Consumer Metrics Institute Members News

January 30, 2011: More Thoughts on the BEA's "Advance Estimate" for 4Q-2010

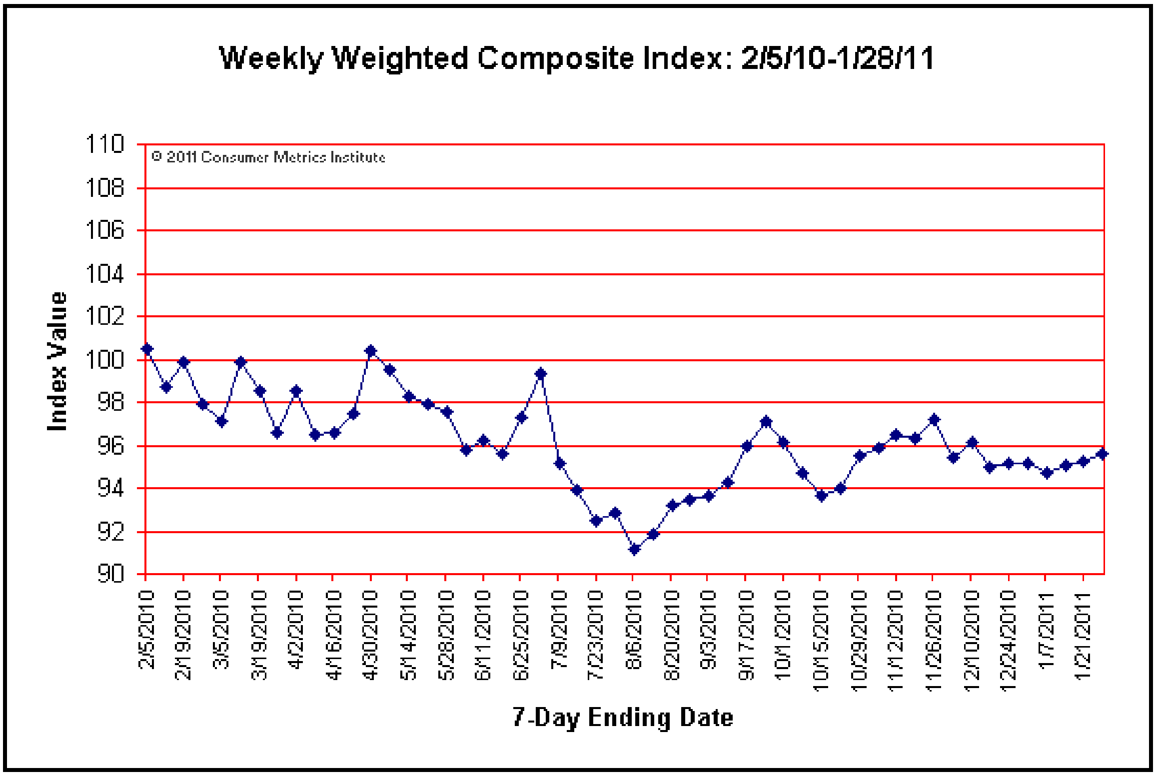
If you have not yet had an opportunity to review the BEA's "Advance Estimate" for 4Q-2010 GDP, we encourage you to at least read our commentary on the report. The report was in several regards remarkable, not the least of which because it could be described as (borrowing Mr. Bernanke's words last summer for the economy) "unusually uncertain." The reported headline number was an annualized growth rate of 3.17%, up about .62% from the third quarter. That number in itself was not surprising -- if anything it was slightly lower than consensus expectations. What's remarkable is how the 3.17% was derived, and how a number of wildly swinging components just happened to magically off-set each other in such a way as to prevent the report from becoming literally unbelievable.

