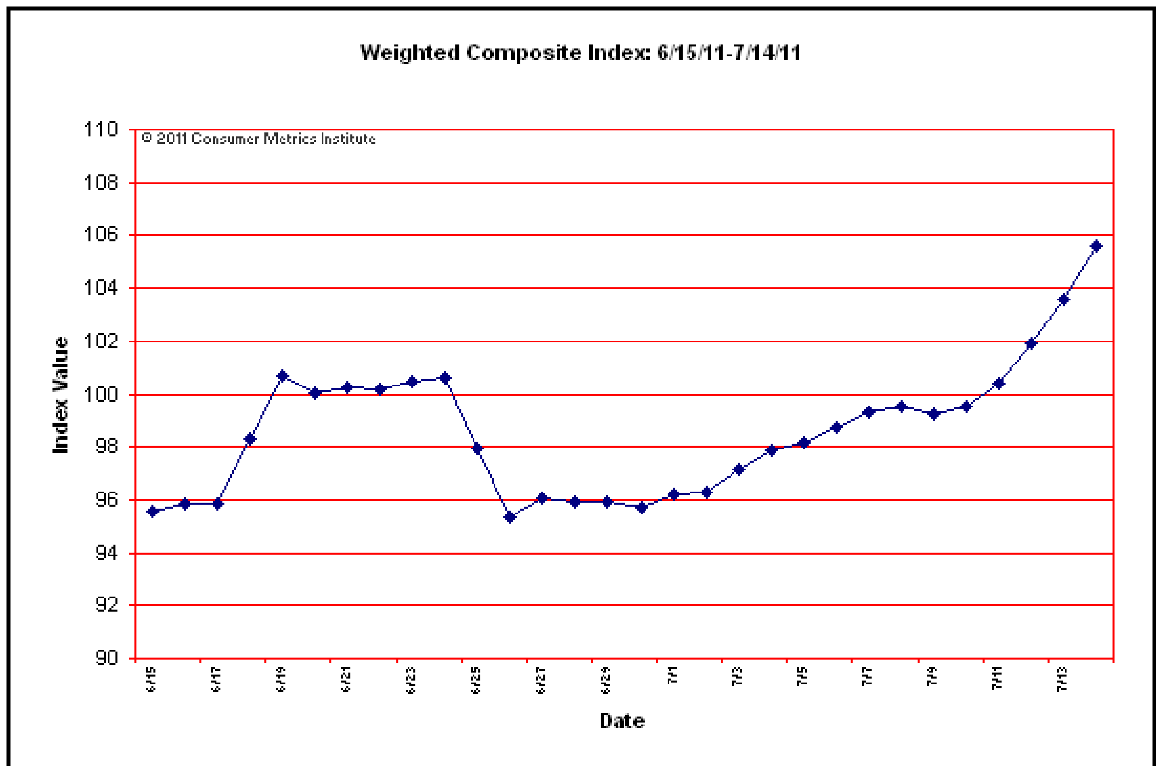
Consumer Metrics Institute Members News

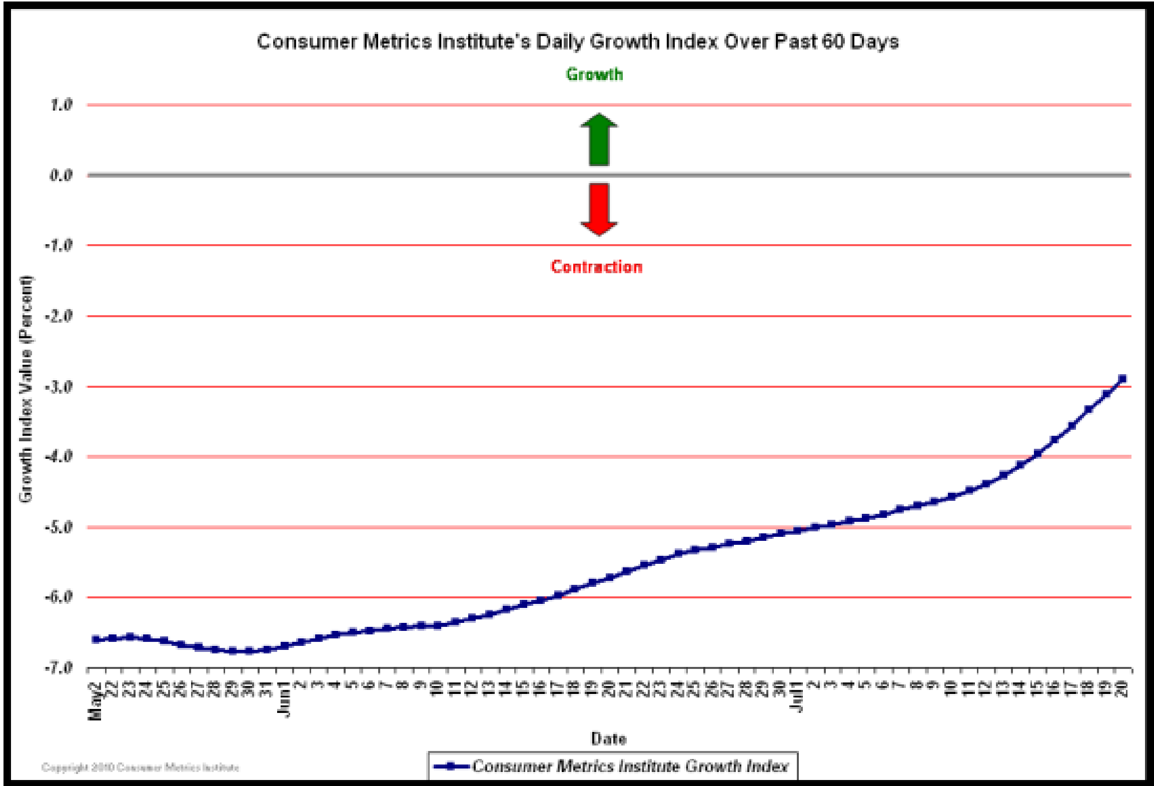
July 16, 2011: Weighted Composite Index Continues to Strengthen

