Consumer Metrics Institute Members News

August 2, 2011: New Index & Housing Data

Regular visitors to our website may have noticed a couple of new charts residing there. We created them to provide some perspective on what the recent increases in our year-over-year metrics really mean to the "raw" or "absolute" on-line consumer demand for discretionary durable goods in the United States. Year-over-year comparisons suffer from two compounding issues that slip past intuition-based observers:

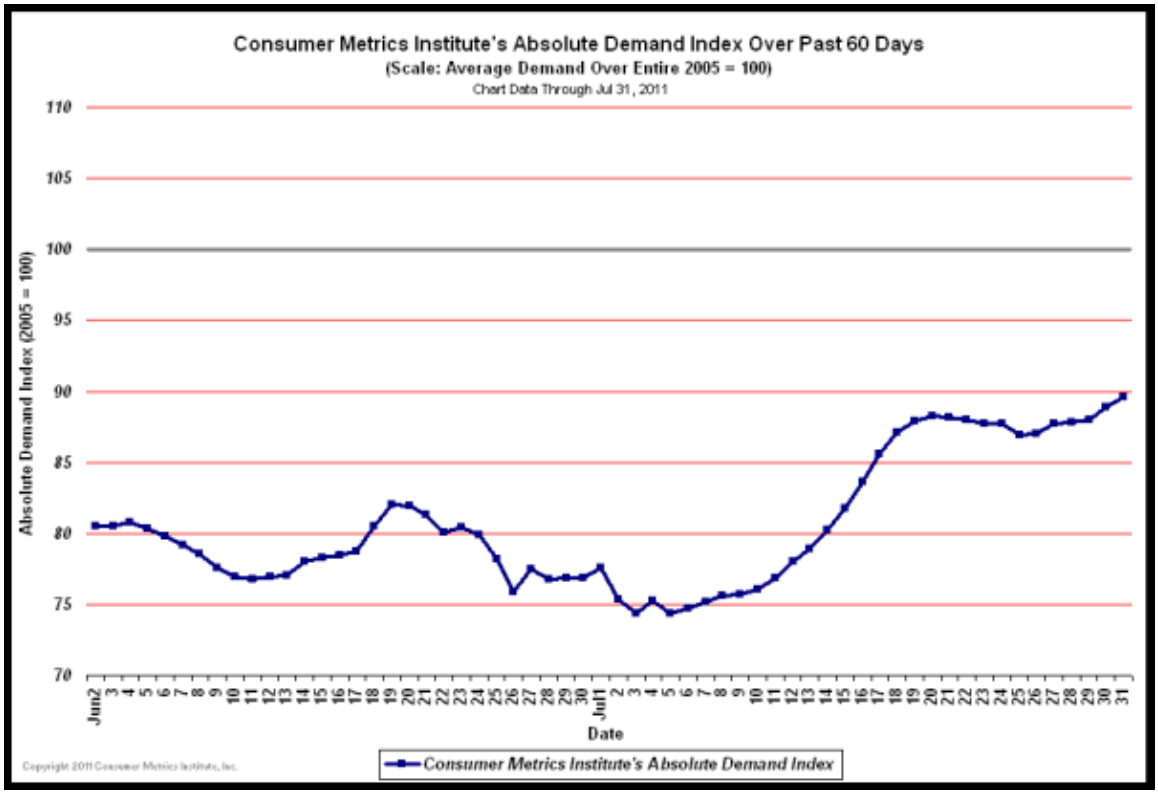
-- Long term expansions or contractions generate compounded growth or shrinkage, which is non-linear and greater than intuition alone might grasp.

-- Simple cycles in year-over-year movements that seem to offset each other (e.g., -10% followed by +10% and then followed by another -10% and then yet another +10%) are not zero-sum in absolute values -- in the cited example the quantity being measured only returns to 98.01% of its starting point after the four sequential 10% down and up legs.