Two components of the GDP had quarter-to-quarter swings in their values that added or subtracted over 5% from the 3.17% headline number. The culprits were imports and inventories. If, for example, the rate of inventory building at factories had just remained constant from the third quarter to the fourth quarter, the headline GDP would have reported that the economy was growing at an annualized rate of nearly 8.5%, probably driving the DOW right through 14,000 on its way to the moon. If, on the other hand, the levels of imported goods and services had simply remained constant from the third quarter to the fourth quarter, the headline GDP would have shown the economy to be contracting with a -1.8% "growth" rate, probably pushing the DOW back down through 10,000.

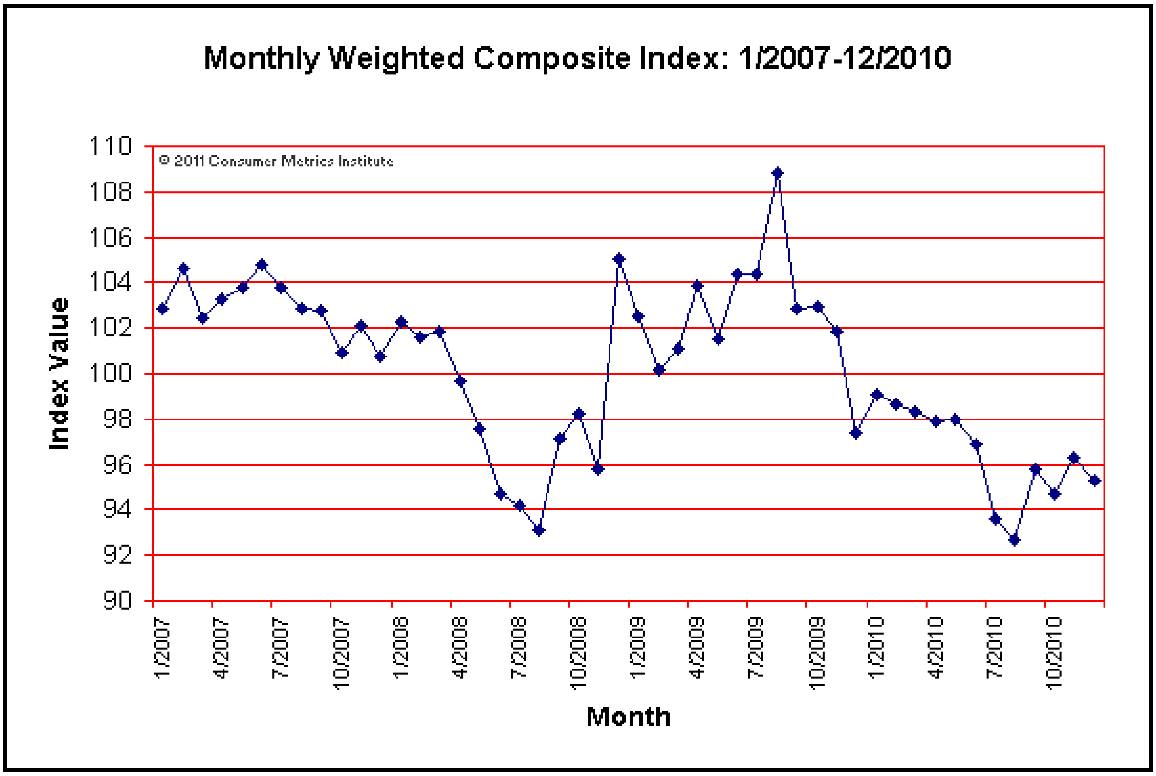
But instead (by the whim of the Fates) we have 3.17% (+/- 5%), computed to a large extent with two months of real data and one month of guesstimates -- aided and abetted by an overall assumption of a minuscule 0.3% annualized inflation adjustment (even as they oddly report from the other side of their mouth that imported goods were inflating at a 21.8% annualized rate).

It would be charitable to simply call the "Advance Estimate" noisy -- perhaps even too noisy for the extraction of any meaningful data. On the other hand it could actually be scary to take the reported swings at face-value; surely neither factories cutting inventories that sharply nor the skyrocketing cost of oil portend well for employment and the real U.S. standard of living.