One of the curses of recording consumer shopping data far "upstream" (as we do here at the Consumer Metrics Institute) is that just about the time that official Government reports and the main-stream media begins to "catch up" with what our on-line consumers have been doing for months (or quarters), the consumers themselves will have begun to move on. Such is the situation we are facing in the middle of July: many U.S. Federal agencies and the main-stream press have finally concluded that consumer spending has been weakening -- reaching that conclusion just as our Weighted Composite Index is actually showing signs that the previous 18-months of persistent weakening has at last stabilized on a year-over-year basis.

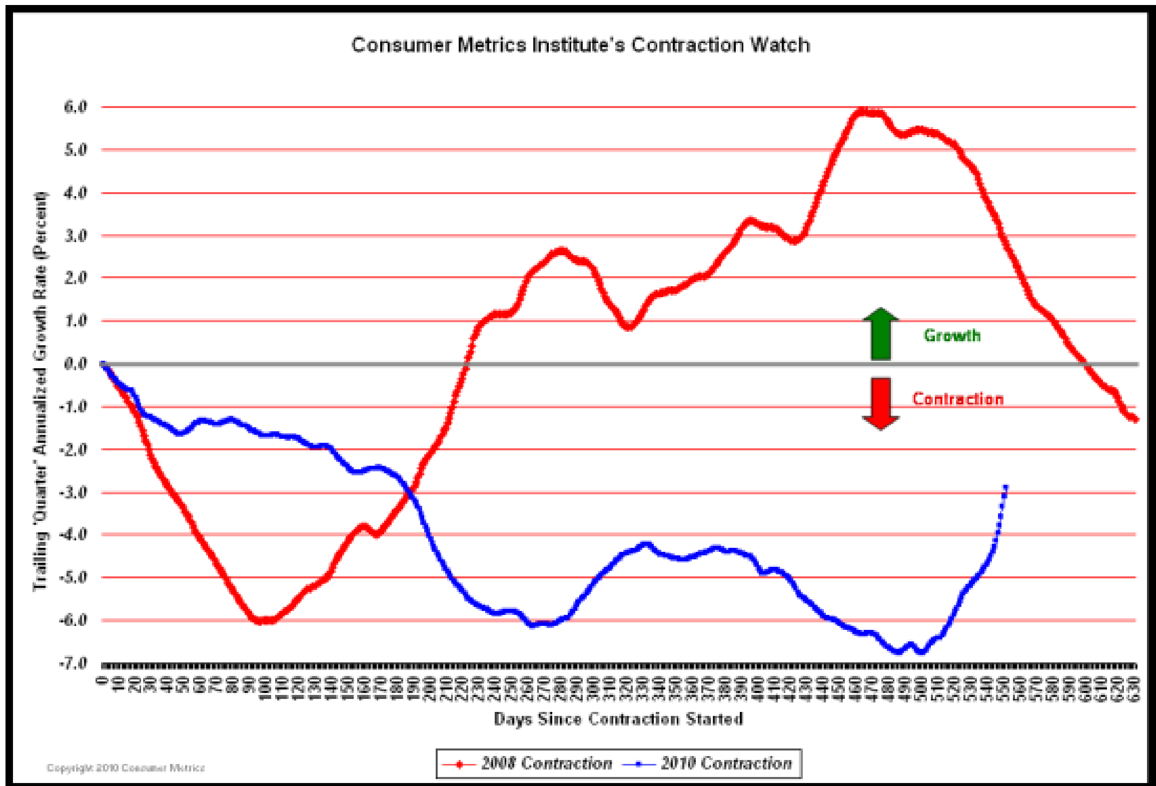
On July 14, 2011 our Weighted Composite Index recorded a level in excess of 105 for the first time since November 8, 2009 -- over 19 months ago:



Normally an upward blip in our Weighted Composite Index should not be a cause for excitement, given that the day-to-day nature of the index introduces some normal statistical noise in the numbers. But the sheer persistence of the previous weakness makes any break from that pattern worthy of mention, and this is no exception. In fact, the relative improvements in the readings of our Weighted Composite Index have pulled our 91-day moving quarter trailing average (our "Daily Growth Index") up as well:



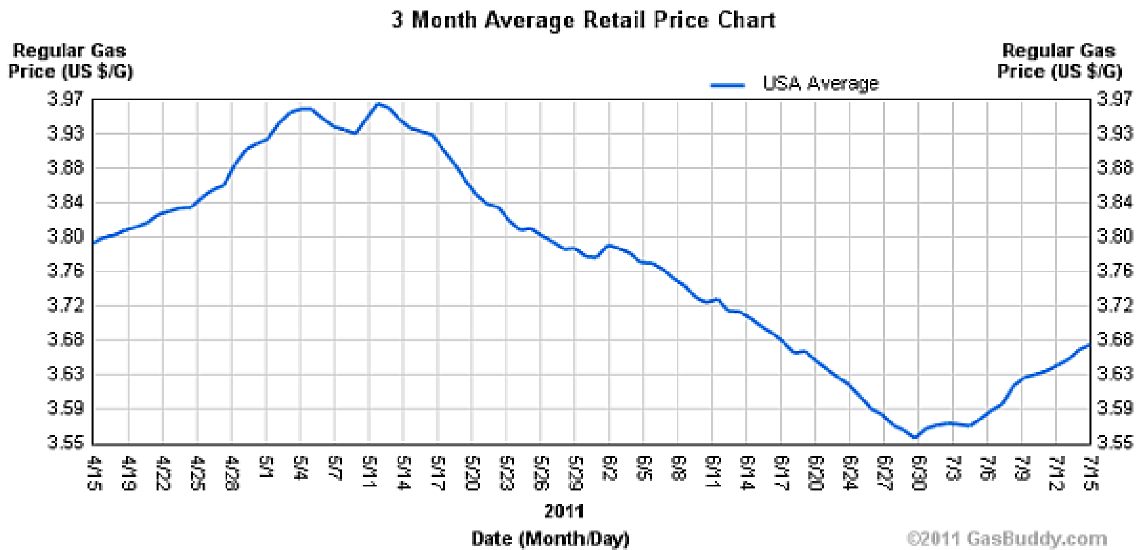
And, to keep all of this in perspective, the changes reflected above can also clearly be seen in our "Contraction Watch":



The above chart follows the course of our Daily Growth Index (actually just a 91-day moving average of the Weighted Composite Index, converted from the base 100 index to a +/- percentage) since that index first went into contraction (on January 15, 2010 -- now 540 days ago). The chart also shows what the Daily Growth Index was doing during the consumer contraction that occurred within the formally defined "Great Recession" of 2008-2009. The progress of each event is recorded as a track of Daily Growth Index values commencing on the left margin on the date that the index first went into contraction.

What does all of this mean?

