Consumer Metrics Institute News

April 10, 2011: Retail Sales and Credit Expansions

Last week the International Council of Shopping Centers (ICSC) reported that their member retail chains had experienced a 1.7% year-over-year gain for the month of March. Additionally, the Federal Reserve reported that total consumer credit increased at an annualized 3.75% rate in February. These two reports give the appearance of a continuing and sustainable recovery in consumer demand. Or do they?

Let's look at those two reports in more detail:

Are Retail Sales Growing 1.7% Year-Over-Year?

Even on the surface a 1.7% year-over-year number seems anemic. But nevertheless the ICSC stated that this "gain, in the face of somewhat adverse factors, was encouraging and reflected a solid underlying trend in consumer demand." And one commentator reported that "an improving labor market is helping Americans cope with rising gasoline prices." The adverse factors mentioned by the ICSC included the calendar shift of Easter from March into April this year, and unseasonably bad weather. Furthermore, nearly all reports noticed that the gain was better than the 0.7% decline that had been expected -- apparently anemic is a great result if you were originally expecting something even worse.

But some digging into the numbers indicates that the worst may actually have happened:

-- The numbers are nominal (i.e., non-inflation adjusted). If we subtract out the 2.1% year-over-year change in the Consumer Price Index (CPI-U) for all items we find that the "real" retail sales numbers are contracting (and if we selectively look at non-durable goods less food, the CPI-U inflation rate is 6.1% year-over-year, bringing the year-over-year contraction rate to over 4%).

-- Other sources of retail sales were weaker, with some reporting that sales at the chains that they follow increased only 0.6%. Not surprisingly, nominal sales gains at chains that also sell gasoline (e.g., Costco) were particularly strong.

-- The numbers are for "same store sales for stores open at least a year." As we have mentioned before, this creates a strong upward bias in the reported numbers by excluding the impact of stores that are being closed (e.g., Borders and Ultimate Electronics).

-- High end retailers (e.g., Saks) were also strong, reinforcing the unshared nature of much of the recent "recovery."

All-in-all, not a set of retail reports that we can get excited about.

Is Credit Expanding?

Then we have the Federal Reserve's G.19 report on total consumer credit. The headline paragraph stated that consumer credit "increased at an annual rate of 3-3/4 percent in February 2011." This is exactly the kind of signal we might be hoping for if the cause of the recent downturn in consumer spending has been household deleveraging. So, we offer the actual un-seasonally-adjusted numbers from that G.19 report for your consideration (in billions of dollars, and excluding home loans):

Credit Type	January 2011	February 2011
Total	2432.9	2416.5
Commercial banks	1083.6	1067.7
Finance companies	515.6	511.4
Credit unions	224.2	221.8
Federal government	340.8	349.0
Savings institutions	87.2	87.5
Nonfinancial business	54.6	53.4
Pools of securitized assets	127.0	125.7

So, where is the expansion?

-- The reported headline number comes exclusively from seasonal adjustments. The unadjusted total and 5 of the 7 unadjusted subcategories show continued contraction.

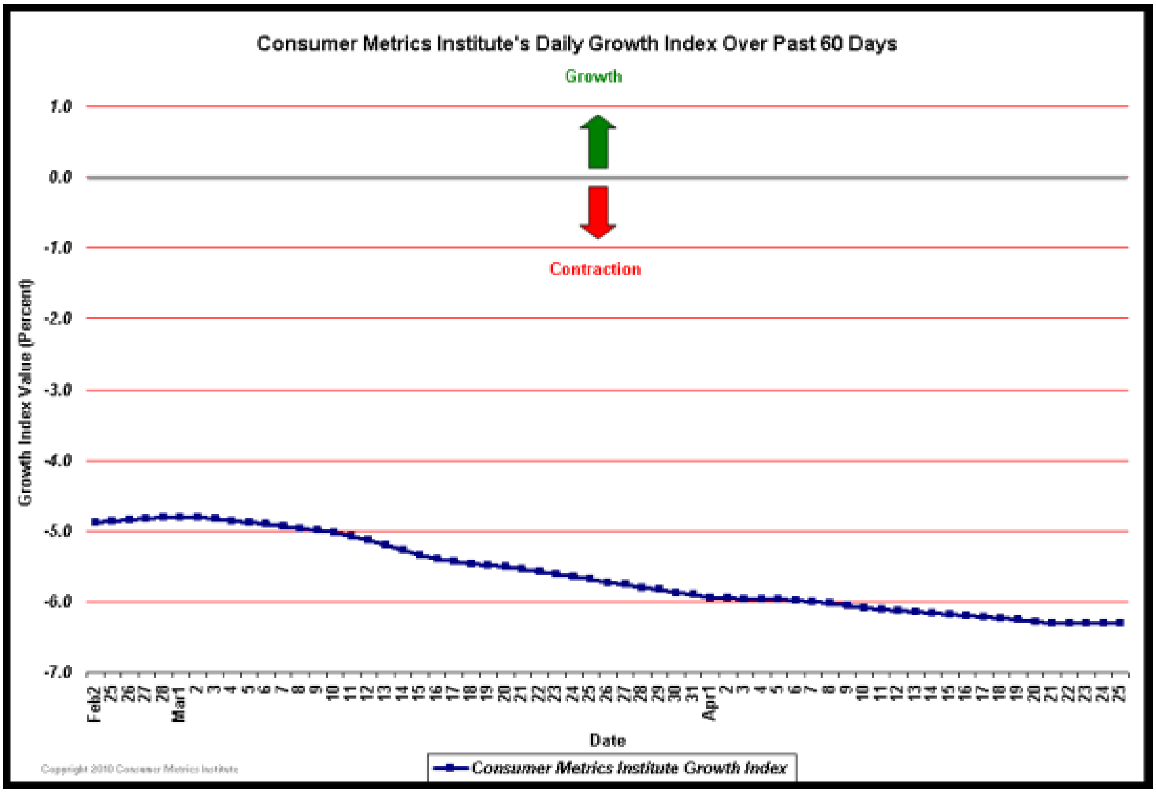
-- The only category showing substantial growth is student loans.

