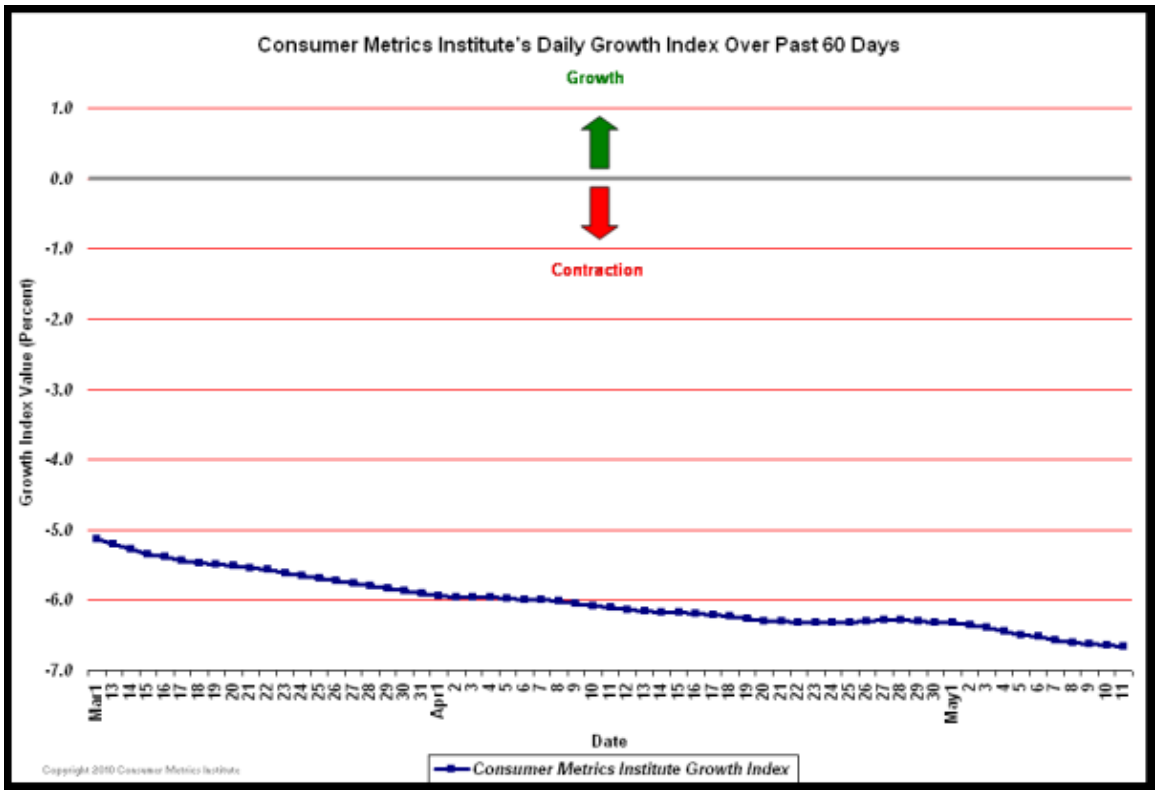
Consumer Metrics Institute Members News

May 5, 2011: Resumed Downturns, Retail Sales and Consumer Confidence

After a week-long pause our Daily Growth Index resumed its movement into record territory, setting a new all-time low representing a 6.39% year-over-year contraction on May 3, 2011:



Since the Daily Growth Index is a 91-day moving average of our Weighted Composite Index (converted from a nominal 100 based year-over-year index to a simple year-over-year percentage change), if the current levels of the Weighted Composite Index now entering the moving average are lower than the levels falling out of the trailing 91-day span, the average will continue to decline. That is the case now, and it is likely to persist for at least the next few of weeks.

