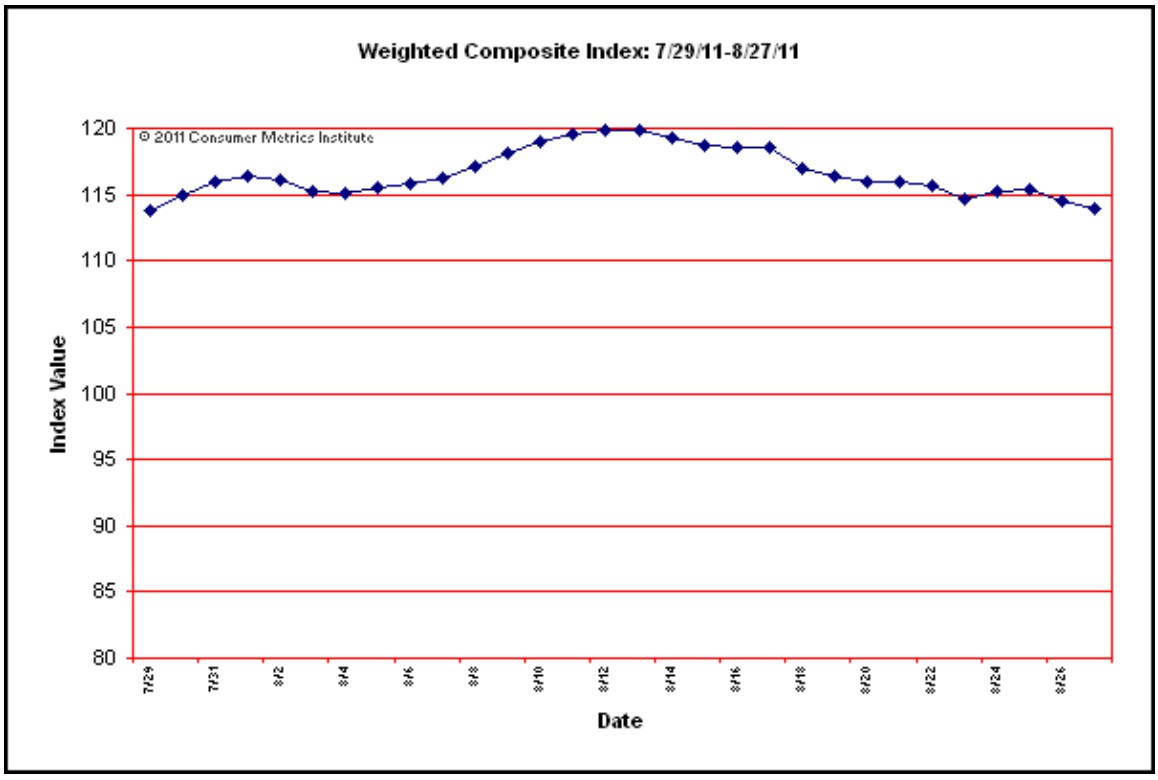
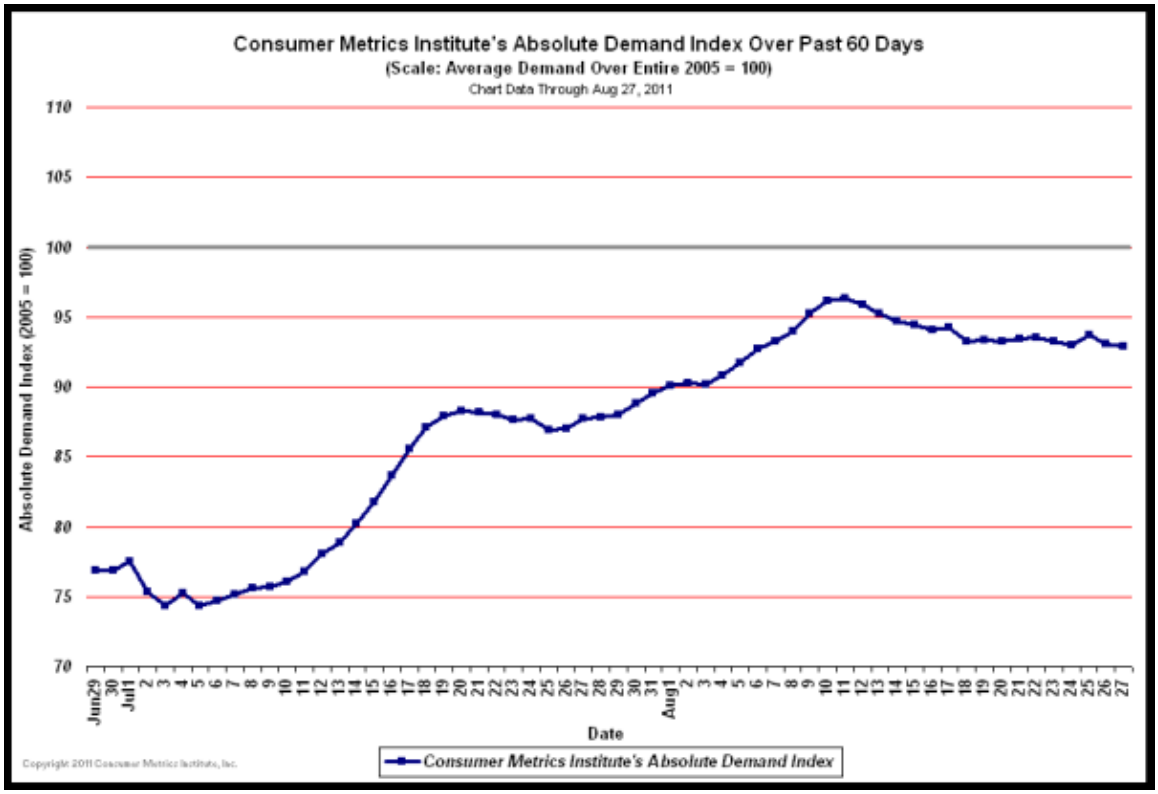
Consumer Metrics Institute Members News

