Consumer Metrics Institute Members News

November 5, 2012: Sandy and the Pre-Election Blues

(Web page version is here)

At the Consumer Metrics Institute we are fortunate to have daily consumer tracking data that provides a nearly real-time window into the impact of natural, cultural and political events on the US economy. In this case we are tracking economic disasters of the natural and man-made kind, with the combined impact of "Superstorm" Sandy and the upcoming election absolutely pummeling our measures of consumer economic activity over the past two weeks**:**

(Click here for best resolution)

The above chart records our Absolute Demand Index over the past 60 days (with the 100 level representing the average level that we recorded for the calendar year 2005 -- a year heavily boosted by the then-roaring housing boom). Clearly something has happened since October 24th that has sent consumers literally and figuratively running for cover.

"Superstorm" Sandy has certainly contributed to the downturn, with perhaps as many as 2% of US households without power for from several days to the better part of a week. We might expect at least a 2-4% hit in our numbers -- which depend upon powered and connected on-line consumers as a proxy for the US discretionary durable goods economy. The storm related disruptions to normal shopping patterns should have commenced on or about October 26th, and the plunge seen in the chart above is a plausible consequence of the storm.

But our year-over-year weighted composite index has actually been steadily dropping for the past 30 days -- starting the descent long before Sandy first appeared on the horizon**:**

(Click here for best resolution)

In fact, prior to when Sandy started to form in the Caribbean Sea we had begun to expect our Weighted Composite Index to start a "pre-election" swoon similar to that experienced in 2008. The chart below covers the months of October and November 2008, and the electoral dip in consumer activity can be seen clearly -- with the bottom occurring on November 5th (the day after the election)**:**

(Click here for best resolution)

At that time we thought that consumers were experiencing a certain degree of "Fear, Uncertainty and Doubt" (FUD) as a consequence of an historic election that heaped social and cultural implications on top of the mere political sea change that accompanies a transfer of power in the White House. Whether the dip was actually caused by FUD or (perhaps more benignly) by a riveting once-in-a-lifetime performance of US political theater is irrelevant -- the net result was a year-over-year decline in normal economic activity that set the stage for the bottom of the "Great Recession." In fact by our measures November 5th **was** the bottom of the "Great Recession" from a consumer perspective, because the rise in consumer demand evident in the right hand part of the chart above continued right through the Holidays before topping out in August, 2009 -- an upturn that presaged the one in the equity markets by a full quarter.

We have expected no less of a dip this year -- even if governmental sources assure us that we are not in a recession this time around. So we have taken the opportunity to contrast the two pre-election dips in the following charts, where the time scale at the bottom of the graph is the days before and after the general election**:**

(Click here for best resolution)

Note that even though the 2008 year-over-year numbers were from the bottom of the "Great Recession," this time around the year-over-year numbers are worse. And the impact of Sandy should only be seen in the above chart from October 24th at the earliest (day "-13" relative to the election). Although the bottom fell out of the numbers shortly thereafter (and seem to have started to recover somewhat over the past couple of days), the more critical point is that the time span even before the advent of Sandy was significantly weaker than 4 years earlier.

And it will be interesting to see how the green diamonds in the above graph work their way to the right. We will keep you posted.

Our concern has been that the FUD surrounding the 2008 election pales in comparison to the economic FUD currently blasted into American living rooms every night. The economic collateral damage to the collective US consumer psyche from the campaign rhetoric may be substantially greater than anyone expects. And the psychological impact may last much longer than 4 years ago -- especially if the rhetoric of "expect four more years of the same" has left any kind of permanent impression.

When we casually say that our economic problems are fundamentally political we may be far closer to the truth than we realize.