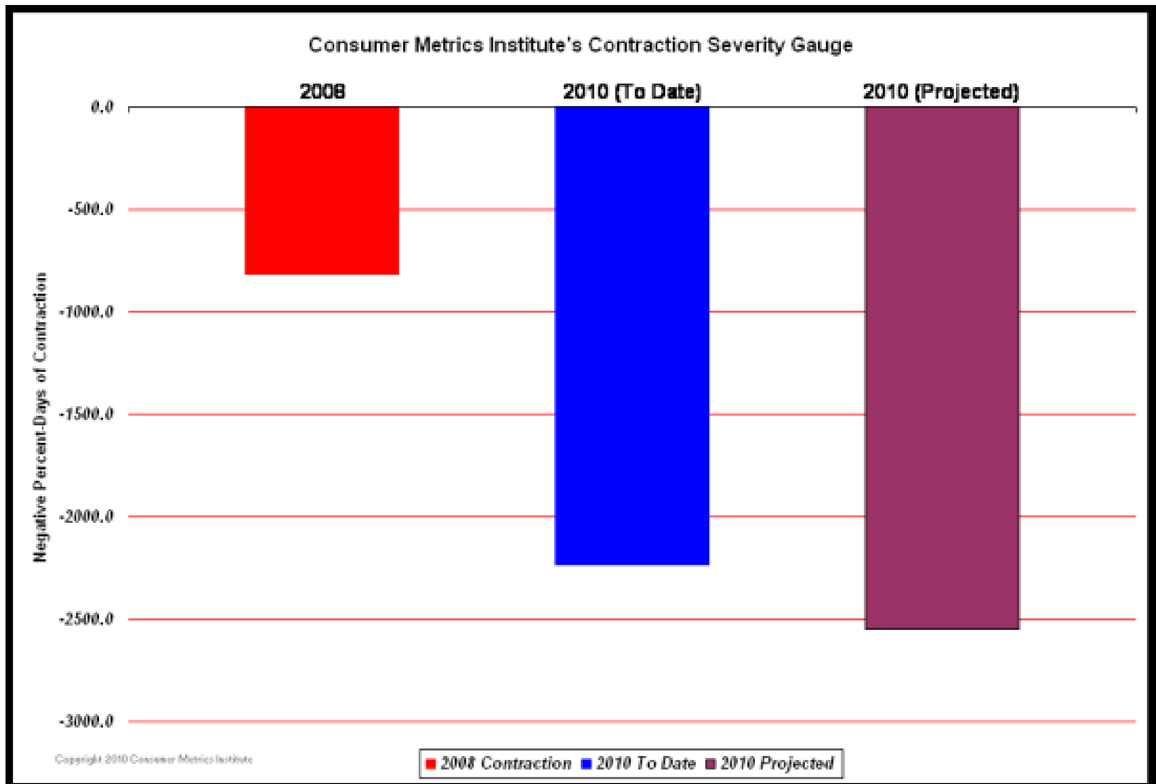
-- Our Daily Growth Index hit dead bottom at the end of May, about two and a half weeks after gasoline prices peaked. We have documented before the inverse correlation between consumer spending on discretionary durable goods and the U.S. price of gasoline -- and the cause/effect aspects of the inverse relationship are an example of the "glaringly obvious." Given this inverse relation, before we get too excited about stabilizing consumer demand we strongly recommend a sober look at the last few weeks of a critical chart from the highly informative GasBuddy.com, remembering that whatever economic stimulus declining gas prices can give, they can also take away:



-- The recently reported drops in consumer confidence to a large extent cover the same periods that saw our data bottoming -- but collected, reported and picked up by the press six weeks after the fact.

-- The rise in the year-over-year data is to some extent an inverse reflection of the year-ago dive in new housing activity and its carry-over shock-waves in the home-improvement and furnishings arena -- all the result of the then expiring Federal new home incentives.

-- This stabilization at least means that consumer demand for discretionary durable goods has finally reached a point that it is no longer (on a day-to-day basis) declining at a substantial pace. But a couple of weeks of "not shrinking" can not materially offset quarters of serious contraction, and in absolute terms consumer demand for discretionary durable goods is still far weaker than it was at the end of 2009. As devastating as the "Great Recession of 2008" was on consumer spending for discretionary durable goods, it was nothing when compared to what consumers have been doing since the "Great Recession" was officially declared over. The extent of the aggregate loss of demand over the past 18 months can be best visualized by the following "Severity Gauge" from our web-site:

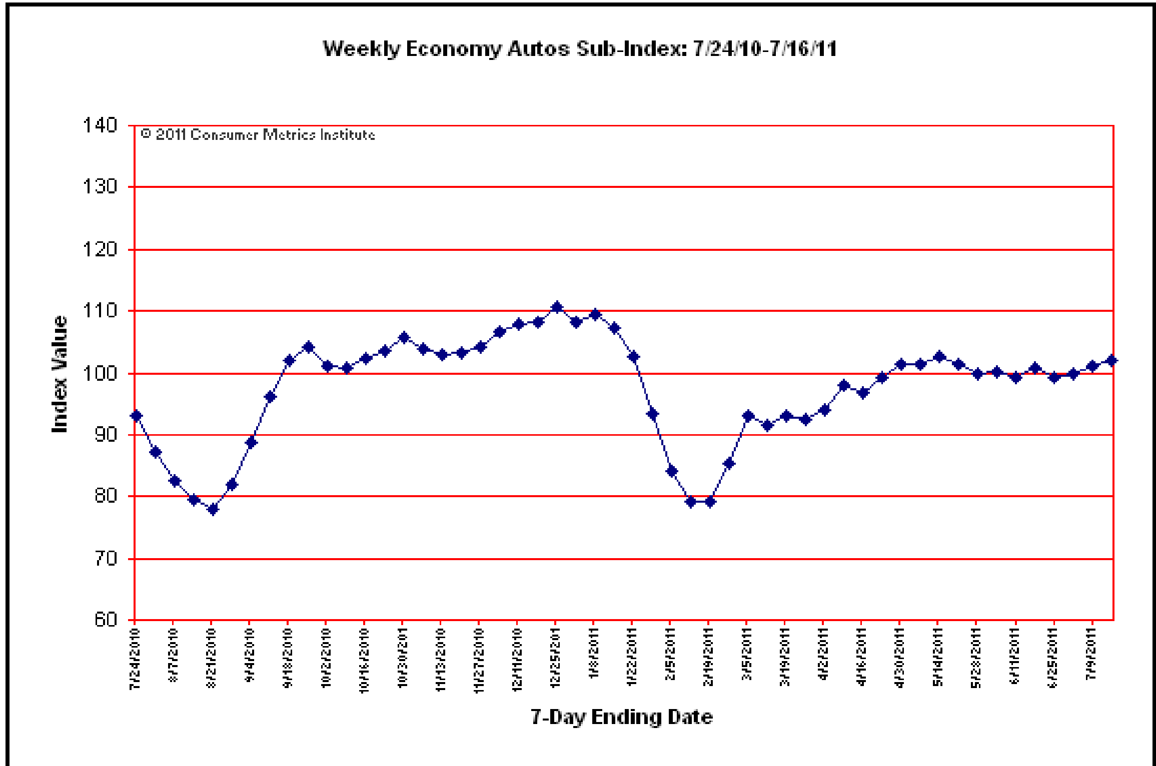


-- We have recently witnessed the de-coupling of the bottom-lines of the S&P 500 peerage from the collective pain of the consumers on "Main Street." And in 2007-2008 the reverse phenomenon was experienced: consumers were largely unaffected by the carnage on Wall Street. Even if consumer demand has bottomed, there is no reason to think that suddenly the fortunes of the large-cap businesses will start to take off -- in fact, the full impact of the "percentage-days" of contraction lost to the consumer discretionary durable goods economy has only just now begun to flow to the other parts of the economy, where inventories had been being built in anticipation of a full recovery.

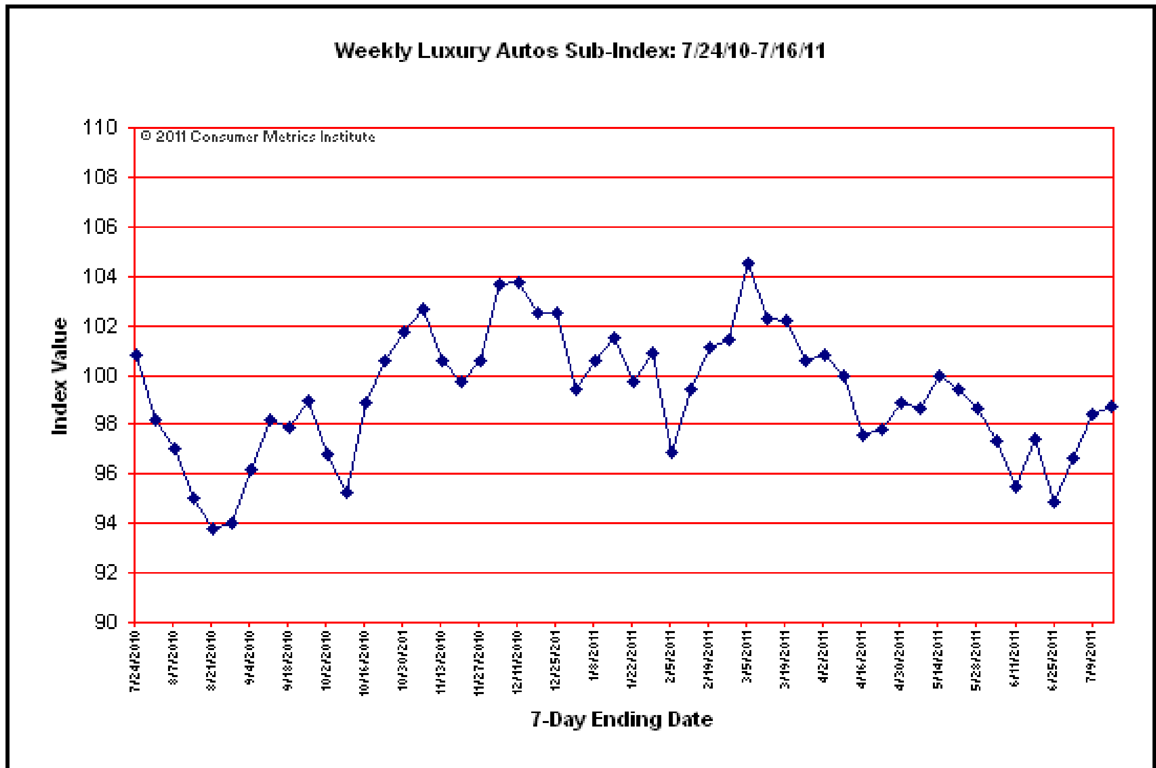
-- All that said, the free-fall in consumer demand and confidence that occurred during the second quarter had already hit bottom before the end of that quarter. Since then it has at least plateaued, and a few weeks into the third quarter we are actually seeing daily year-over-year gains against the already weak demand from July 2010. This augurs for a drop in GDP from 1Q-2011 to 2Q-2011 based on consumer data alone, with at least that component stabilizing in 3Q-2011. When combined with ongoing contraction in the Governmental sector and inventory build-ups reversing, however, 3Q-2011 will likely also be disappointing in total -- enough so to give the Fed an excuse for further interventions in spite of growing inflation.