August 24, 2011: Update on Our Indexes

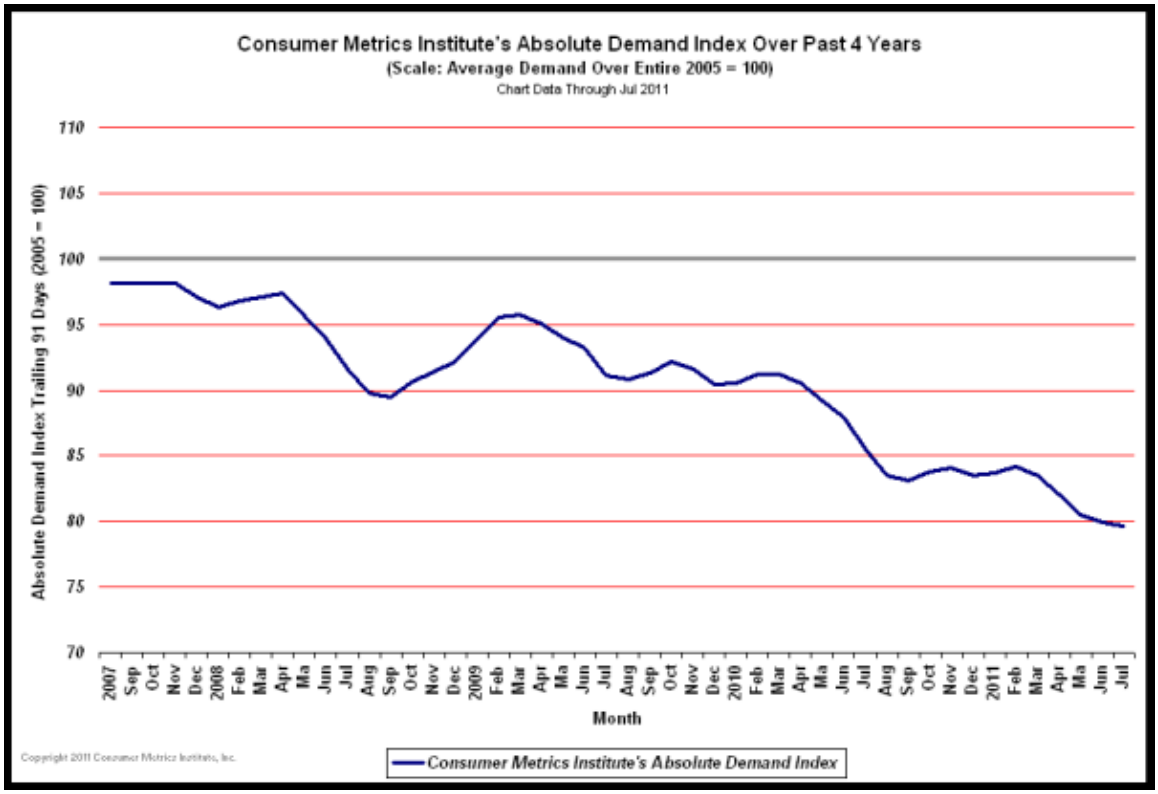
During the past week we have seen our Weighted Composite Index plateau at double-digit year-over-year growth rates, only slightly below an all-time high set the preceding Saturday, August 13, 2011**:**