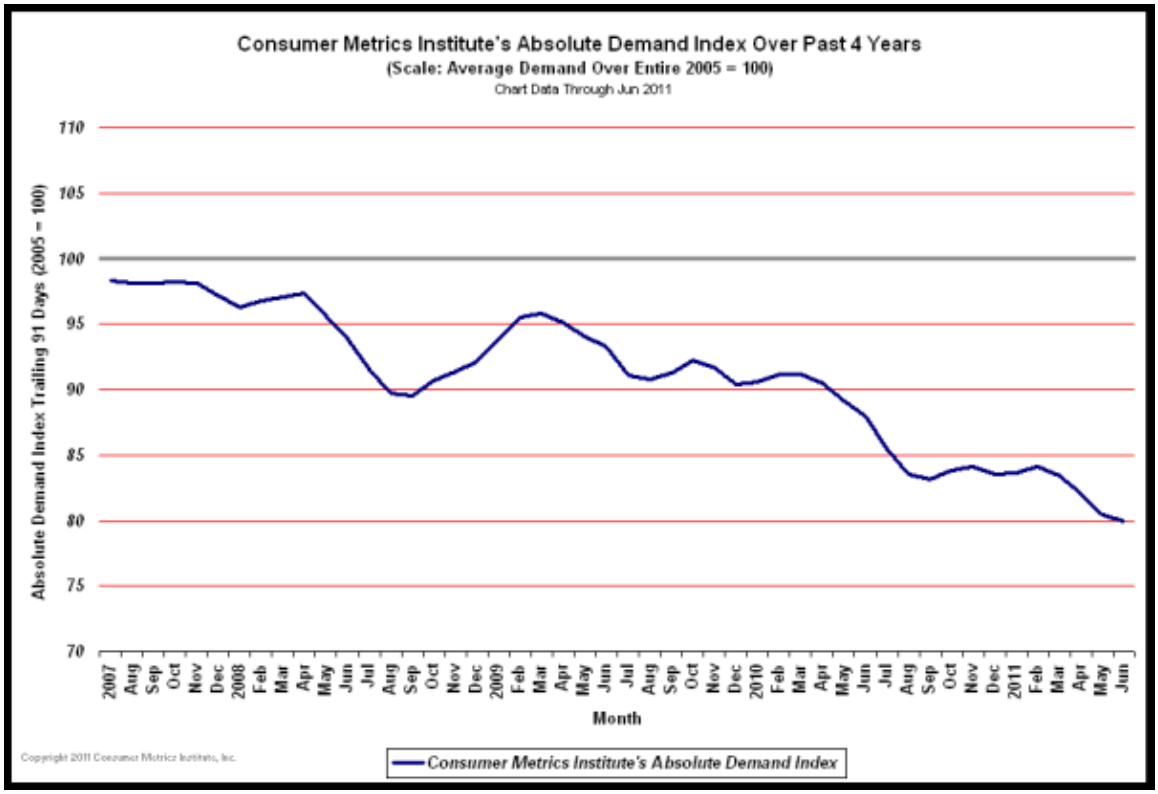
Our metrics are necessarily year-over-year for a number of technical reason, not the least of which is the need to remove an underlying bias in on-line shopping as the result of long term market-share movement away from brick-and-mortar retail. That "normalization" process uses "same shopper" metrics that rely heavily on behavioral statistics for IP address baselines that (as a practical matter) reliably extend back only 12 months or so. Additionally, year-over-year metrics inherently wash out seasonality issues -- thereby preventing our data from getting hijacked (or creatively manipulated) by "seasonal adjustment" factors. For those and a number of other technical sampling reasons our data is (and must remain) year-over-year in its primary form.

That said, we still recognize that providing only year-over-year "rate-of-change" charts can mask longer term effects on the "absolute" levels of demand. This has been particularly evident over the past few weeks when our Weighted Composite Index broke back into growth territory -- causing some media outlets to cite our data as further proof that the "recovery" was strengthening. While it is true that we have witnessed a recent surge in our year-over-year numbers (see below for more analysis), a reasonable perspective on the depth of the hole that had been dug by multi-quarter (indeed multi-year) contractions was completely missing from the headlines that our data generated.

