Consumer Metrics Institute Members News

December 7, 2010: Retail Updates, The Full Economy & GDP Revisited

Last week we provided daily charts showing year-over-year comparisons of several retail sectors during the "Black Friday" and "Cyber Monday" shopping periods. Since then most of the previously observed trends have been maintained.

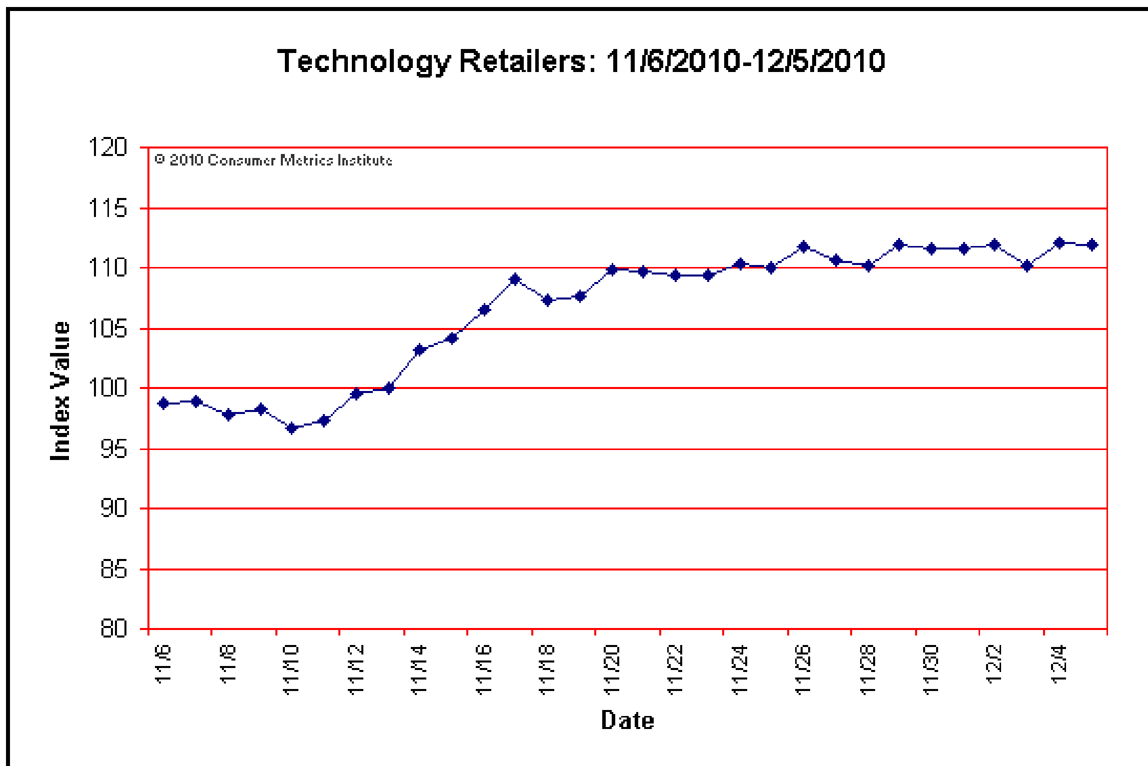
As we mentioned last week, the on-line portals of the Discount Retailers had unprecedented year-over-year gains early in November as a result of heavy (and historically early) on-line promotions, but those year-over-year gains had largely evaporated by "Black Friday." Since then, however, the year-over-year comparisons have improved slightly:

By December 5, those year-over-year numbers were hovering in the +5% range. During the same 30-day period the on-line "stores" of the major Department Store Chains went from 6% contraction to a nearly 14% year-over-year gain by Thanksgiving Day -- a reminder that the on-line world apparently does not pause for dinner:

Although the on-line consumer demand at the major Department Store Chains subsequently leveled off, it still indicated that the generally expected 10% gain in the on-line shopping has been coming true -- even though much of those gains may have been at the expense of the same-branded "brick-and-mortar" stores.

