Consumer Metrics Institute Members News

December 14, 2010: Feeding the Holiday Sales Frenzy While Maintaining Perspective

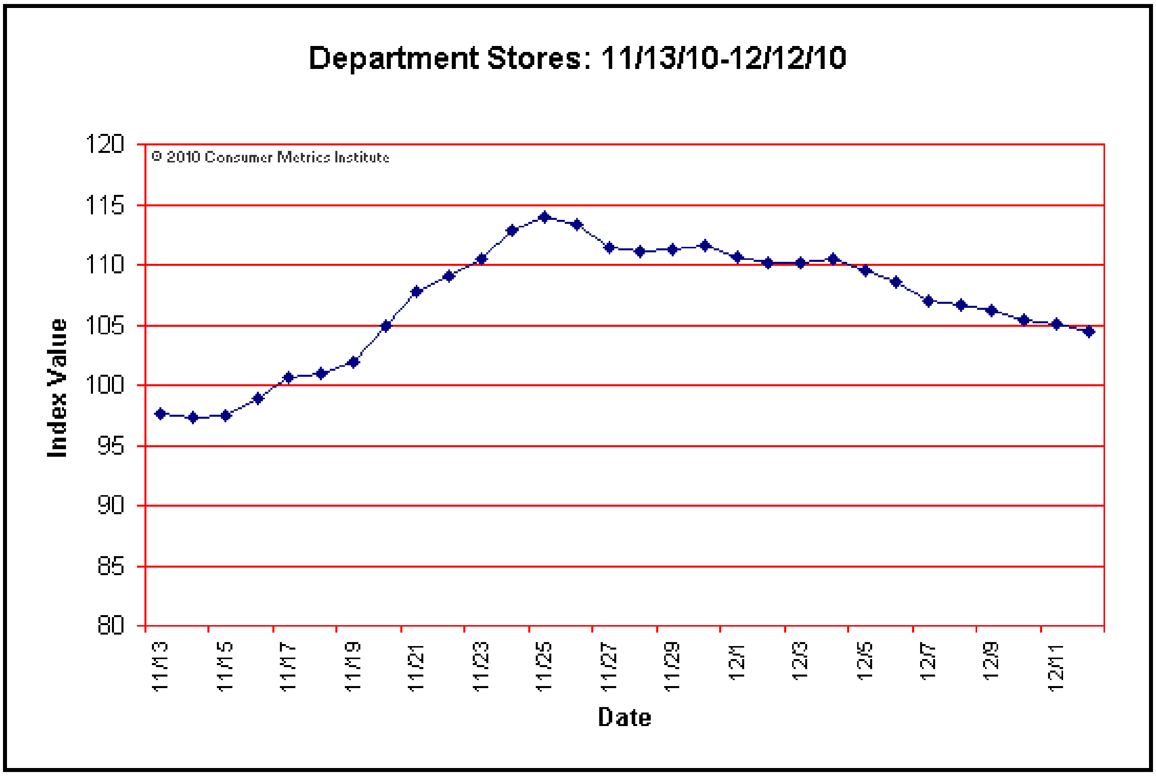
This year's holiday shopping season has become a major media event, reminiscent of the feeding frenzy surrounding the daily polling updates that precede national elections. Each media cycle needs a new set of headlines, and there seems to be no lack of opinions about the progress of holiday sales.

In an effort to provide some time-sensitive perspective on these numbers, we have updated the charts from our last two newsletters through Sunday, December 12, 2010. Again it is important to note that these charts show year-over-year changes in transaction volumes at the on-line portals for major retailers, and they are not weighted according to the dollar impact of those transactions on the economy (see our Weighted Composite Index below for the economic impact of the transactions).

In a nutshell: nearly all of the on-line portals are currently showing transaction volume increases over last year. The amount of the increases vary by type of retailer, as does the day-to-day shape of activity lines traced out on the charts -- with the timing of the cyclical peaks differing considerably. In all of the charts below a value of 100 indicates no change year-over-year, with deviations from 100 representing the percentage change from the prior year.