To give these extraordinary year-over-year readings some context it is important to remember that they are being measured relative to near-record low readings from August 2010, when the same index bottomed at 90.57 (only to set further record lows as late as the middle of March, 2011). To help our members visualize the compounding effect of the year-over-year changes, we have developed our "Absolute Demand Index" to take that compounding into account. The daily view of the "Absolute Demand Index" shows that the compounded demand has not yet recovered to average demand levels for 2005 (the line at the 100 level in the chart)**:**



Meanwhile, the monthly version of the same data (through July only) shows the depth to which the "Great Recession" had pushed on-line consumer demand for discretionary durable goods through the past four years**:**



The horrific dip in the above chart is the "news" that the equity markets are at last responding to. Without massive governmental interventions to levitate the economy, the impact of what the U.S. consumer has been living through for the past four years should finally come home to roost. The markets and the main-stream media are probably 18 months late in recognizing that "Main Street" America has not benefited in any substantial way from Mr. Bernanke's magic, the next round of which may be announced on Friday from Jackson Hole, Wyoming. If, on the other hand, the markets simply haven't cared about what has been happening on "Main Street," we suspect that at some point soon the fundamental realities of a consumer driven economy will become impossible to ignore.

There are several points to keep in mind during the next few months**:**

-- If the "markets" were 18 months late in recognizing the pain on "Main Street," then they are likely to be really late in recognizing when the bottom has finally arrived.

-- We're not sure that a few weeks of really encouraging numbers yet constitutes cause for celebration. But it is at least that: encouraging.

-- We would feel much better about the abrupt change in our demand measurements if we knew where the money was coming from.

Gut Feelings

The truth is that our "gut" feelings about this economy don't remotely match the data we are collecting. Although we explicitly trust the numbers, our "gut" tells us that something funny is at work. We have explored a number of possibilities, including**:**

-- The increased short-term demand for housing (which should show up in conventional housing data in a couple of months) is the consequence of the rapid drop to historically low mortgage rates having pulled sales forward. After a few months the real estate markets will acclimate to the new rates and the "pulled forward" sales will create a corresponding trough.

-- We looked for regional effects, particularly in the activities at home improvement chains. The theory was that a spate of highly damaging late spring storms in the mid-west and south caused a mid-summer spurt in repair and replacement work, funded in part by insurance funds. This could explain the mysterious source of the monies spent. But unfortunately a careful regional review of our actual data doesn't support substantial differences in regional activity.

-- One of the realities of the "Great Recession" was that it was (or, more accurately, is) not a fully shared experience. It makes a big difference whether you have a job or not, and whether you bought a highly leveraged home late into the housing bubble. It also matters where you live. The most glaring examples are the regional differences in the real estate market, where since June 2006 the Case-Shiller Home Price Index has crashed 59.1% in Las Vegas, 55.9% in Phoenix and 50.2% in Miami; in sharp contrast, over the same time span Bostonians have suffered "only" a 15.1% loss, home-owners in Denver have lost merely 11.1%, and the lucky residents of Dallas have seen the values of their homes drop an 8.2% pittance.

And it matters a great deal where exactly inside any of those markets your property lies, and how your neighbors have fared. We know first hand that in some select and minimally damaged neighborhoods the fine art of "flipping" by savvy and cash-rich realtor/investors is back in vogue. This raises the possibility that deep pockets of cash with nowhere else to go have begun to move back into select real estate markets, causing at least some of the recent blip in the otherwise moribund housing market.

-- We continue to think that there is a new demographic cohort that was too young to be materially harmed by the housing bubble, and that those young households now have the pristine credit and down payment cash necessary to snatch up distressed properties at ridiculously low mortgage rates. That pent-up demand will not (by a long shot) clear the backlog of inventory, but it could move things off of abysmal lows.