Hence, we have created two new charts that follow our new "Absolute Demand Index." The new index approximates the "absolute" values of on-line consumer demand, where a value of 100 represents the year-long average consumer demand for the baseline year of 2005. The first chart captures the new index on a daily basis for the past 60 days:



As the above chart clearly demonstrates, although "absolute" demand has clearly increased dramatically since the early part of July, on-line demand for discretionary durable goods is still 10% below our baseline year of 2005. In the longer term view, the monthly version (which is available to the public on our Home page) helps visualize the depth and duration of the "Great Recession" and how the subsequent "recovery" did not reach on-line "Main Street" shoppers:



This second chart shows the monthly average value of a trailing 91-day "quarter" of our new daily Absolute Demand Index, and it will be updated on a monthly basis when our data for any given month is complete.

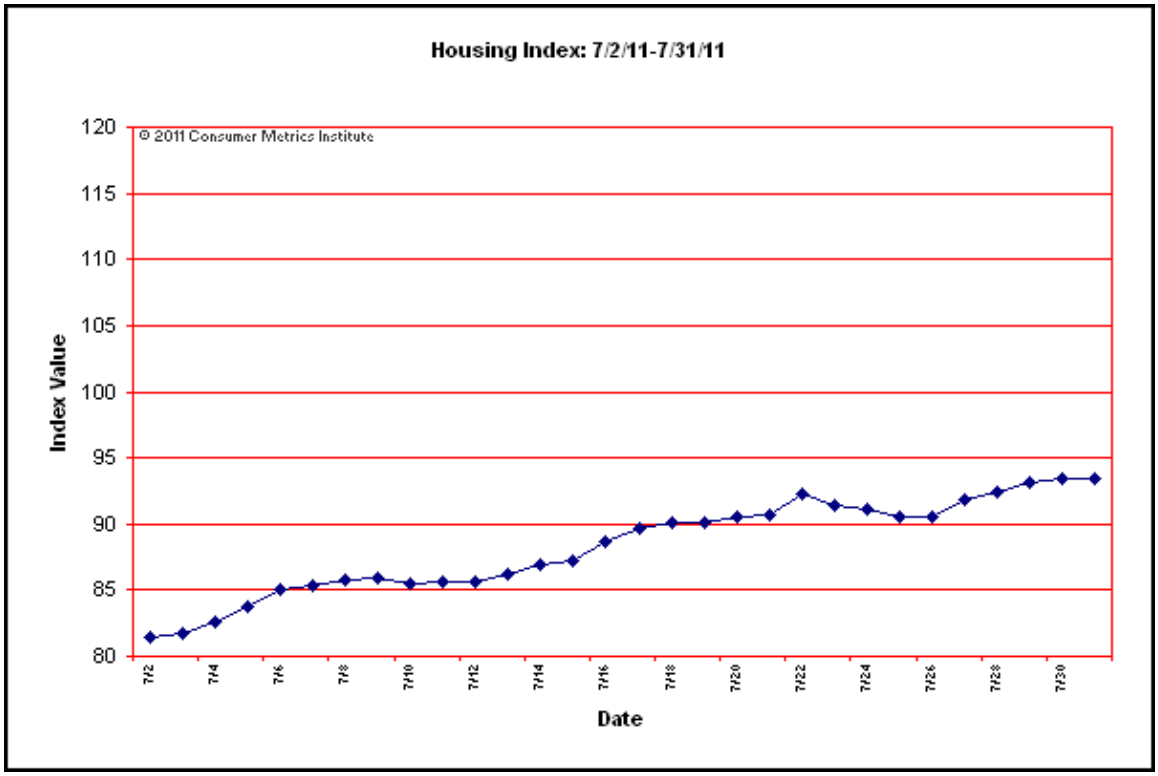
(It is important to realize that the two charts shown above are "reverse engineered" from our primary year-over-year rate-of-change data. For that reason they mathematically derive (i.e., integrate) "absolute" demand levels from our series of year-over-year (i.e., differential) data -- and they are not in any sense showing directly measured "raw" data.)

