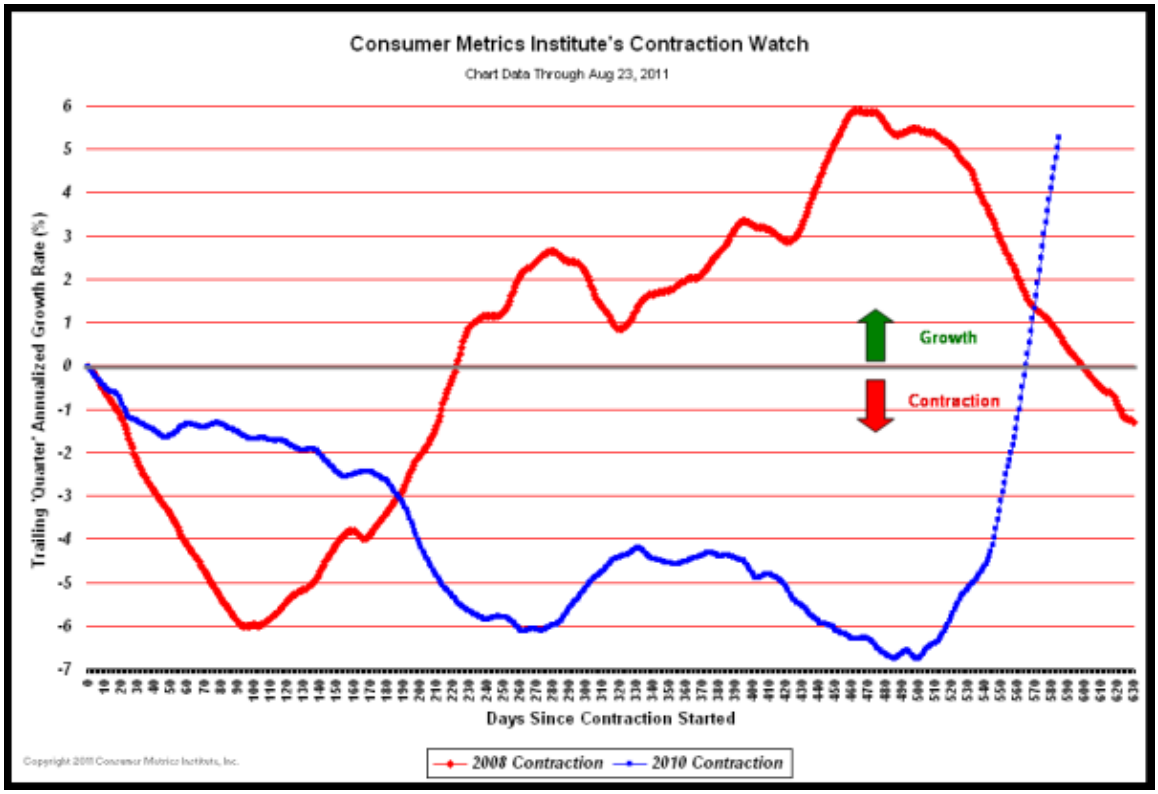
Consumer Metrics Institute News

August 5, 2011: Special Update: Daily Growth Index Breaks Positive

On August 3, 2011 our Daily Growth Index went into growth territory for the first time in 566 days -- ending the longest consecutive string of contraction-days that we have ever experienced. Furthermore, the rise off of the record lows set as recently as May 30, 2011 has been nothing short of spectacular:



