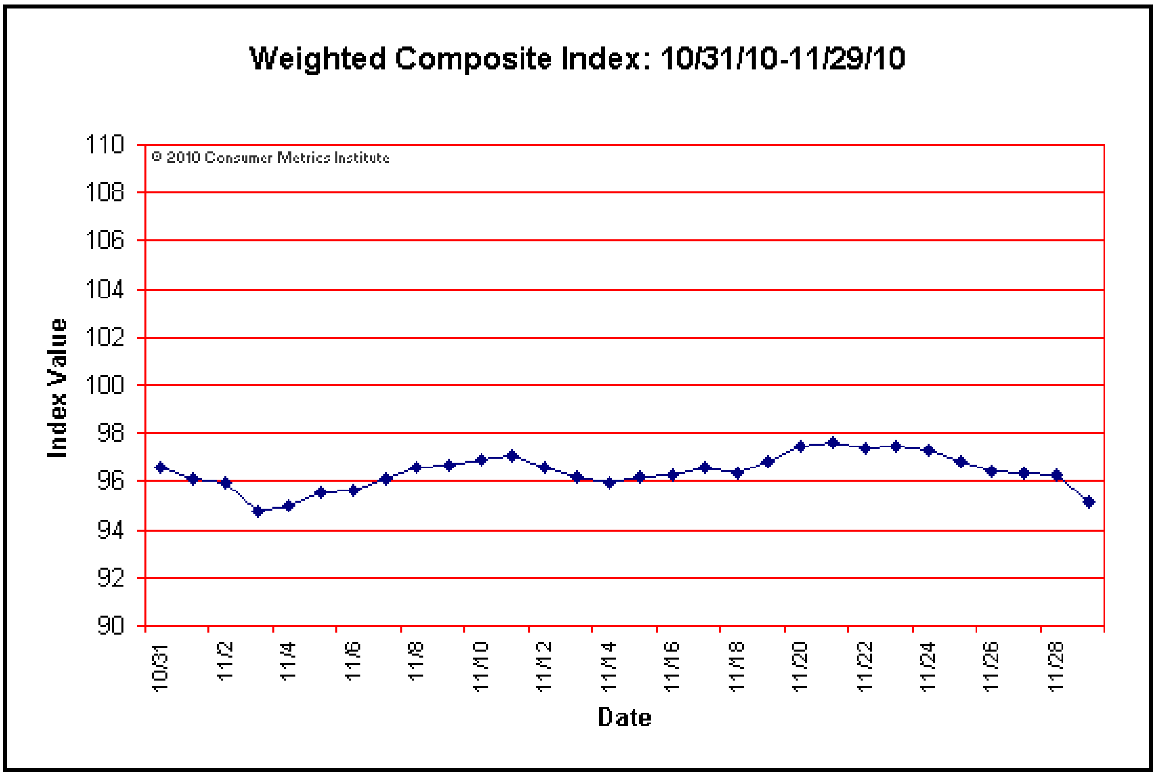
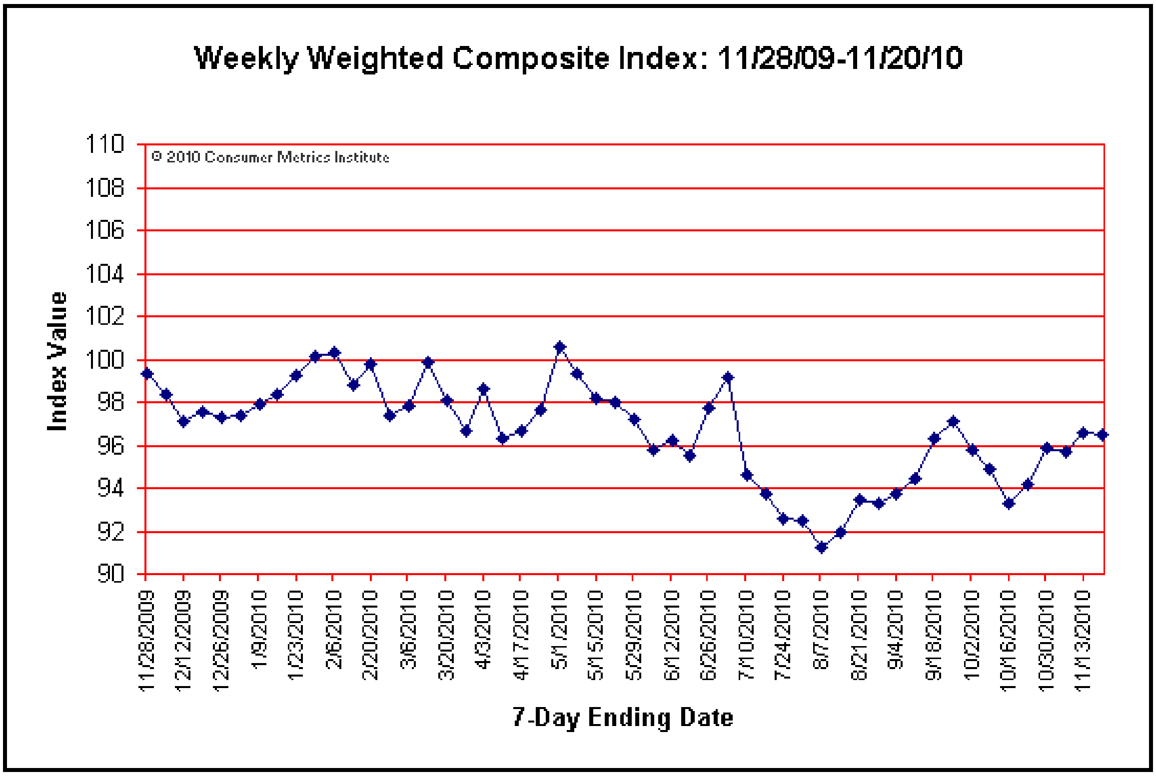
Consumer Metrics Institute Members News