(Note: There have been recent news stories that nominal year-over-year April on-line credit card sales increased 19.2%, reportedly as the result of share shift from brick-and-mortar stores to on-line retailers. To give this growth perspective, according to the Census Bureau at the end of 2010 the growing on-line sales still represented only 4.9% of unadjusted overall consumer commerce -- but that percentage represented a market share increase of nearly 29% from just 6 months earlier, meaning that the recently reported 19.2% year-over-year change might actually represent a moderating rate of share shift. At the Consumer Metrics Institute we go to great lengths to remove from our data the effects of both this inexorable share shift and the impact of inflationary price changes -- by using "same-shopper" and "like-kind-goods" metrics to

neutralize those effects. In fact, our most recent "raw" Retail Sector transaction volumes show a similar "ballpark" pre-market-share-correction 27% year-over-year growth, even as our fully corrected, weighted and deflated Daily Growth Index has persistently contracted.)

Retail Sales and Consumer Confidence

Although our data about consumer spending is clearly weaker than that being provided by U.S. Bureau of Economic Analysis (BEA) or the U.S. Department of Commerce (DOC), there are a number of reasons to suspect that the consumers that we monitor really are less enthusiastic about the economy than Mr. Bernanke:

-- We have often commented that the metrics used to measure retail sales are seriously flawed, creating at least a "survivor bias" in the statistics and a sampling bias that over-represents the elite large cap retailers. We have expected that the numbers would eventually be quietly revised. Last week the Census Bureau did exactly that, lowering their baseline historical data substantially for some segments of the retail sales data. Specifically, they reported that 2010 "furniture and home furnishings stores" sales were 3.6% weaker than previously reported (turning a meager 0.8% year-over-year gain into a -2.4% contraction), the highly discretionary "sporting goods, hobby, book, & music stores" group was down 3.9% from the 4.6% in prior reports, and the less easily sampled "miscellaneous store retailers" dropped some 6.7% from their earlier numbers (nearly wiping out completely the earlier 7.6% alleged gain).

On the flip side they also noted that gasoline stations had actually collected sales that were 4.6% greater than what the Census Bureau had told us before -- indicating that their sampling methodologies grossly under-reported the impact of rising pump prices.

Our problem has always been the reliability of the reports, since their version of history often undergoes dramatic rewrites long after the fact. In this particular case a 7.6% year-over-year gain becomes a 0.9% year-over-year gain, and a 0.8% year-over-year growth was admittedly actually a 2.4% contraction -- all done quietly and without media scrutiny. In short, retail sales were not as good as previously purported -- for all the reasons we have previously described -- and hardly anyone noticed.

-- We have always held Gallup's measures of the the U.S. consumer's psyche with high regard -- if for no other reason than that their very livelihood depends (unlike the BEA or DOC) on them evolving their polling techniques to stay in contact with even those "households" that connect with the outside world only through Facebook or Twitter. They have recently published three polls that show far greater consumer caution than is commonly suspected:

Last week Gallup issued their regular update on consumer confidence. In it they found that only 27% of U.S. consumers feel that economic conditions are "getting better," down from 41% who responded in the same manner one year ago.

In a separate poll they found that self-reported consumer spending was flat in April and essentially flat year-over-year. This means that there was actually a reduction in discretionary spending, since relative to a year ago consumers were also reporting that a substantially larger share of that spending is going for gasoline and groceries.

And in yet another consumer view of the economy, they reported that over half of U.S. consumers think that -- at least for them -- the 'Great Recession' has never ended. Although the polling numbers have improved since the very bottom of the recession, they have again deteriorated from last year.

-- And it isn't just U.S. consumers who are being cautious. Eurozone consumers have also become more frugal, with German consumers in the vanguard with a 2.1% monthly contraction in spending. The overall drop is 1.7% for the year, and it is now at the lowest level since November 2009. The German thrift is even more remarkable given that unemployment is far less of a concern there than anywhere else in Europe. And in some countries the downturn is clearly not a one-month fluke**:** the March 1.4% fall in retail sales in Spain extended the string of losses to twelve consecutive months.

We will leave you once again with our "Contraction Watch." This chart follows the Daily Growth Index and compares it on a day-by-day basis with the same index during the dip created by the "Great Recession" (with the plotting for each event starting on the first day that the Daily Growth Index started to contract). We feel that this single chart 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":