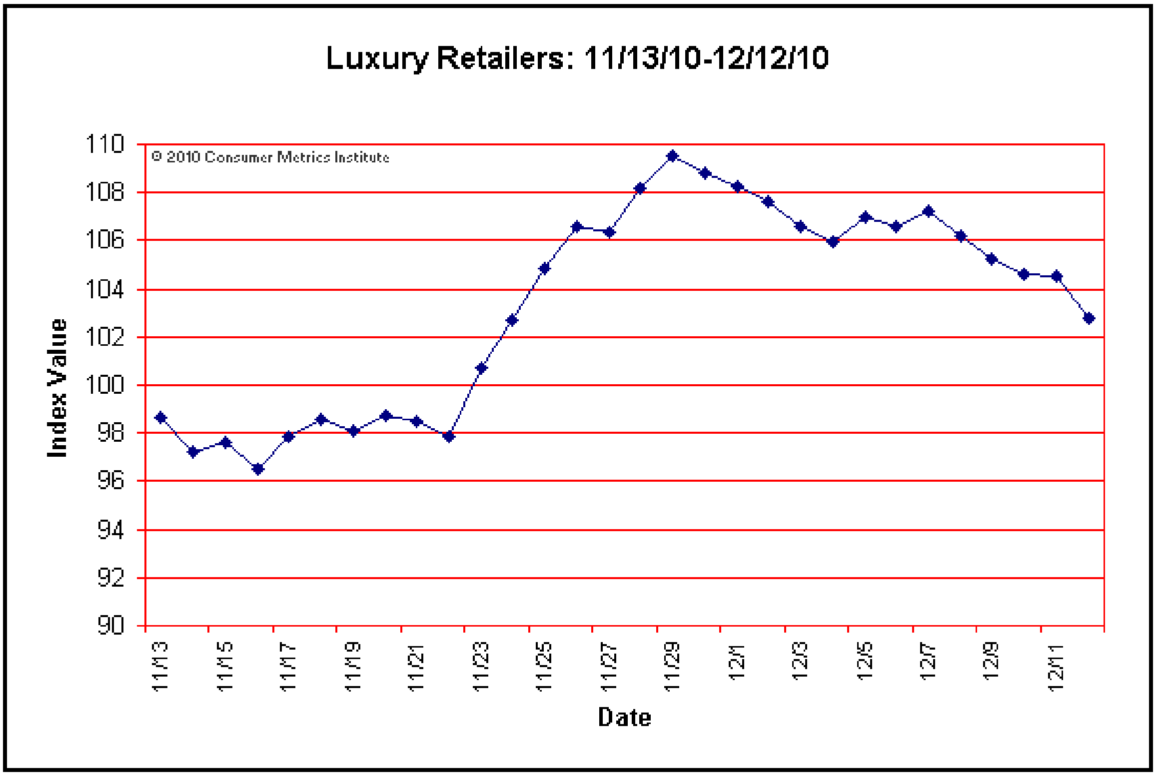
The timing issue is demonstrated most dramatically by the discount retailers, who moved their season forward by several weeks through heavy promotions in early November:

The traffic generated by the early promotions had fully evaporated by the start of the traditional holiday shopping season, although it has started to rebound somewhat since. This rebound has been occurring at the same time as traffic volumes for the major department store chains has been sliding:



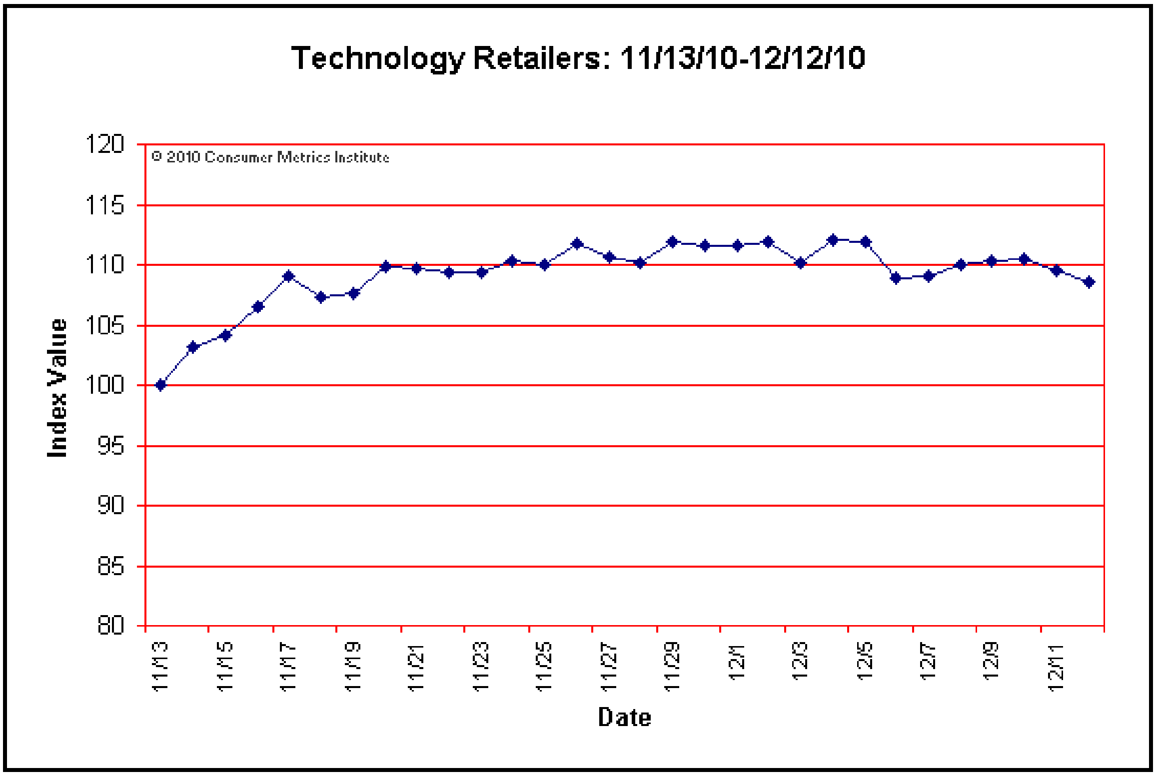
The traffic at the major department store on-line portals peaked on Thanksgiving day, as on-line consumers jumped on promotions that were tied to the "Black Friday" sales at their brick-and-mortar outlets. In fact, over the years we have noticed that at these web portals the "Black Friday" surge starts on the Wednesday before Thanksgiving and is waning by Saturday.

In contrast to that timing, traffic volumes at the on-line luxury retailers peaked on "Cyber Monday":