November 22, 2010: Continued Modest Improvements in Our Weighted Composite Index

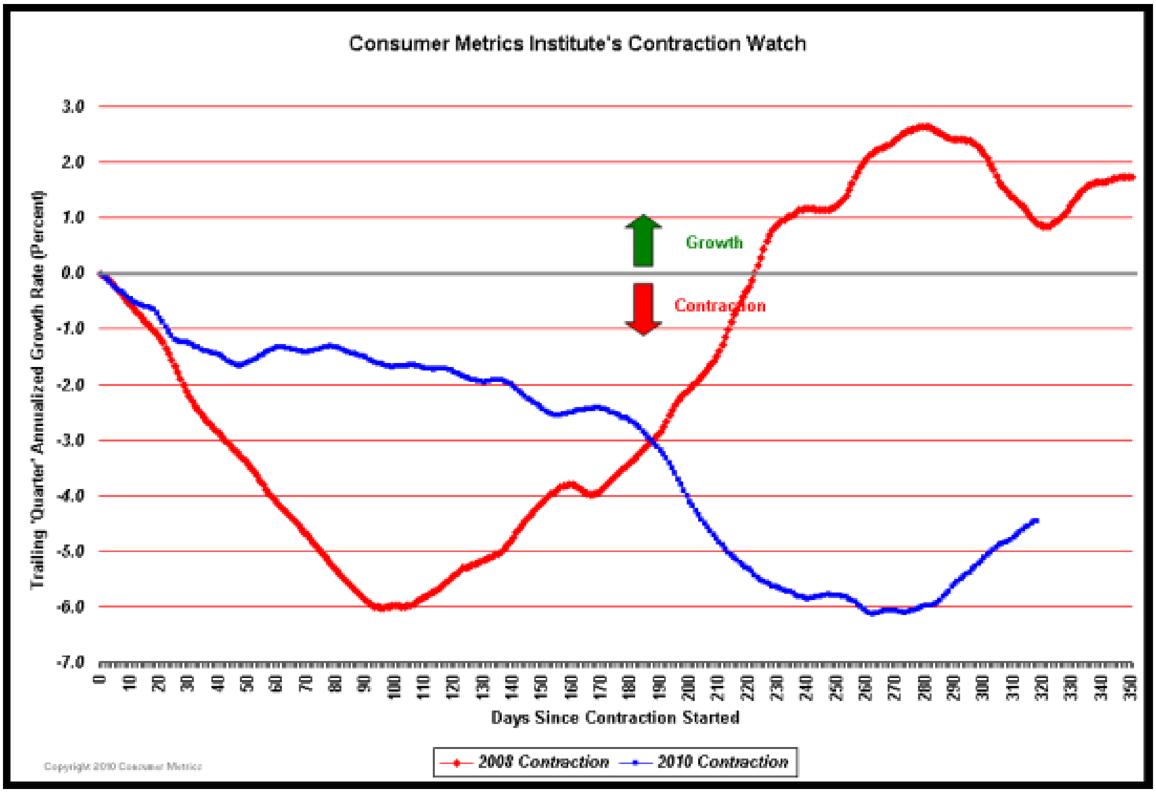
During the past 30 days our Weighted Composite Index has steadily improved -- although still stubbornly remaining below 100 and therefore in a year-over-year contraction mode:



That index has remained continuously below 100 since May 1, 2010, now more than 200 days ago. By way of reference, that is the longest continuous period of daily contraction ever observed in our Weighted Composite Index, surpassing the previous record of 172 days of unrelenting daily contraction recorded from April 23, 2008 through October 11, 2008 -- during the core contraction period of the "Great Recession." A look at our chart of the weekly average values for the Weighted Composite Index shows the pattern clearly (with an early May 2010 average being the only one above 100 since early February):



However, the recent steady improvements in the still-contracting index have made our trailing 91-day Daily Growth Index significantly less negative than roughly a month ago, with readings improving from a -6.1% trailing "quarter" contraction rate in mid-October to levels indicating a -4.8% contraction rate now. This improvement is clearly visible in our Contraction Watch chart,

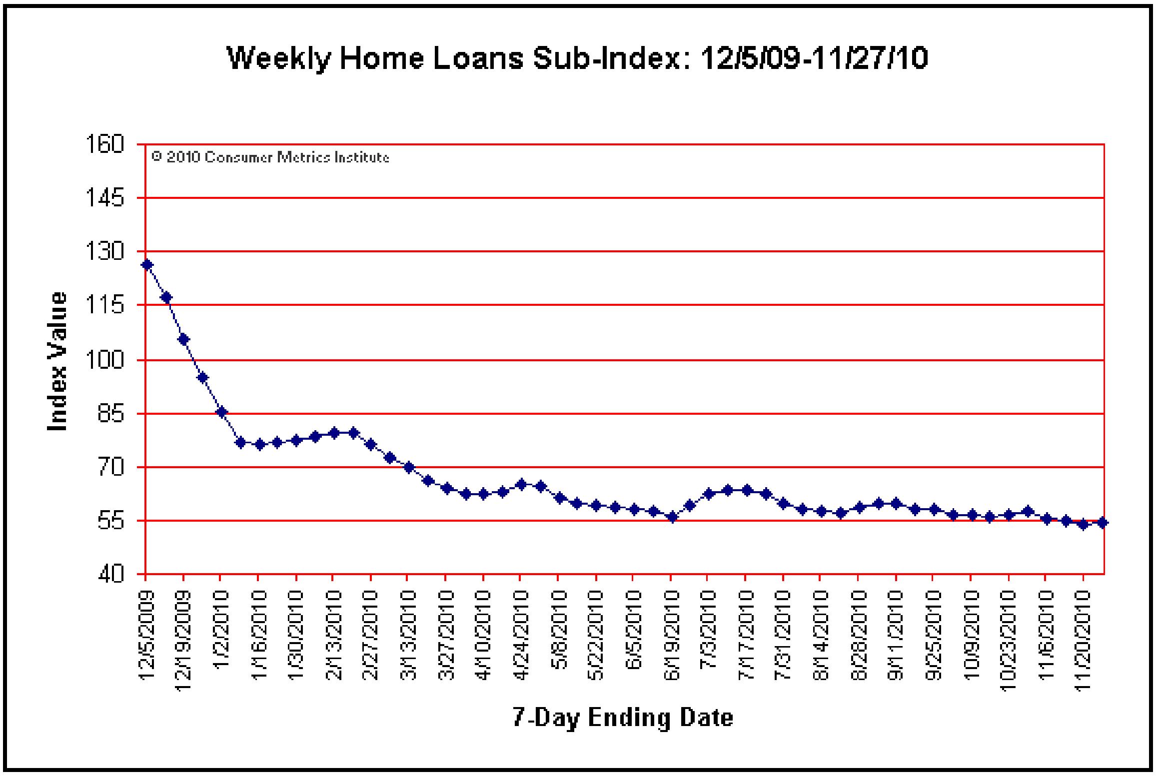


which plots the day-by-day course of the 2008 and 2010 contractions in a superimposed manner, with the plots aligned on the left margin at the first day during each event that our Daily Growth Index went negative.

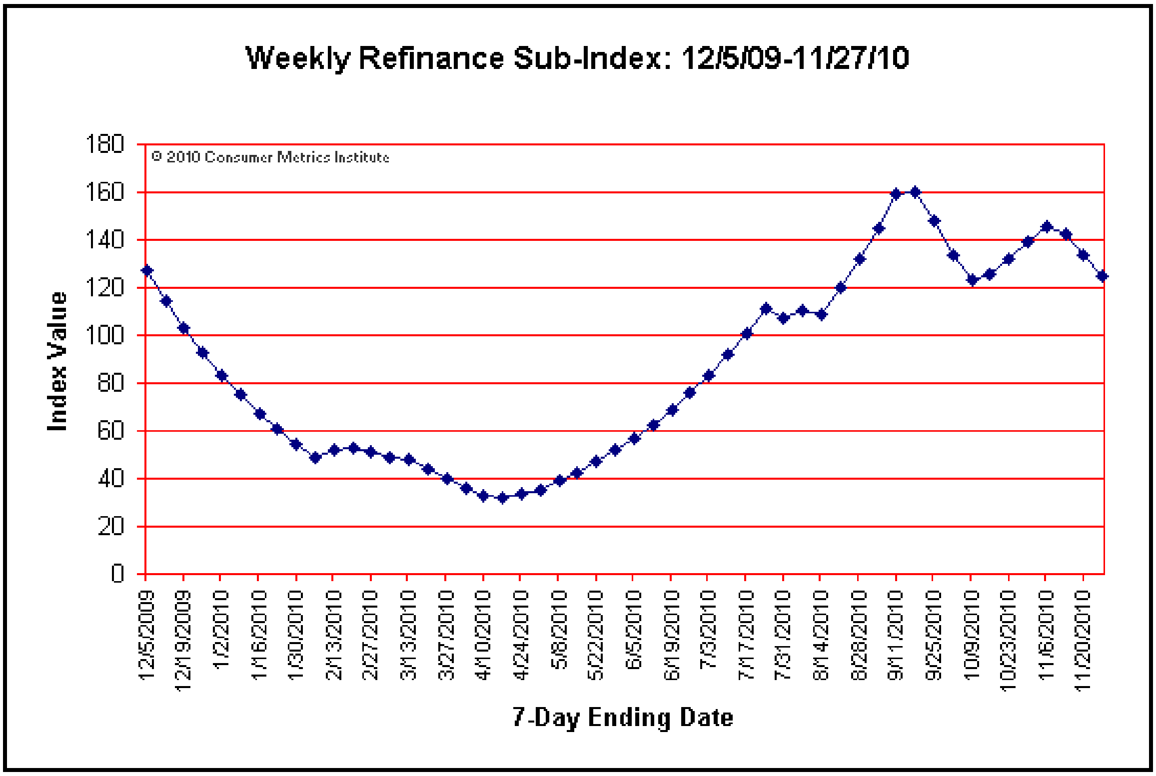
However positive the recent upturn has been, it is still necessary to restate the obvious: although the 91-day trailing average is improving, the current values going into the average are still negative -- meaning that the average itself can't begin to show growth again until we have more than a month of positive readings (i.e., readings above 100) in the Weighted Composite Index.