-- While it might be nice to think that student loans are replacing unemployment checks, even that assumption doesn't pass credibility tests when you look back further in that series. Since 2008 that line item has grown by nearly 250%. That kind of growth in total outstanding student loans over a three year period simply doesn't pass the "smell test," given that Federal Student Loans have been a staple of higher education since the passage of Title IV of the Higher Education Act of 1965 -- nearly a half century ago.

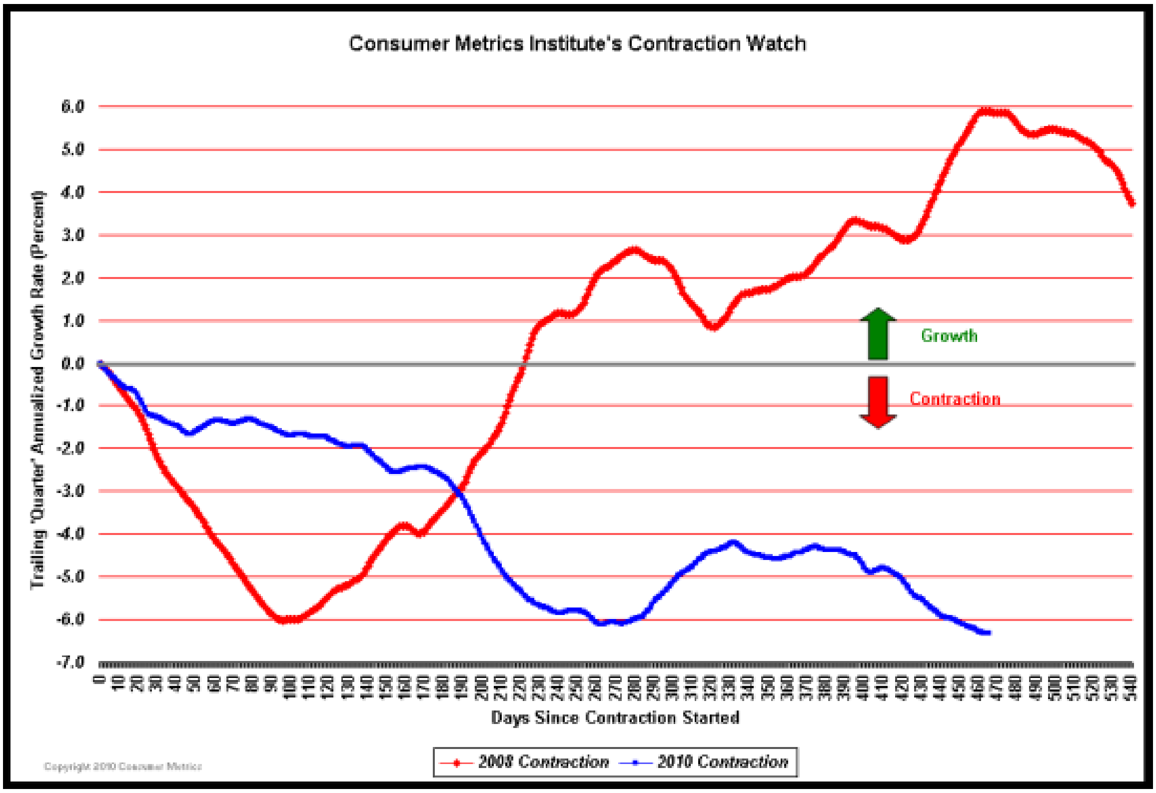
We suspect that the incredible "growth" in student loans since 2008 is at least partly an artifact of the Higher Education Opportunity Act of 2008, which has caused a massive migration of student loans to the Direct Loan program that is included in this report.

Without seasonal adjustments there simply was no net growth in consumer credit; and what growth appears in the details is almost exclusively in student loans that are now being funneled primarily into the Direct Loan program captured in this report.

Meanwhile, our Daily Growth Index is retesting the lows that we last saw in October:



Again, our "Contraction Watch" (which follows the Daily Growth Index shown above and compares it on a day-by-day basis with the same index during the dip created by the "Great Recession") is perhaps the best way to visualize what has been happening with the consumers that we monitor, and that chart is still not showing any signs of a sustainable consumer driven "recovery":



The consumers that we track are still not showing signs that they believe the headlines about an ongoing and sustainable recovery.