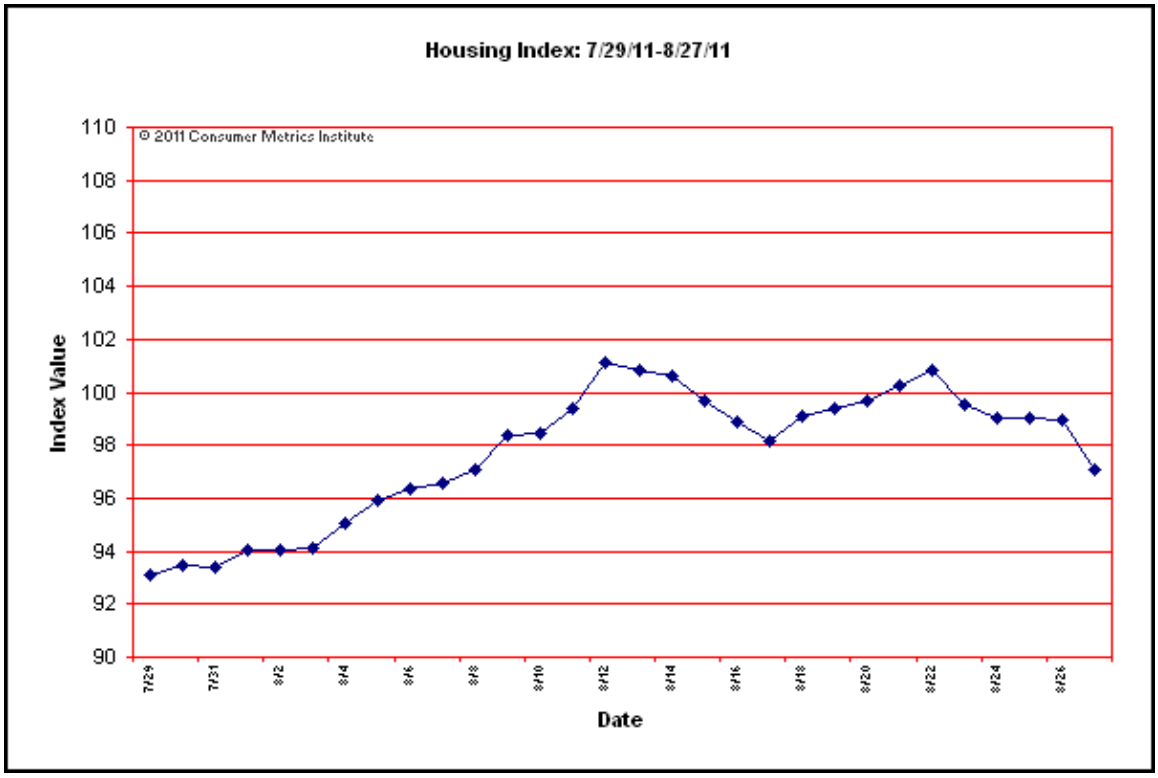
-- We think that it would be a major mistake to underestimate the impact of falling gasoline prices on discretionary spending.

-- We also think that it would be a major mistake to underestimate the cash flows being freed up by those in foreclosure, arrears or default.