We have mentioned before our concern that the downward sloping plateau visible in the left hand portion of the blue line in the chart above (extending from about day 70 to day 170 of the 2010 Contraction) might represent some frugal new norm for consumer spending. This concern is based in part on governmental reports of continued high levels in the U.S. personal savings rate (now running at about 5.3%, compared to levels as low as 1.2% in 2005), total consumer credit dropping for 18 of the past 20 months, and per capita disposable income stagnating (actually dropping during the third quarter and rising less than 0.1% in total since 2008). None of these numbers would indicate that consumers have resumed (or are capable of resuming) the spending habits common during the "good old days" of 2007. We are therefore cautiously watching for the possibility that the blue line will level off again in the -2% to -4% contraction zone and meander laterally to the right -- further extending the contraction episode and exacerbating the cumulative damages.

The "weighting" in our Weighted Composite Index captures the impact of individual transactions on the consumer portion of the GDP. For most consumers the single most heavily weighted transaction they can make is the purchase of a new home. In 2005 new construction of residential housing contributed about $775 billion to the GDP. In 2009 that number dropped to roughly $350 billion, a drop of well over 50%. This one area of consumer spending was responsible for removing $425 billion in annual commerce from the economy between 2005 and 2009 -- roughly 3% of the GDP. So, how are things going now?



In contrast, refinancing activities continue to show substantial year-over-year growth:



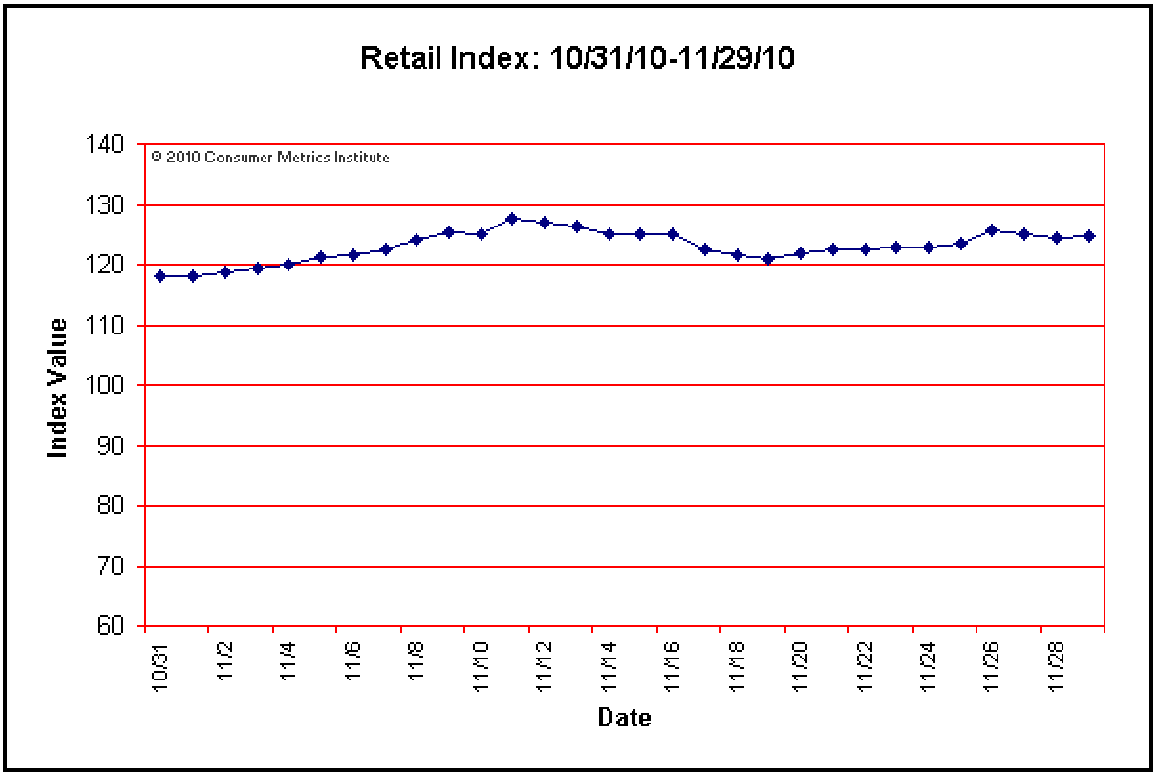
There are several key points to remember about this refinancing activity:

-- It does not replace the $425 billion lost annually in residential construction commerce between 2005 and today.

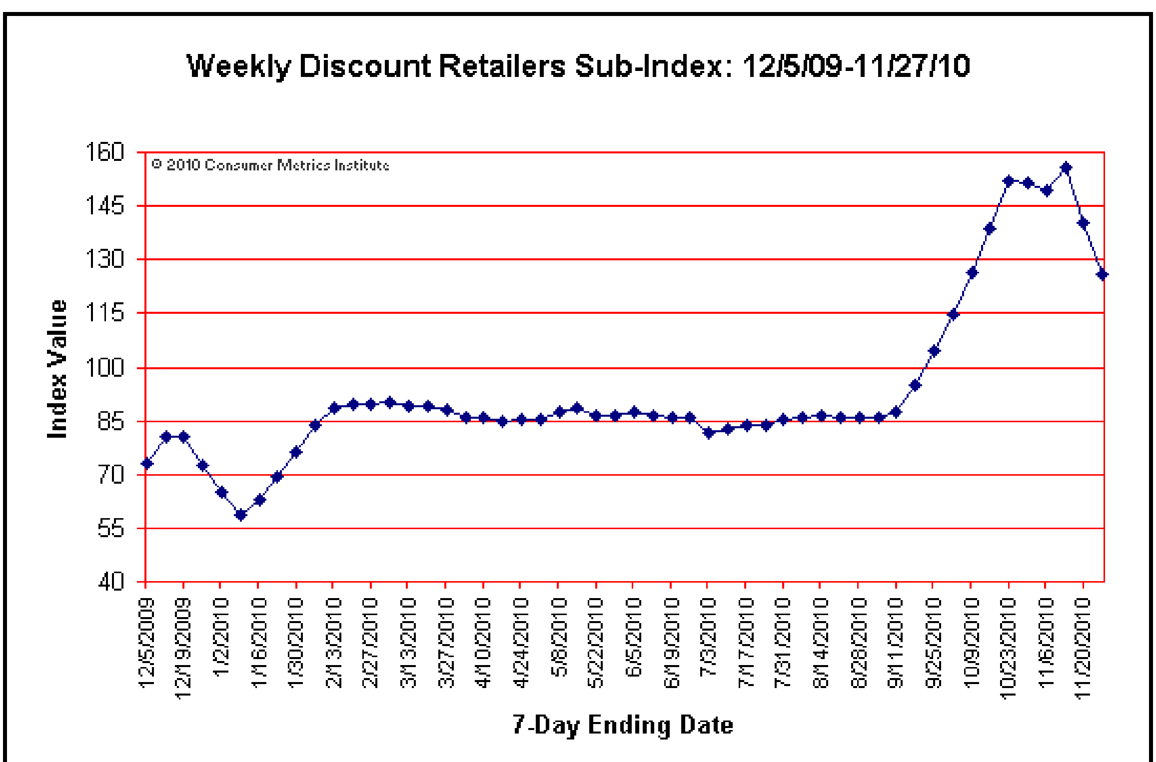
-- It is not currently creating disposable wealth in the way that it was in 2007, when consumers were cashing out home equity gains at a record rate.