Housing Data

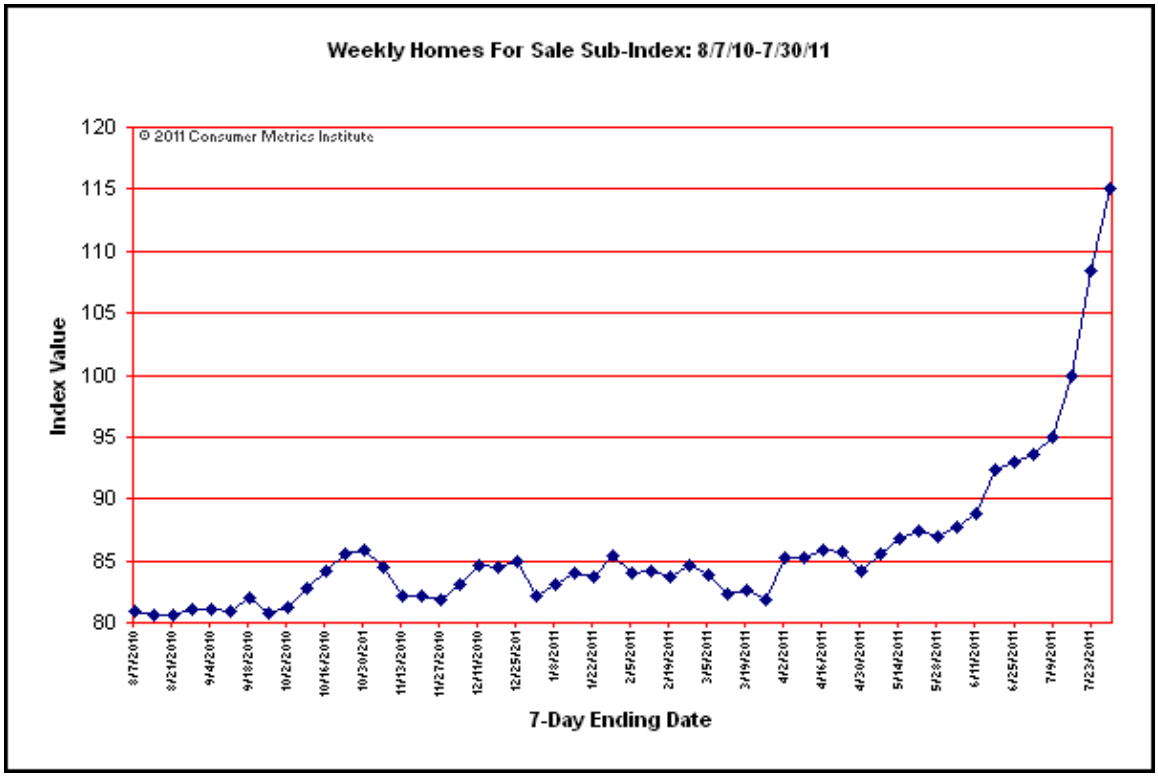
We have mentioned before that the historical happenstance of using 2005 for our baseline year carries with it the consequence of capturing the housing market at a point in time when it was still a huge part of the economy. But we have also been reluctant to tamper with the baseline data in order to make housing less relevant -- largely because of the undeniable role that the languishing housing market has had in the lingering economic malaise and unemployment rates. We have repeatedly said that the economy will not be healthy again until single family housing starts approach an annual rate of 1,250,000 and the more-inclusive U-6 Unemployment number drops below 12% -- both levels that represent a historically "normal" economy.