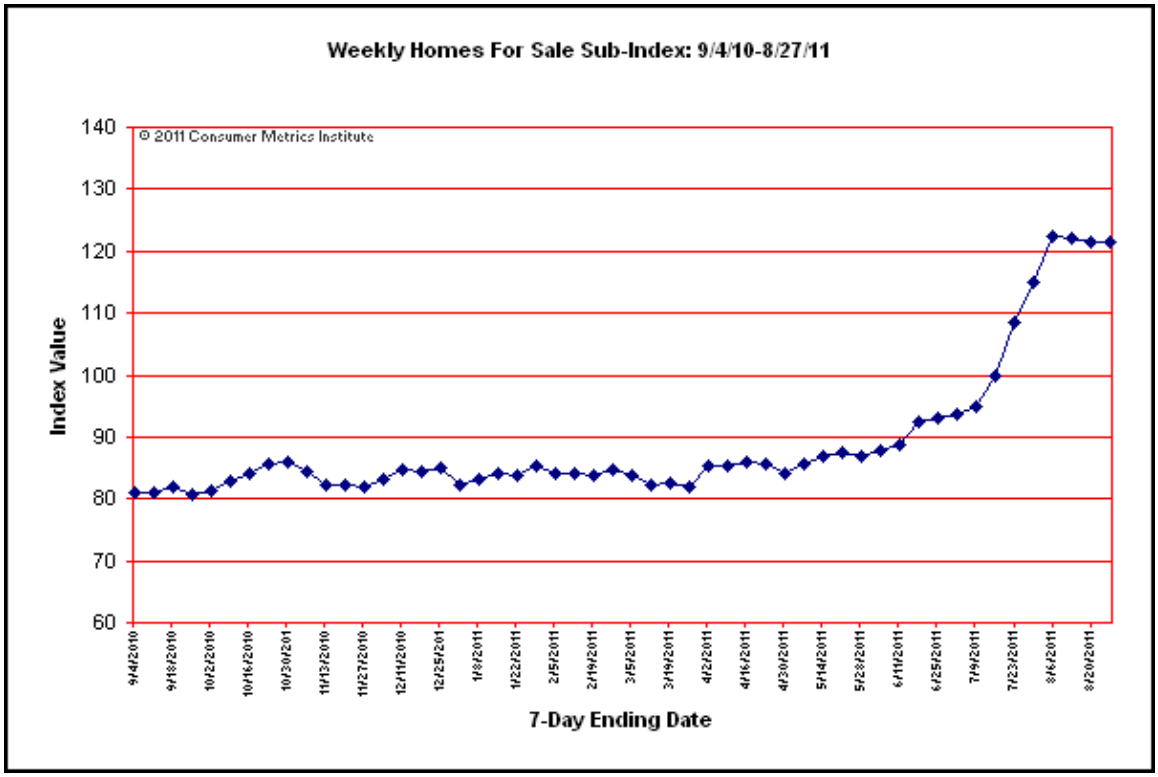
-- And lastly, we don't think that the social composition of America is remotely the same as it was entering the "Great Recession." The makeup of "households" has likely changed in ways that we don't fully understand, with living arrangements altered by the realities of the economy. And the composition of the "work force" has probably also changed in ways that unemployment surveys have failed to capture. The difference between student and unemployed has at least become murky, and we think that a great wave of entrepreneurship has been triggered out of personal necessity. This latter phenomenon has probably escaped the BLS census takers (not to mention the more real-time tax and payroll data as well), and it could be the engine for substantial growth coming up the other side of the economic chasm.

The Real-Time Charts

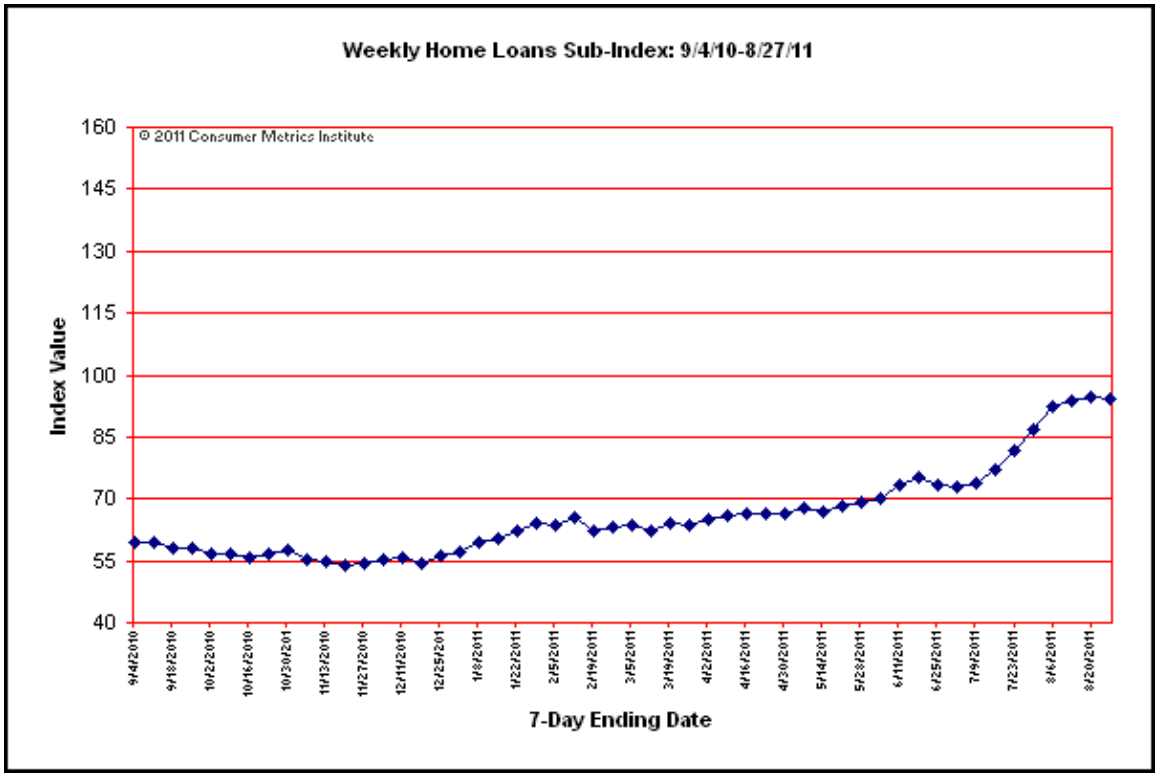
Given the above -- and in particular the possibility that the recent drop in mortgage rates might be pulling real estate demand forward -- we offer the most recent charts from our Housing Sector**:**