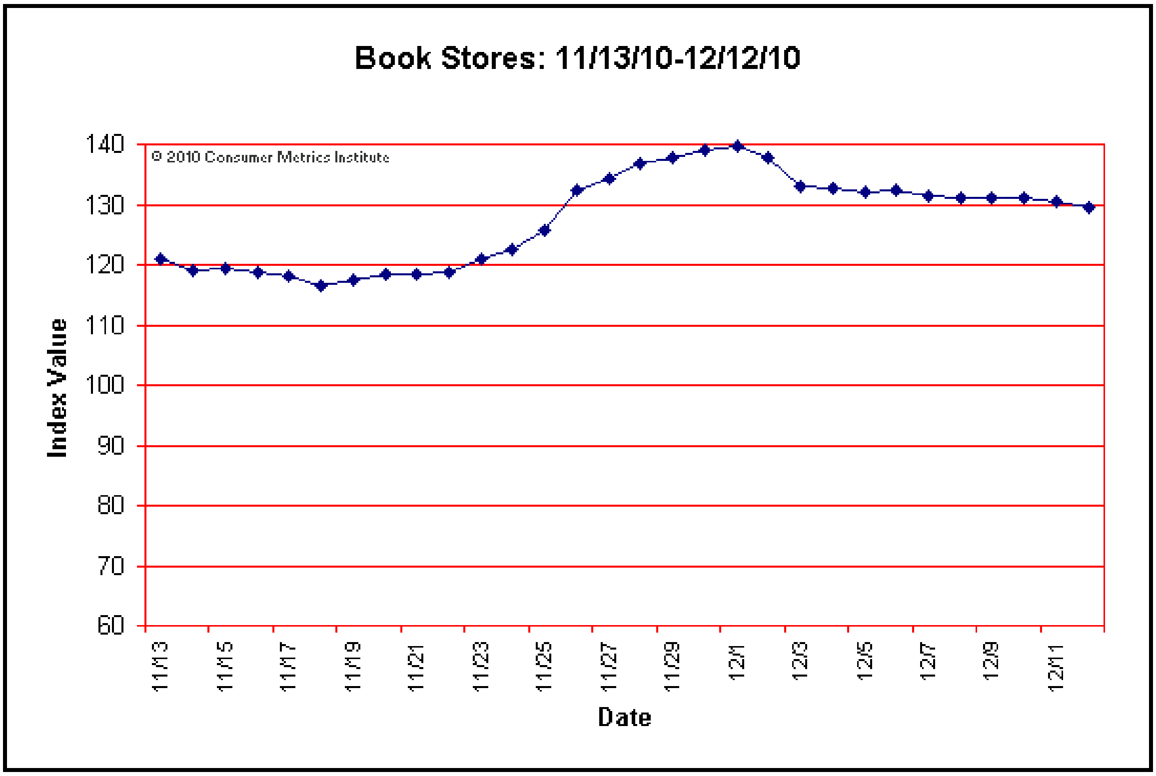


Those traffic volumes have been dropping steadily since, with the recent drops somewhat precipitous. When looking at these charts one has to remember that because of the time required for shipping the effective cut-off for on-line purchases is rapidly approaching, and the drop in traffic may simply be reflecting the closing window for pre-holiday deliveries.

That being said, the fall-off in traffic at the major technology retailers has been much more modest:

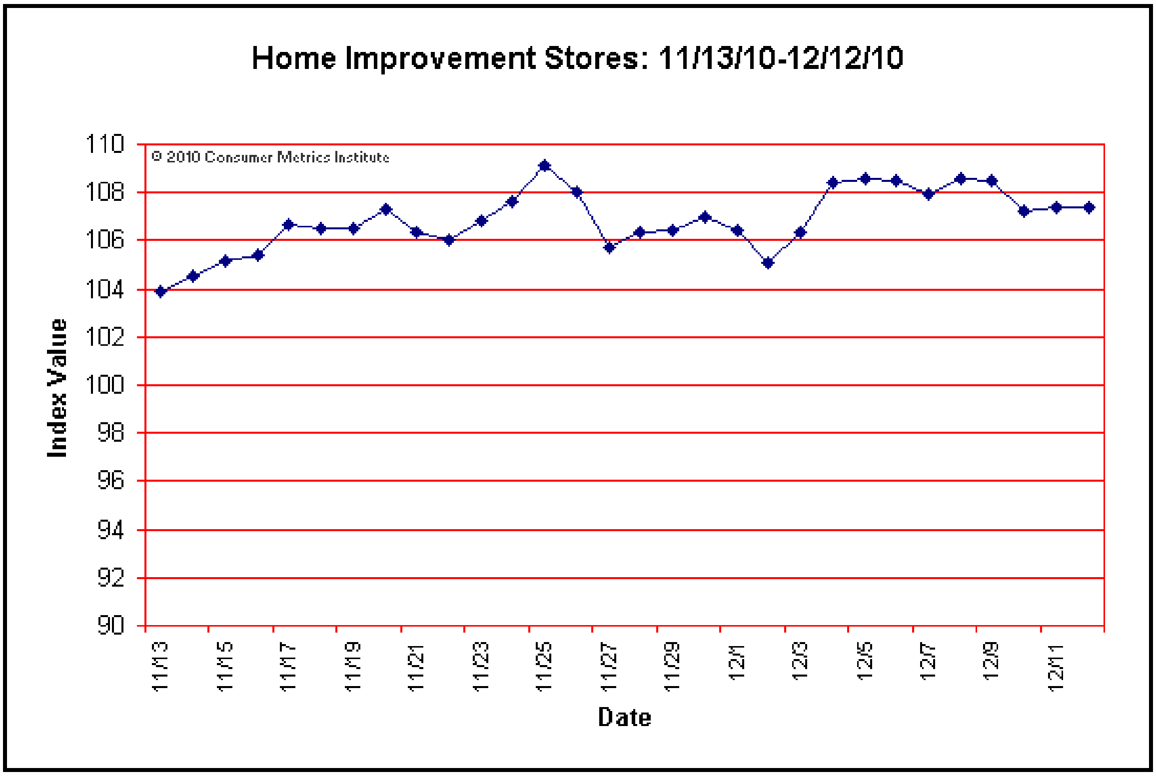


Compared to the other charts above, the on-line technology stores have been remarkably steady -- recording consistent 10% year-over-year levels of activity. The impact of technology products also shows up in the major book store chains chart, which has an "800 pound gorilla" that moves technology as much as books:



The ringer in the above group of merchants, of course, is Amazon, and the traffic increases relative to last year are to a large extent a consequence of Amazon's market share gains in non-traditional book store merchandise -- including Kindle hardware and media, and their technology oriented partner merchants.

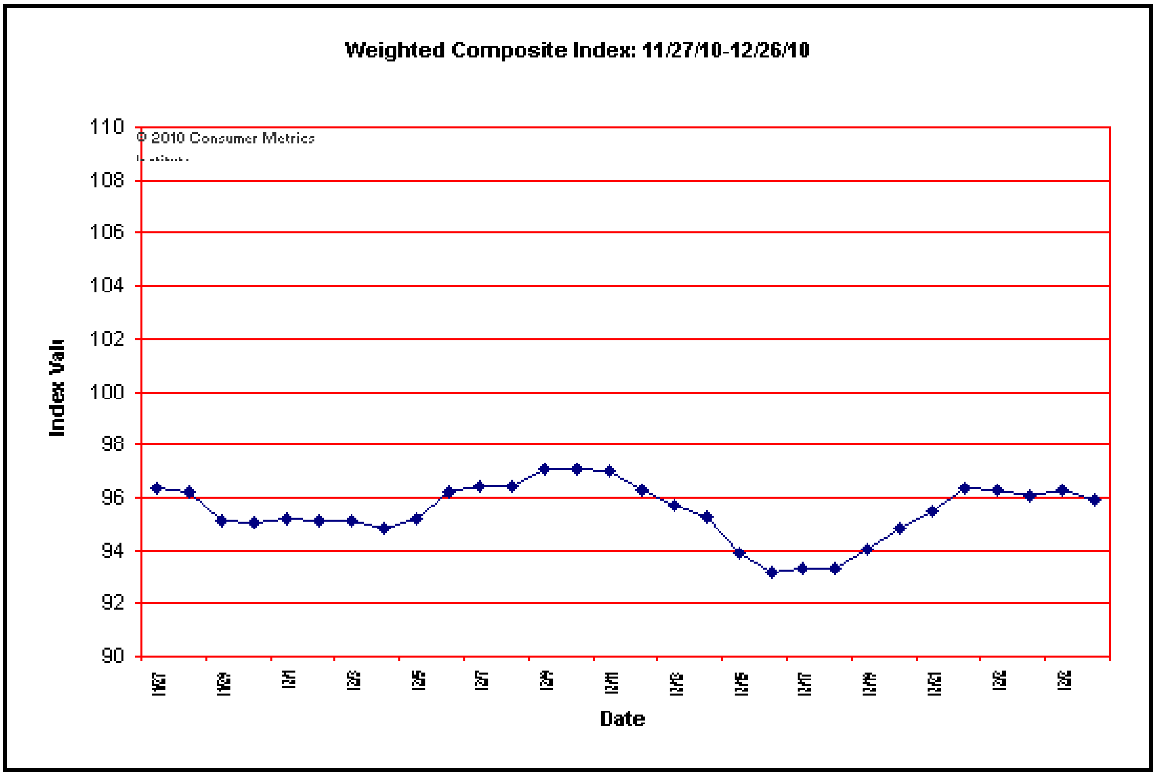
As a reference point in the holiday sales madness, it is useful to look at a class of merchants that one normally associates with other seasonal shopping:



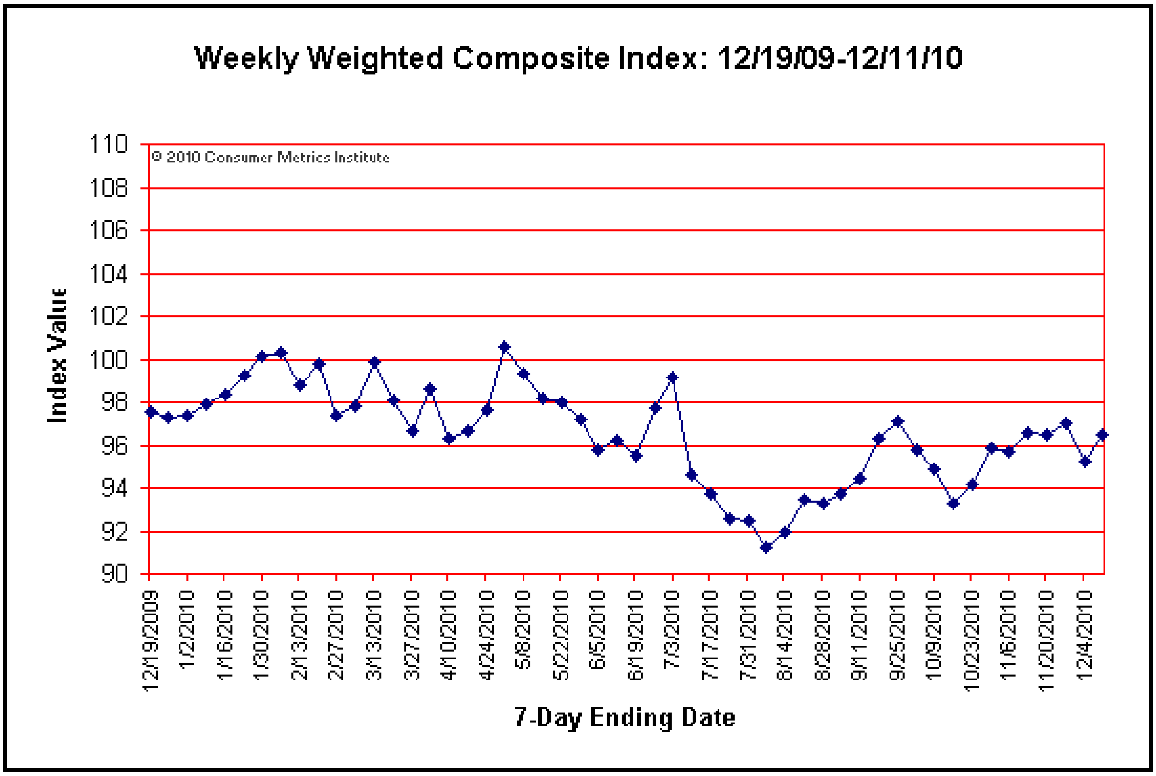
Clearly the home improvement stores benefit during the holiday shopping season from purchases of decorations and gift tools, and those types of purchases are up year-over-year at a comfortable 6%-8% rate.

Meanwhile, our Weighted Composite Index provides an economic context for the transaction volumes shown above. Although retail transaction volumes are up, the quality of the average transaction is not sufficient alone to cause growth in the overall consumer economy. The primary reason is simple: there is still a huge hole in the consumer economy left by the collapse of the residential housing market.