-- We have said repeatedly that the recent economic event won't be over until unemployment and the housing mess have returned to some state of normalcy. In simple metrics, this probably means U-6 unemployment south of 12% and annual housing starts above 1,250,000 -- which won't happen until the entire foreclosure pipeline dries up and the existing homes inventory drops below 6 months of sales.

We often find that the sub-indexes within our Automotive sector write stories about the counter-currents in the economy that nearly everyone can read -- including the divergences in the experiences of Americans during this recession. To start off, consider the patterns traces by the brands typically identified as "economy brands" and those associated with luxury (note the different vertical scales):

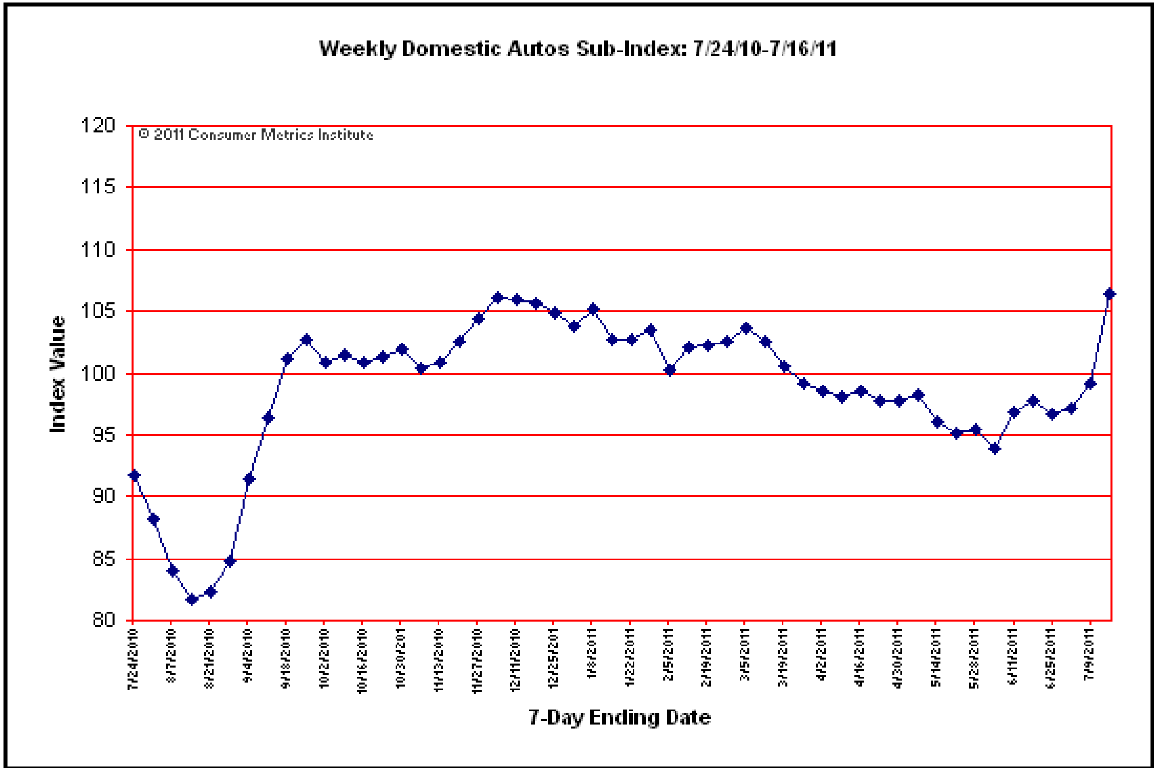


The strength shown in the "economy" brands just before year-end was similar to the data seen in many retail categories at that time -- where significant incentives only pulled sales forward from the earliest parts of this year. The numbers returned to slight growth as the pain at the gas pump began to reassert itself. The luxury brands have followed a different course:

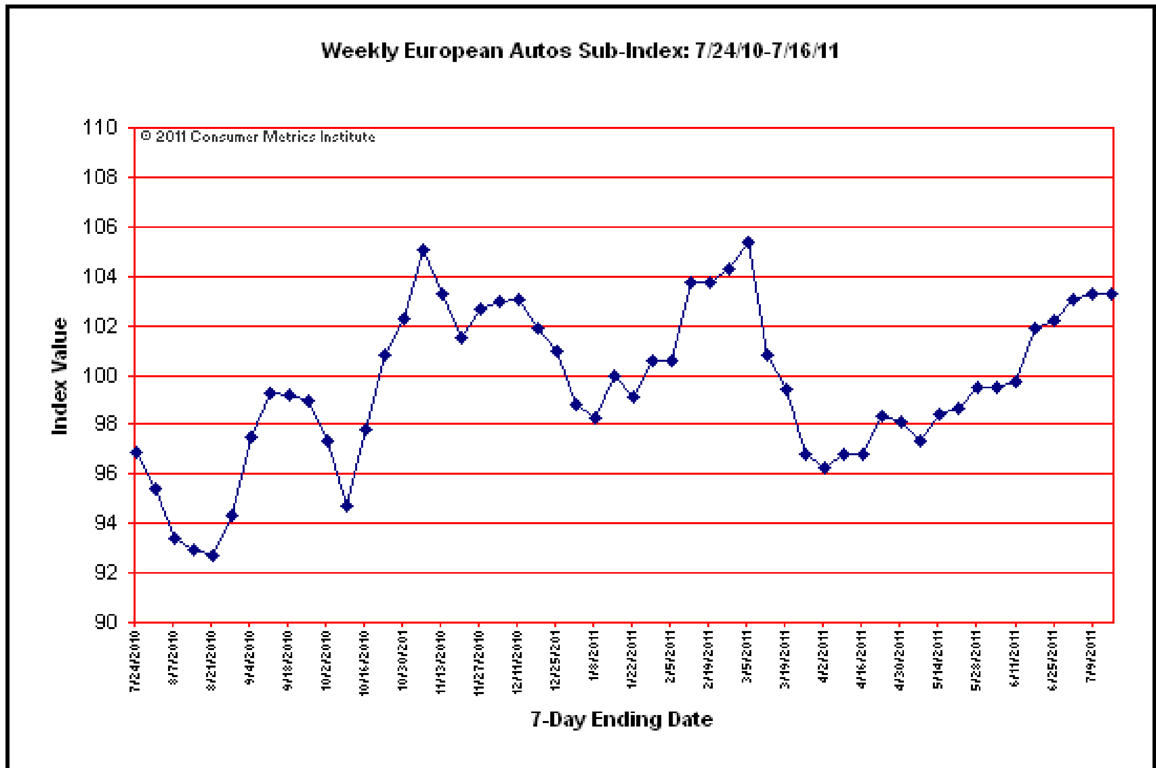


The luxury brands do not show the same "pulling forward" effect seen in the economy brands, perhaps as a consequence of such sales resulting from less price driven decisions in the first place. But the recent softness could be a minor ramification of the gas price rise, which may have shifted some market share to the more gas frugal brands.

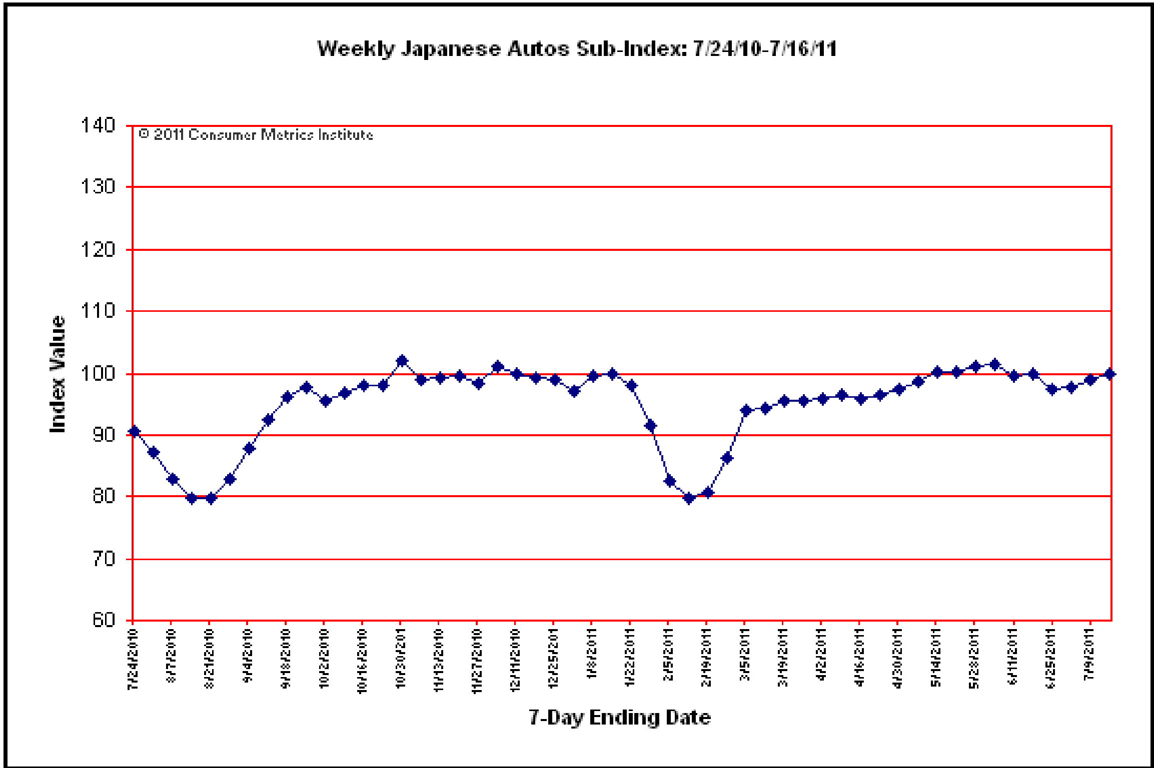
Slicing the data another way, the domestic brands chart still has an artifact on the left that is the 2010 year-over-year inverse down-blip (which is also clearly visible in all of the other charts) that is a reflection of the 2009 "Cash for Clunkers" promotional up-blip. But it also shows a general weakening as 2011 progresses:



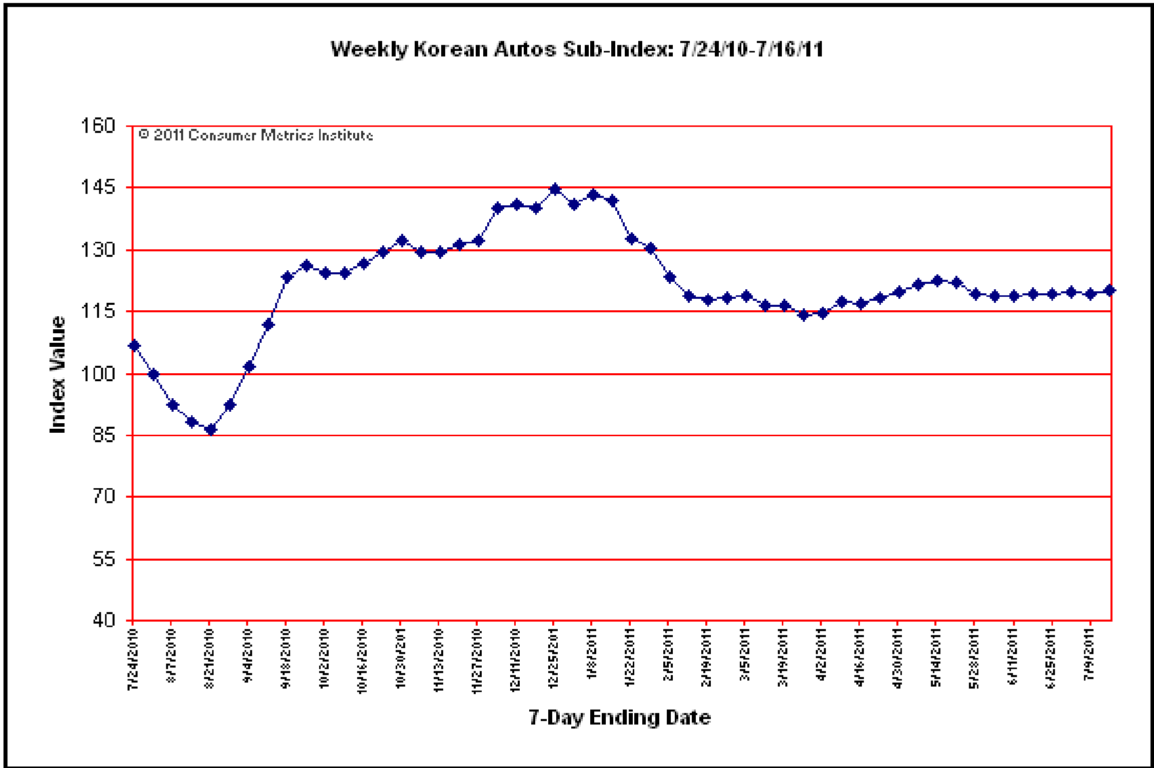
Meanwhile, the European brands have demonstrated a substantial recent upward turn that is far stronger than that seen in the domestic chart. The European brands are proportionately over-weighted in the luxury chart and under-weighted in the economy chart, and the similarities to the luxury pattern are plainly visible:



The Japanese brands clearly shared the same "pulled-forward" sales drop-off experienced by the economy brands (where they are heavily represented) in the early part of the year. The more interesting part of the chart is the year-over-year consistency of the brands over the past 6 months, which might be expected for mature brands with well established market shares and repeat buyers:



Finally, demand for the Korean brands has moderated somewhat this year, but they are still showing 15% year-over-year gains, most likely taking growth share from the more mature Japanese labels:



The Korean brands are over-weighted in the "economy" chart, and their share gains are coming at the expense of all of the other producers in that product class. We are also fairly confident that the market share shifts to the Korean brands is at least partly a demographic shift caused by a new Baby-Boomer frugality hurting the brands that they grew up buying, coupled with serious financial stress among less brand loyal "Generation Y & Z" consumers pushing them towards the lower priced end of the marke

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