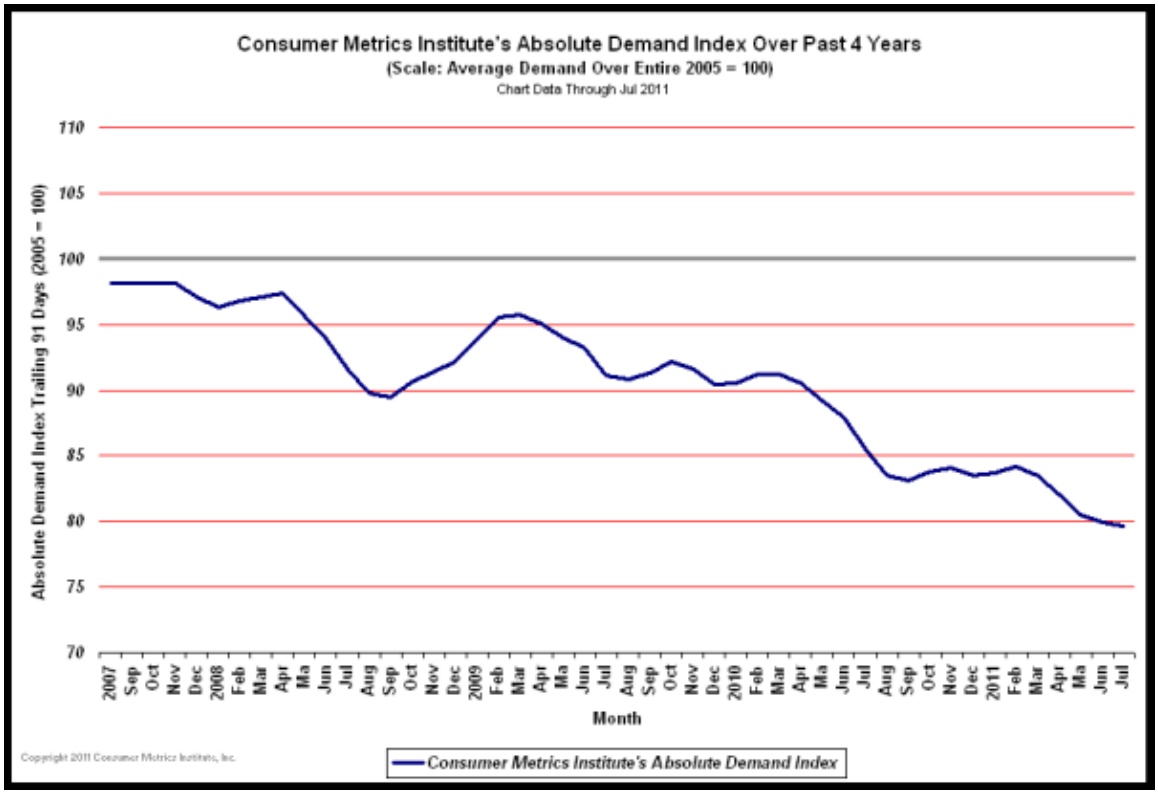
The above chart follows the course of our Daily Growth Index (actually just a 91-day moving average of the Weighted Composite Index, converted from the base 100 index to a +/- percentage) since that index first went into contraction (on January 15, 2010 -- now nearly 566 days ago). The chart also shows 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.