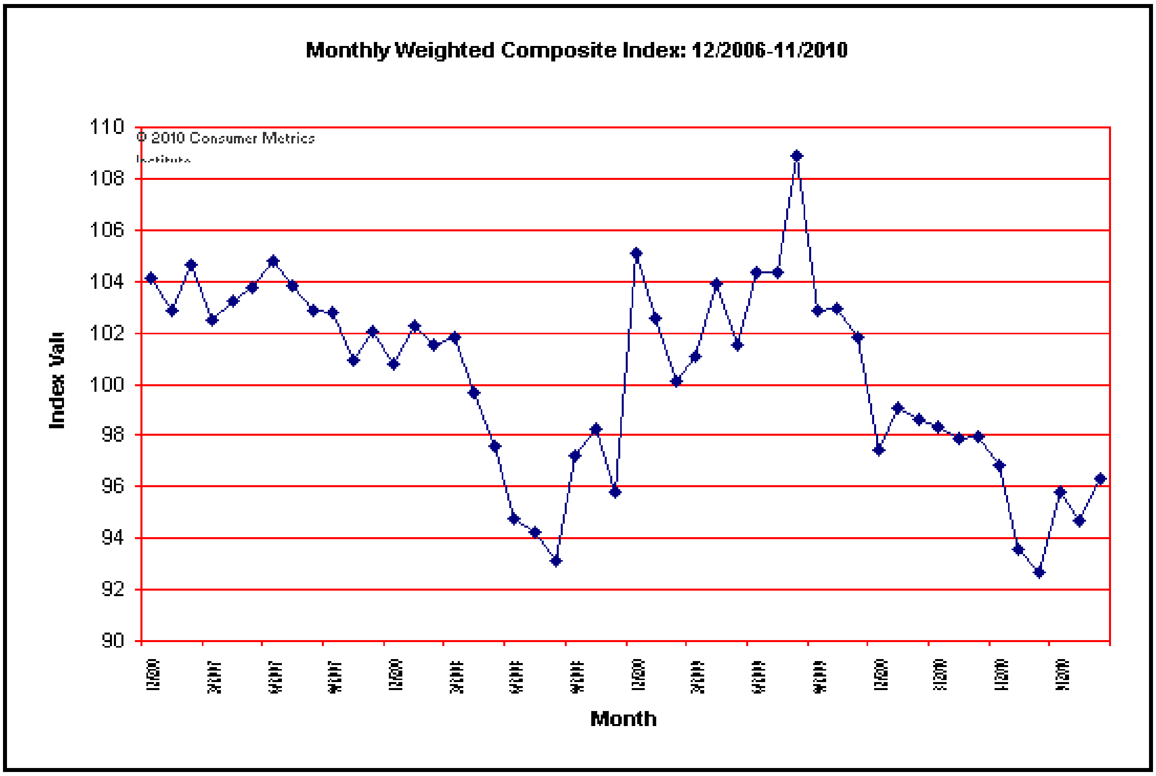
Taking a look at the economically weighted numbers in progressively wider views, we start with the last 30 days for our Weighted Composite Index:



The levels being recorded on a daily basis are nothing to write home about, and even though the 91-day trailing "quarter" average has been improving the raw numbers going into the average are still negative to the tune of 3%-4%. Perhaps not coincidentally, this is about the level of the plateau we had previously observed in our "Contraction Watch" chart. Stepping back a little, to get a full year's perspective we present the same index as 52 separate weekly averages:



This chart clearly shows the early August bottom in year-over-year activity -- which is actually an inverted reflection of the artificially stimulated "Cash for Clunkers" and housing credit "green shoots" of last year. Since then the chart best resembles bottom bouncing. Taking an even longer view at the data, a 4-year look at the data using monthly averages produces this:



This chart shows the impact of the 2009 stimuli better than most of our graphs. From our perspective, however, it also tells us a lot about when consumers sensed that something wasn't quite right about the recovery -- that things were not simply going to quickly bounce back to the way they were in 2006-2007.

On a closing note, over the past weekend we were again reminded of how misleading the published GDP calculations can be. It was widely reported that the rise in gasoline prices was not fully offsetting a drop in the quantity of gasoline being purchased by U.S. consumers. The consequence of the drop in gasoline consumption will be a lower total dollar value in net imports and an improvement in the U.S. foreign trade deficit during the fourth quarter. In the GDP equations a drop in imports leads to a higher reported GDP -- even if the drop is a direct result of less commerce. The irony is that consumers reducing their expenditures because of economic stress can actually increase the GDP.