Getting back to even 1,000,000 new housing starts will take some effort, especially given the tremendous inventory of existing homes either on the market, in the shadows, in foreclosure or in payment default. But you have to start somewhere, and the year-over-year contraction rates that

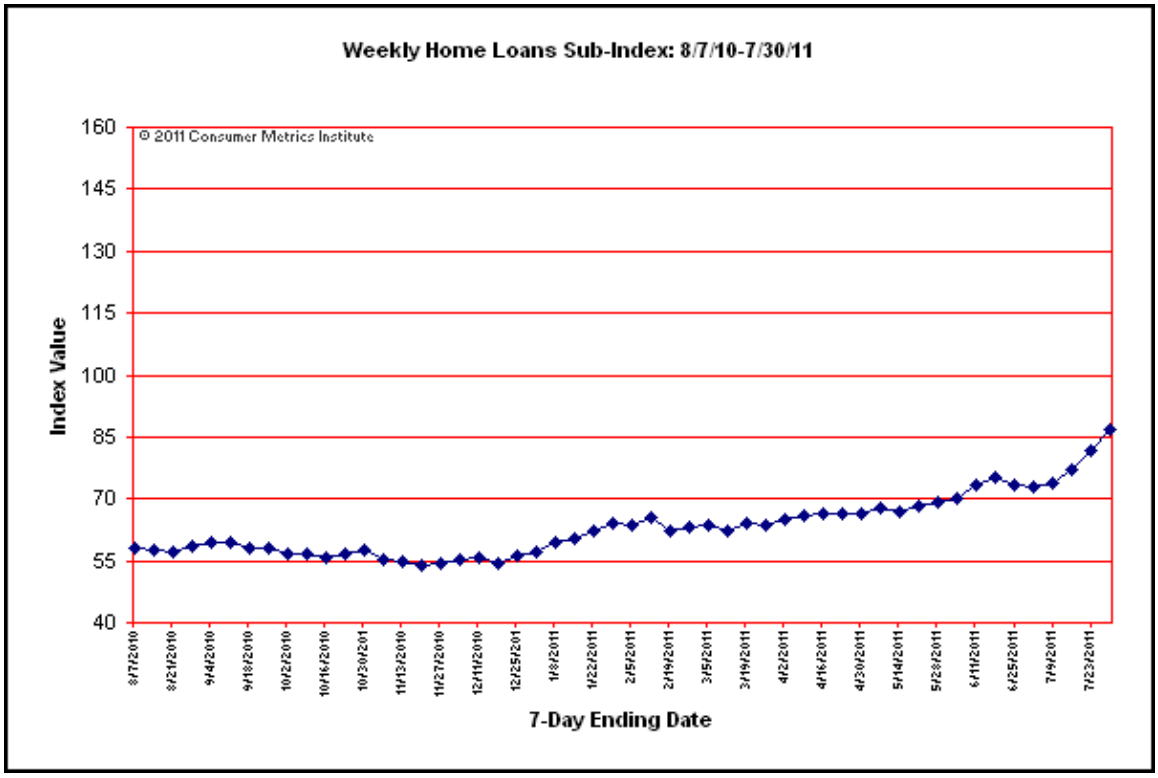
we had been witnessing for so long in the housing area have recently shown substantial and sustained moderation:



The importance of any of these charts is how much the indexes have moved (on a percentage basis) since early July. In the case of the overall Housing Index shown above, the improvement since early July has been about 15% of those earlier lower levels -- an incredible movement for such a large sector in just a month. The improvements started (perhaps as wishful thinking) in demand for new listings:

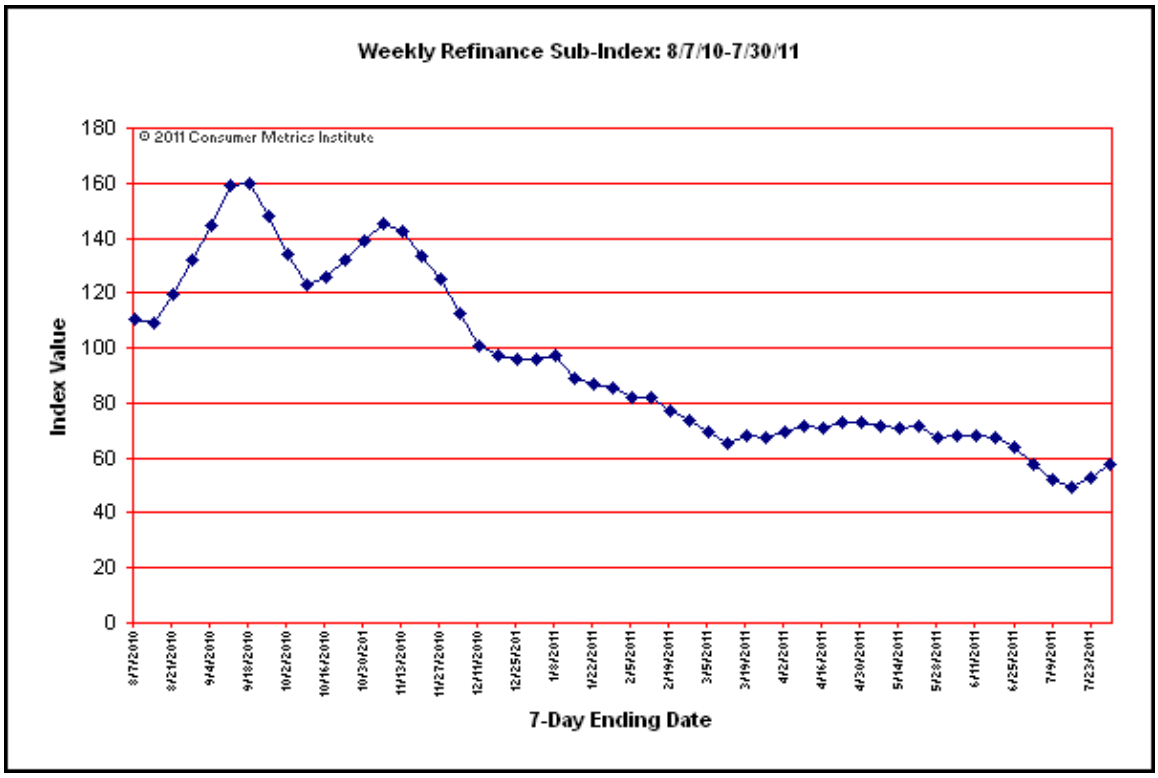


But to our astonishment, there has been an almost corresponding increase in demand for new loans:



Although there have been signs that an increasing percentage of requested loans (and hence closings) have fallen through when the appraisals came in well short of transaction prices, we have no doubt that the record setting levels of year-over-year contraction in loan demand are now moving behind us.

Contrast the above charts to consumer demand for existing home mortgage re-financing:



Again a bottom has been seen, but the fall-off from the extreme levels of re-financing activities in the fall of 2010 (left side of chart) is inescapable. All of this new-found life in the housing sector has profound (and dramatic) effects on our Weighted Composite Index because of the historic weighting of the housing industry in the 2005 base level NIPA tables from the BEA.

And, quite separately, we have read reports that the rate of foreclosure initiations has moderated over the past few months -- unfortunately not as a result of fewer homeowners defaulting on their payments, but rather because of financial institutions delaying the formal initiation of new foreclosure proceedings in an effort to reduce the caseload backlog. This means, of course, an increasing number of upside-down homeowners living "rent free" -- and possibly for extended periods of time.

We have previously estimated that such "rent free" living could be freeing up as much as 7.5% of the monies that are spent on the kinds of discretionary durable goods that we track. And as the time spans of "rent free" living get extended, more and more of that 7.5% will find its way into purchases and into our data.

Housing is a key to both our current problems and their potential solutions. We will watch how

this data evolves over time and keep you posted on what it means moving forward.