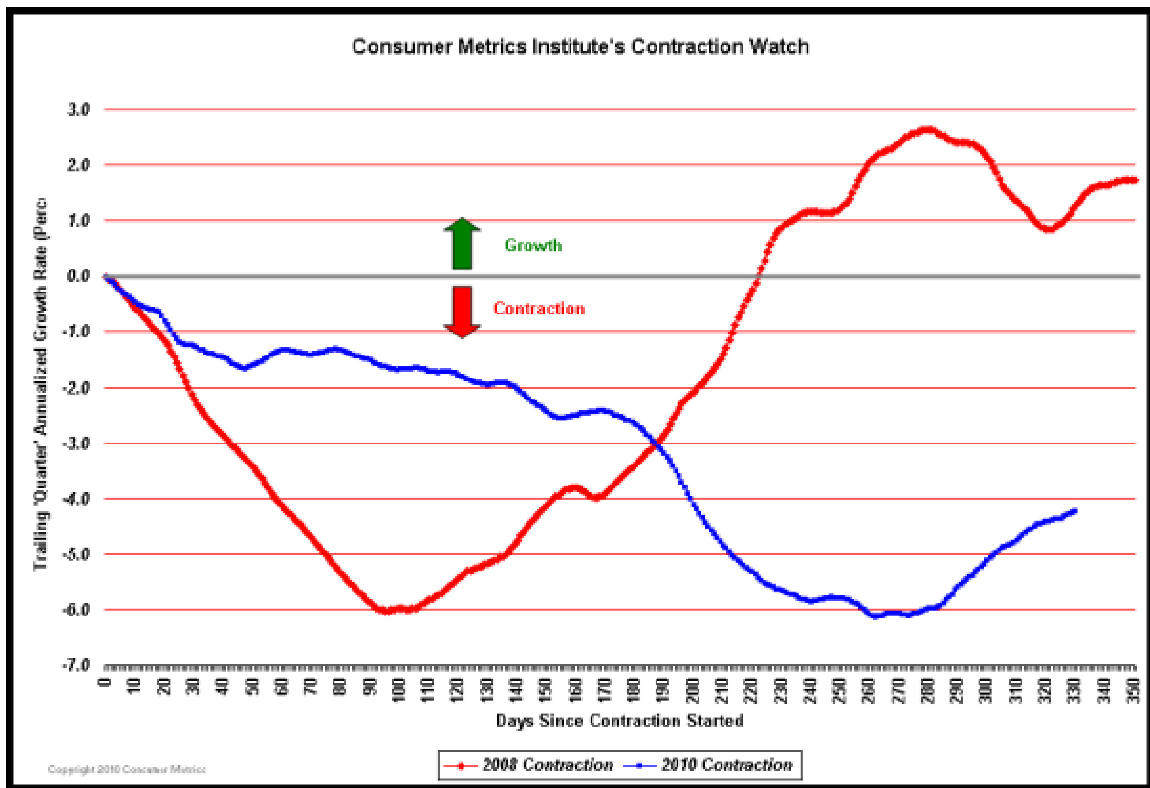
The on-line Luxury Retailers were late to the party, with their traffic peaking on "Cyber Monday" and moderating slightly since:

Again, the on-line Luxury portals are still indicating year-over-year gains of about 7%. Finally, the on-line Technology Stores are showing continued strength as we move away from the initial wave of holiday shopping:



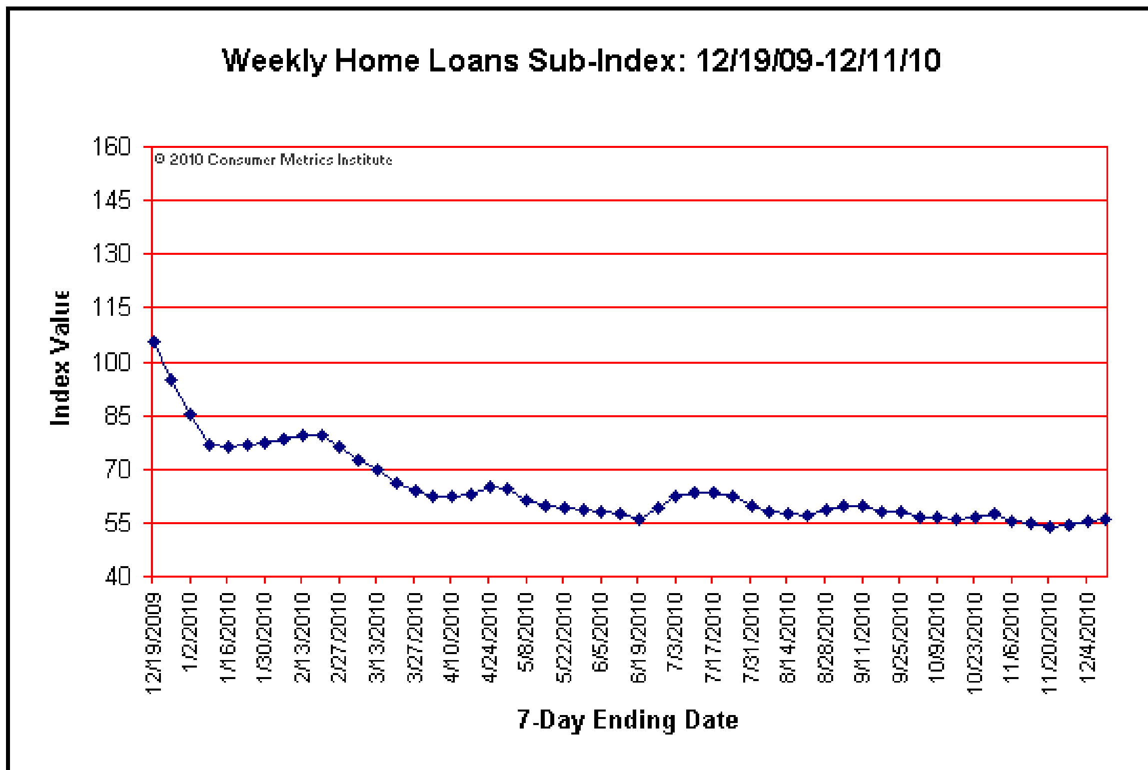
The good news here is that "Black Friday" and "Cyber Monday" don't really stand out in the above chart, and the ongoing strength of the consumer demand at these stores indicates that there will be significantly more technology goodies under the tree this year compared to either of the last two years.

It is important to remember that all of the above charts measure transaction volumes, and they are not weighted by the impact of those transactions on the economy. But our Weighted Composite Index is weighted precisely that way, and its 91-day trailing "quarter" moving average (our "Daily Growth Index") continues to show year-over-year weakness:



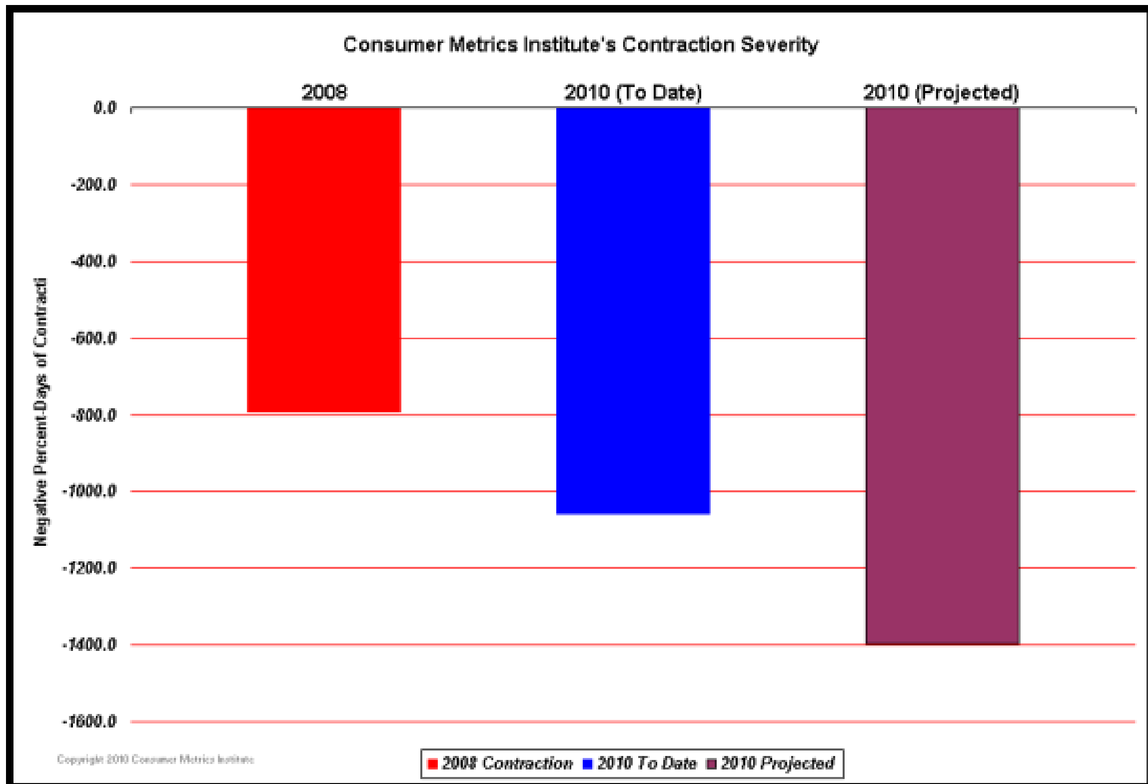
In the above chart, the day-by-day course of the 2008 and 2010 contractions are plotted in a superimposed manner, with the plots aligned on the left margin at the first day during each event that our Daily Growth Index went negative. The plots then progress day-by-day to the right, tracing out the changes in the daily rate of contraction in consumer demand for two events.