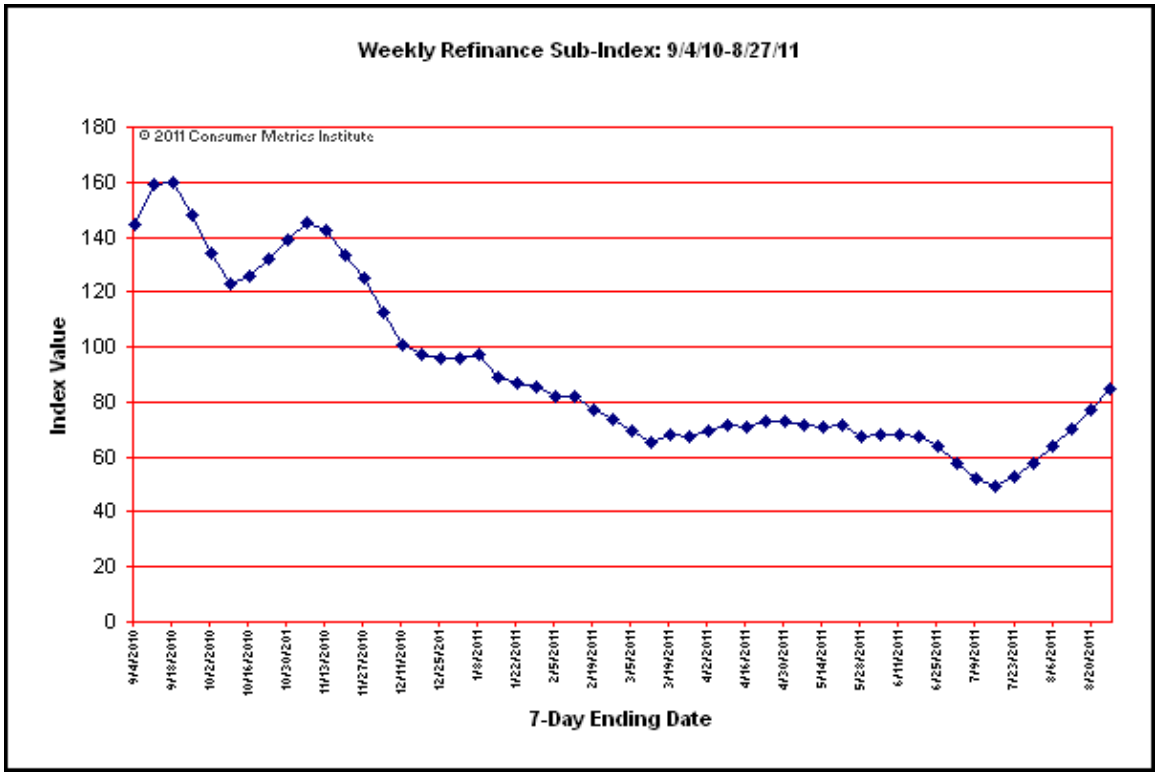
Note that the above chart has merely returned to year-over-year neutral territory, although saying that is really something compared to where it index was in late spring. And looking at the past couple of weeks of consumer demand for listing services:



The changes in demand for listings could be a sign of a plateau, and it has been mirrored (again with a slight lag) in demand for new loan services**:**



But the new record mortgage rates have finally created some life in demand for refinancing**:**



We will be watching these charts closely over the next few weeks. Something is clearly happening that the markets (and BEA) probably won't notice for a very long time.