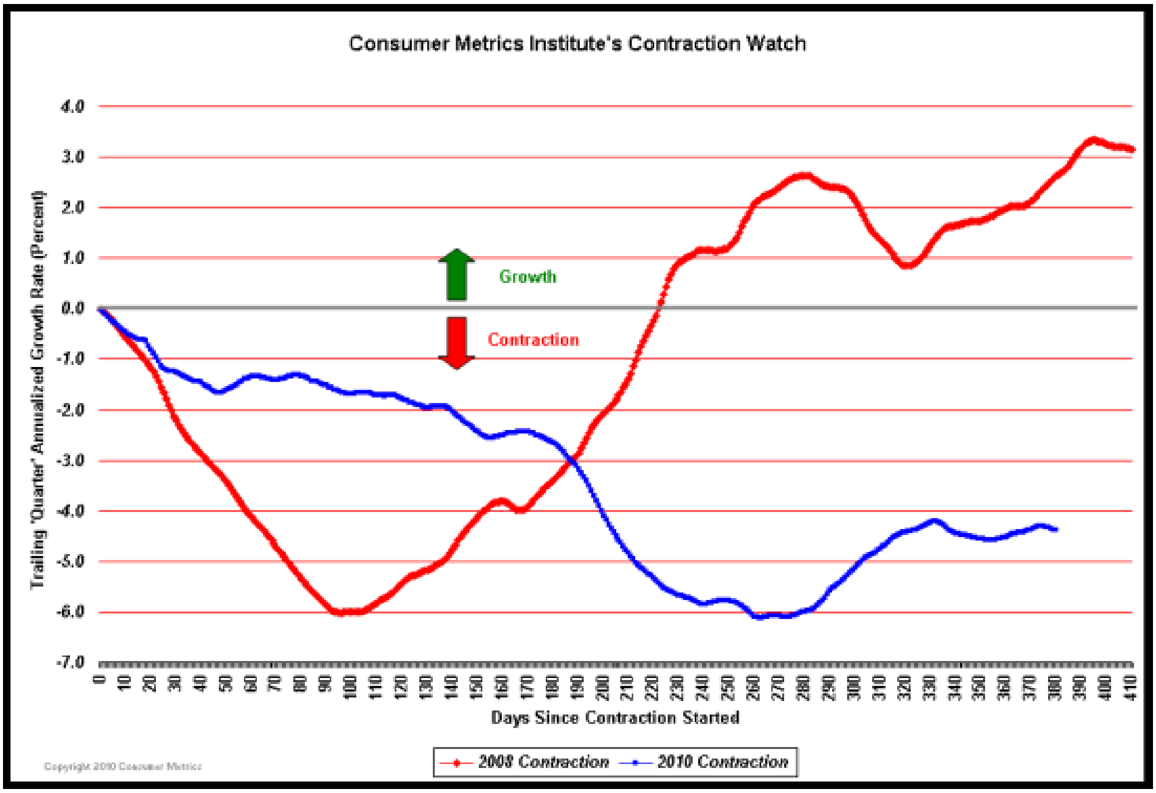
Meanwhile, all of our composite measures for on-line consumer demand remain extremely soft. Looking at our Weighted Composite Index over that past year shows only two weeks where the week-long averages showed year-over-year growth -- and both of those weeks are now distant memories:



After bottoming during the first week of August the Index recovered somewhat, but it now seems to be moving laterally in a zone between a 4% and a 6% year-over-year contraction. A longer look at our Weighted Composite (using 48 monthly averages) confirms the shape of the "Great Recession" as it is generally known, except that our data shows that the subsequent "Great Recovery" faded rather more quickly than either the BEA or NBER has reported:

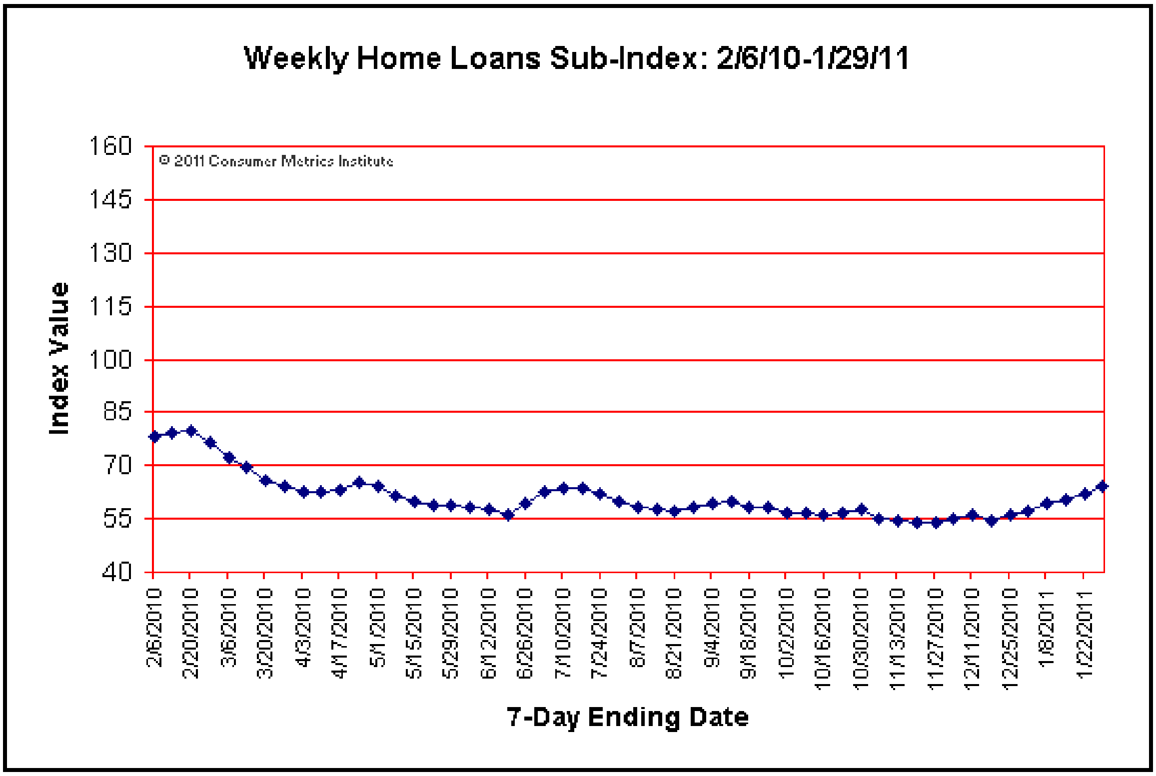


Our favorite way to view the detailed shape of the above chart is contained in what we call our "Contraction Watch," which essentially compares the two dips clearly visible in the above chart by superimposing them, one upon the other. In the "Contraction Watch" chart we actually use our Daily Growth Index (a 91-day trailing average of our Weighted Composite Index) to track the contraction events:



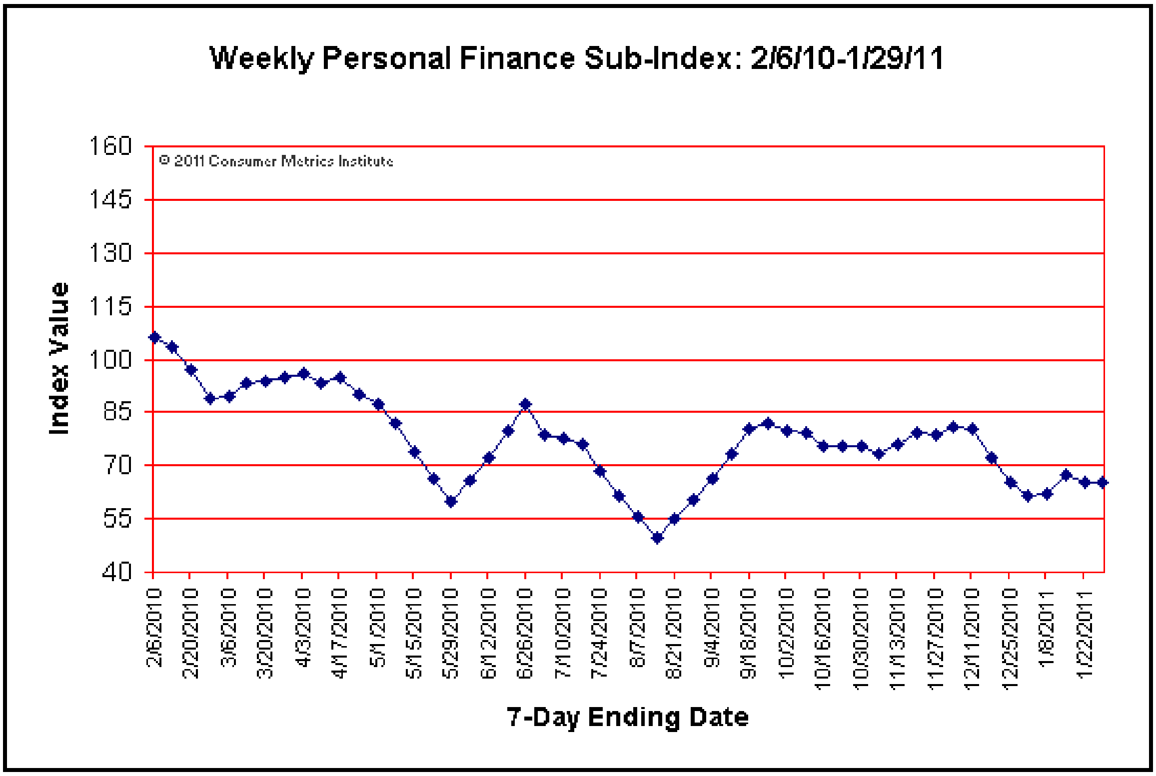
In the above chart the day-by-day courses of the 2008 and 2010 contractions in our Daily Growth Index are plotted in a superimposed manner with the plots aligned on the left margin at the first day during each event that our Daily Growth Index went negative. The plots then progress day-by-day to the right, tracing out the changes in the daily rate of contraction in consumer demand for the two events. The 2010 contraction event is now more than a year old, dating back to January 15, 2010. Although the chart clearly bottomed at about 9 months into the contraction (at roughly 270 days), the rise since that bottom has been neither steady nor substantial. In fact, there is no way to forecast when the indicated contraction of on-line consumer demand for discretionary durable goods will end based solely on the recent course of the blue line.

We continue to regard a couple of our sub-sector charts as particularly telling indicators of the comfort that our shoppers have with the prospect of taking on new debt. The first of these is simply new applications for loans for newly acquired residential properties:



Although this chart has arguably turned upward over the past few weeks, it is still showing a greater-than 30% year-over-year decline. Furthermore, that decline is compounding on what was already a year-over-year contraction a year earlier (at the left margin of the chart). With the recent upward trend in mortgage rates we might have expected far more of a rush to lock in the historically low rates. The lack of significant upward movement may simply be signaling that everybody who can qualify for a loan already has one.

The other chart that we think tells us a lot about the condition of our on-line consumers is one that we call the "Personal Finance Sub-Index":



This chart tracks consumer comfort with the state of their personal finances. Among other things it tracks the (inverted) consumer demand for credit counseling services, foreclosure advisors and bankruptcy attorneys. Because we invert the measures of demand for products or services required by financial stress, the line in the above chart goes up as people feel better about their financial situation and down as their circumstances get worse. Clearly the consumers that we track are not feeling great about their finances at the present time.