Keeping Perspective

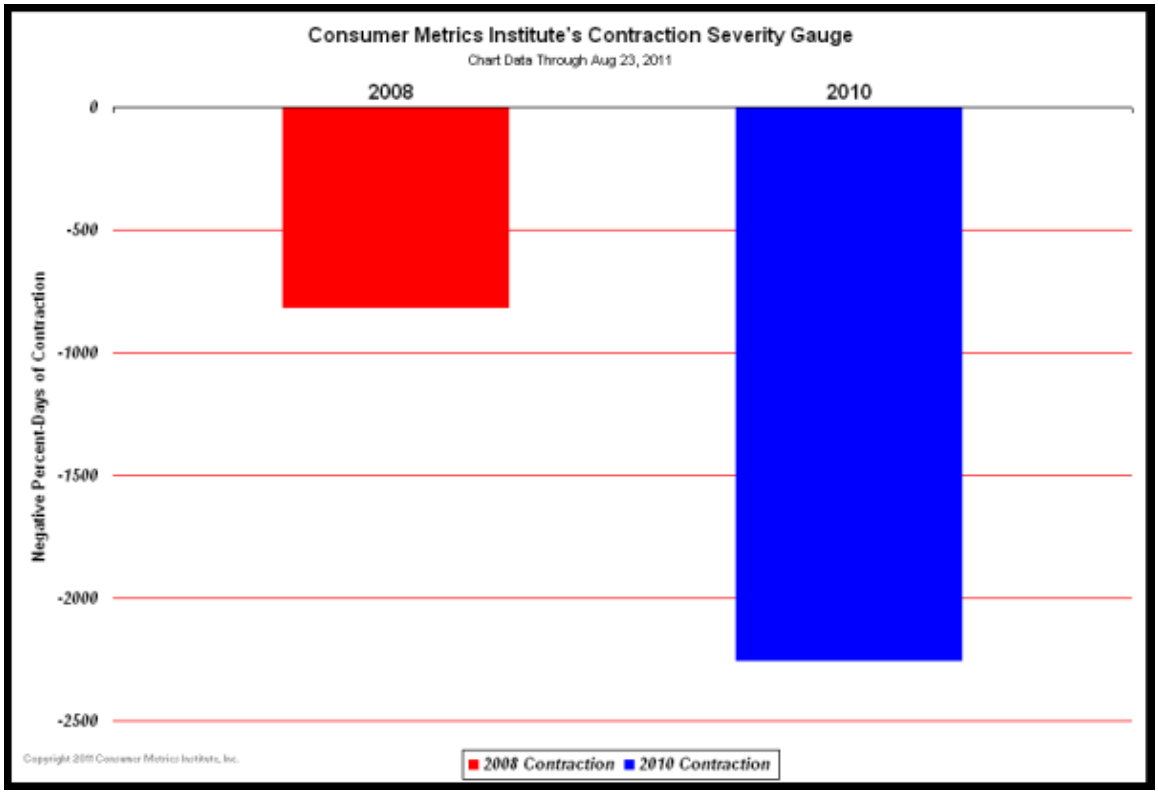
It is *very important to remember* that our Daily Growth Index (and its precursor Weighted Composite Index) measure year-over-year changes in consumer demand for on-line discretionary durable goods. In other words, *the indexes measure the slope of the demand curve, not the actual demand itself.* When the indexes first cross into neutral territory (a reading of 0 for the Daily Growth Index and 100 for the Weighted Composite Index) it only means that the actual "absolute" on-line demand is no longer getting worse -- i.e., it has just reached rock bottom.

By analogy, our indexes measure the slope that a car is experiencing when driving on mountain roads in a fog. Our "car" started down a slope on January 15, 2010. It reached the greatest downward grade on the road over 16 months later in late May 2011. And on August 3, 2011 our "car" reached the bottom of the slope and the forward tilt leveled off. Furthermore, our moving-average mathematics lets us see a few yards ahead into the fog, and that view indicates that over the very short term we are likely to start climbing out of the deep canyon we have found ourselves in.

"Not getting worse" is good news. But it doesn't mean that we are anywhere near whole again (or that we have climbed anywhere near completely back out of the very deep valley we had driven into). The economic topology we have experienced can be perhaps best visualized from our new "Absolute Demand Index" chart, where the leveling off had just begun to be visible in the July 2011 data:



This time around the damage done to the economy by consumers has been several times worse that the equivalent damages in 2008 (when the bulk of the pain in the economy was felt by the financial and construction sectors long before consumers started to deleverage). The final scale of the relative damages can be seen in our "Contraction Severity Gauge":



The Curse of Seeing Ahead

The relative economic pain visible in the "Contraction Severity Gauge" has just begun to be felt in manufacturing data. We have commented before that the curse of being as far up-stream economically as our data places us is that all of that pain has to flow downstream through the supply chain and inventories before the BEA's factories begin to notice. Over the past month the "markets" have finally taken note of that imminent pain, and the turmoil there could be substantial as the full consequences of the past 18 months of consumer deleveraging sinks in.

From our perspective, that is now all history. But why are we seeing the bottom? Remember that real-world consumers transact with practically no attention to political drama or economic pundits. They do what is best for them, and they respond to their own personal circumstances. They are basically 100 million loose household cannons. Stay tuned, but the upturn we see has most likely resulted from a real bottom in housing demand (but sadly not tightening supply -- and not by a long shot) and the moderation of pain at the gas pump.

The curse of being way ahead of the dips in any economic cycle is that the people still on the down-slope think that you've completely lost your mind. Maybe we have. Just like we did in late November 2008 when we saw the on-line consumer demand bottom some 4 months before the early March 2009 market bottom.

But it sure is nice to finally be reporting (however delusionally) something other than unending gloom. We can at last see the glimmer of the other side of the chasm. To bad that the rest of the world won't see it for some time.