It is reasonable to ask why the economically weighted index is so much weaker than the holiday transaction volumes might suggest. The easiest answer is provided by a chart showing consumer demand for loans to purchase new residential housing:



Transaction volumes at on-line retailers may be up, but the macro view shows that consumers are still deleveraging (or at least not buying a whole lot of new housing). Holiday gift buying by the entire population has less impact on the economy than the purchase of new homes by just those few people forming new households. A holiday retailing boost is nice, but it will take a major turn-around in jobs and the demand for real estate to power any sustainable recovery.

We have mentioned before that the true severity of any contraction event is the area between the "zero" axis in the "Contraction Watch" chart above 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:

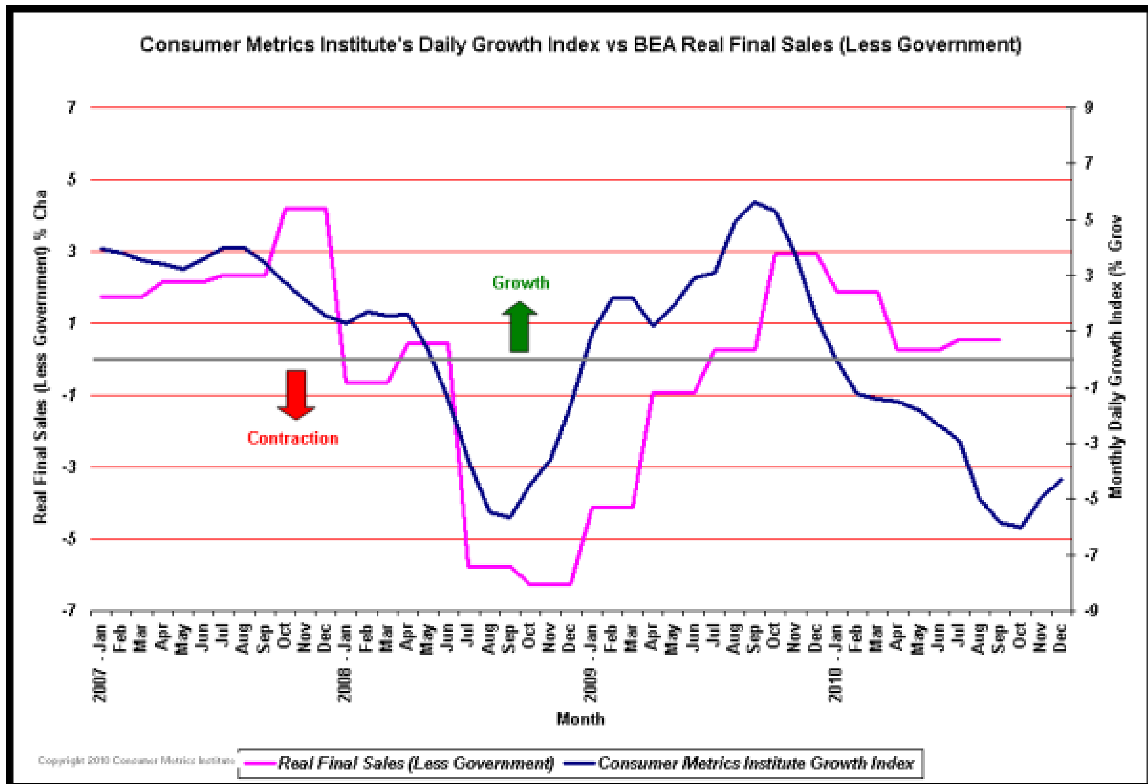


In the above chart the red vertical bar represents the -793 percentage-days of contraction in consumer demand that we measured in 2008. The blue vertical bar represents the same measure (to date) for the 2010 event. But since the 2010 event is not yet over, we have projected the eventual full extent of the 2010 event with the purple vertical bar. That projection is an average of several recovery scenarios, all of which conservatively assume that we are now in the process of tracing back up to the zero line in a pattern similar to that experienced in 2008.