-- Our Housing Index is driven up by this activity because it is weighted by transaction volumes among all transactions types, and not by the impact of the individual transactions (or types of transactions) on the real commerce of the GDP (and our Weighted Composite Index). For that reason the Housing Index looks far better than the true housing commerce levels (as reflected in the second chart above) actually are.

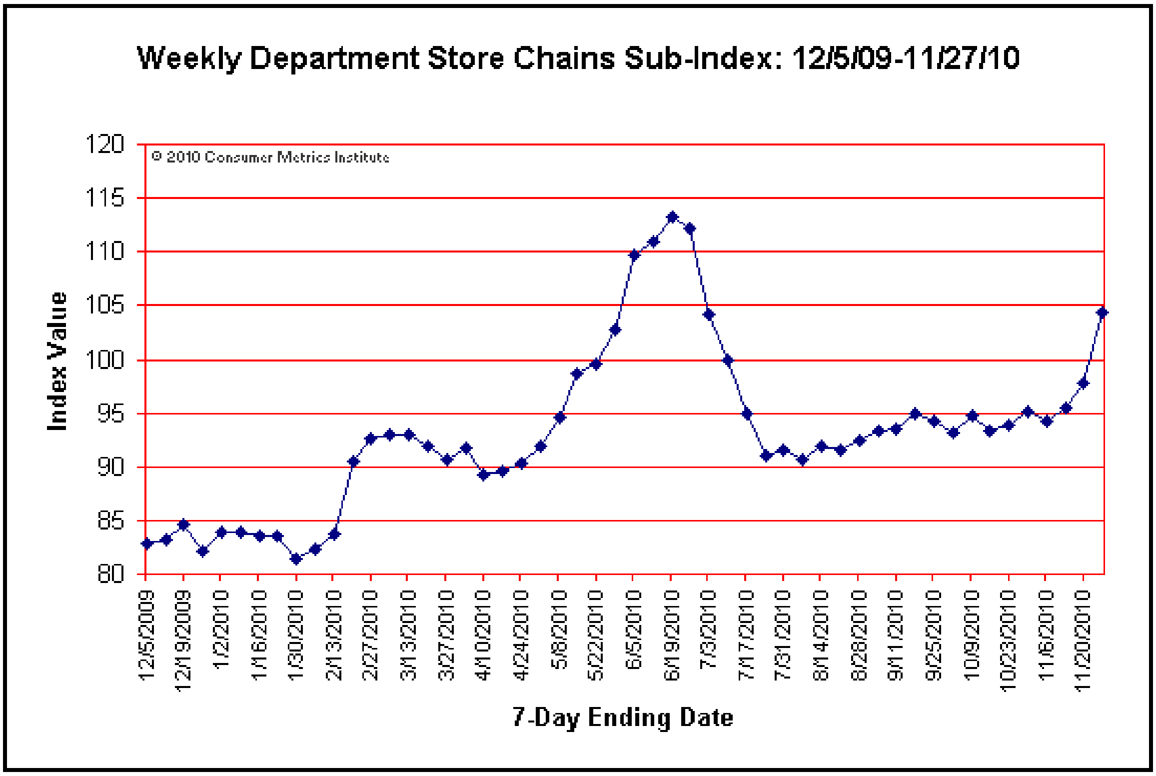
The transaction volume weighting of any of our sector (and sub-sector) indexes should also be kept in mind when viewing the recent high levels in our Retail Index:



Again, it is important to understand the relative quality of the transactions and the merchants most benefiting from the traffic. The latter point is easily ascertained by looking at some of our sub-sectors, and in particular the Discount Retailers Sub-Index:



Contrast the recent spurt in that sub-index with the same time period for Department Store Chains:



Transaction volumes may be up, but they are going disproportionately to discount retailers (primarily Walmart, Sams Club, Kmart and Costco). This may well be a sign that this year consumers are trying to stretch their holiday budgets as far as possible -- generating higher transaction volumes that don't necessarily translate into core economic growth.