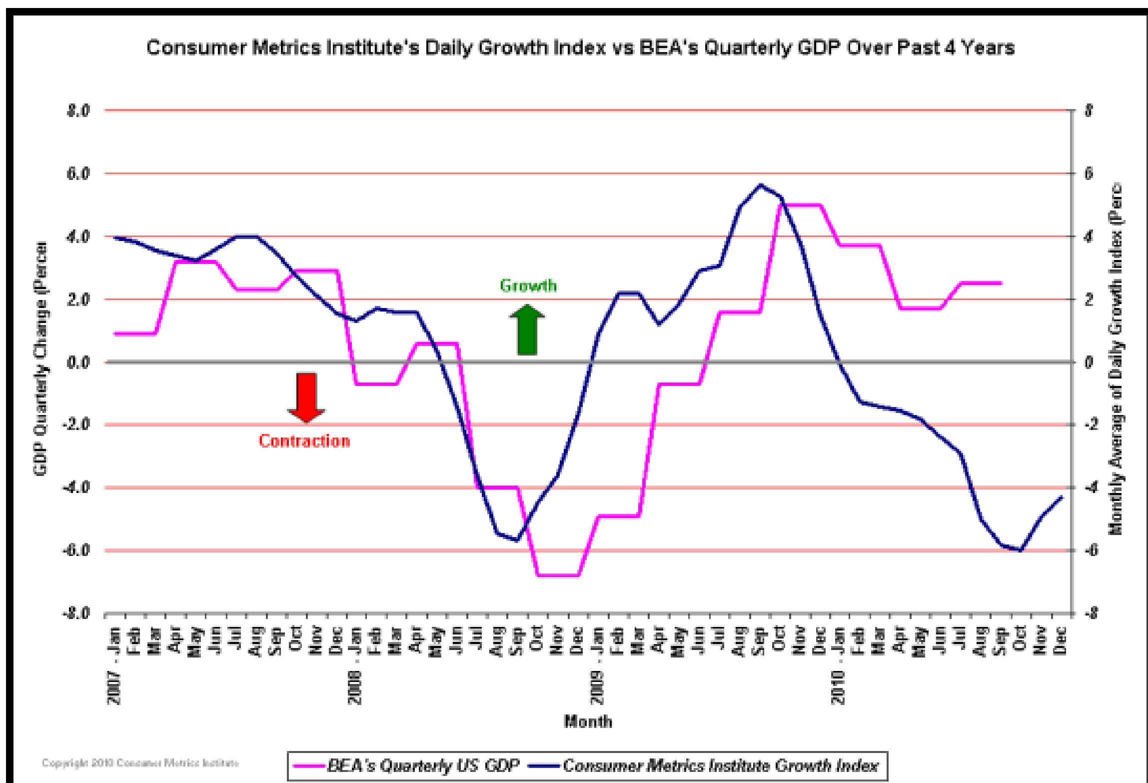
All of this is just another way of saying that however nice the holiday retail numbers may be, the economy is still about employment, credit contraction and real estate.

We have recently been commenting at length about how the GDP reports have ceased to mirror consumer demand in the way we had grown accustomed. The 70% of the GDP generated by consumers has not been nearly as volatile as the GDP as a whole, while the governmental and inventory portions had become increasingly important change factors. We have even gone to the extent of trying to reconcile the published GDP numbers to the consumer demand that we measure by backing out some of those factors.

With a nudge from several of our members, we went back to the BEA's data series and compared our Daily Growth Index with the GDP less inventory building (which the BEA refers to as "Real Final Sales"), and then less governmental expenditures:



It is interesting to compare that chart with the full GDP chart that we have previously shown many times:



The key difference is that over the past 5 quarters the scale of the "recovery" in the "Real Final Sales (Less Government)" chart is much more modest than it is in the full GDP chart. That is also the time frame for the bulk of the governmental stimuli, and perhaps also the time frame for the emergence of the consumer's "new frugality" and propensity to deleverage.

Both of the above charts can now be found on the History page of our website, where they provide a longer term perspective on our Daily Growth Index and at least two views of the BEA's data.

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