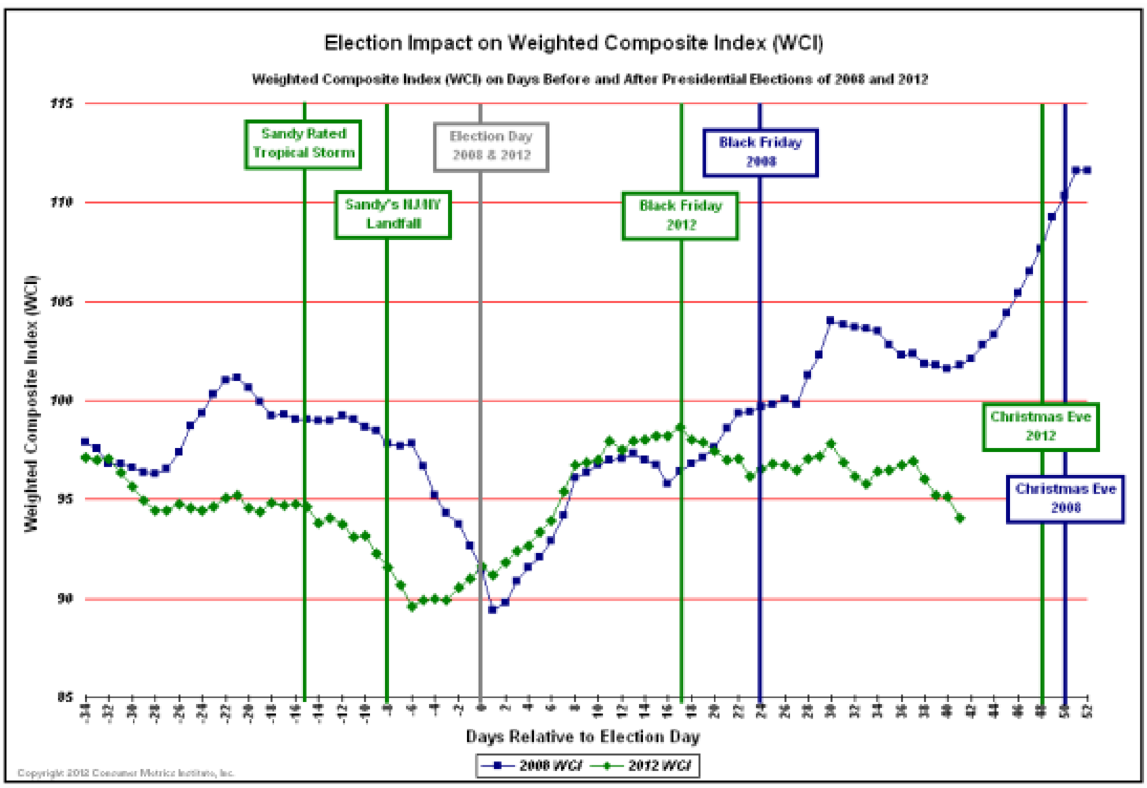
Consumer Metrics Institute Members News

December 19, 2012: Updated Charts and Holiday Consumer Activities Revisited

(Web page version is here)

Earlier we presented a chart that attempted to quantify the impact of Hurricane Sandy and the presidential election on the shopping behavior of American consumers. We did that by comparing this year's behavior with what we had observed during a comparable time period in 2008. As we have continued to monitor consumer behavior on an essentially real-time basis during December, we thought that an update to that chart with slightly longer time frames was warranted**:**



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In both election cycles we witnessed a significant fall-off in consumer demand that was broadly coincidental with the election, but for late October and early November the comparison was admittedly a little messy because in 2012 we were experiencing two nearly simultaneous events ("Super Storm" Sandy and the election) that could have had a significant impact on consumer activity. With this year's storm related distortion in mind, we have expanded the comparison time frames to cover the bulk of the Holiday shopping seasons for the two presidential election years to see if any longer term observations could be made.

In fact, in retrospect the most startling observation that can be made from the above chart is how abruptly consumer demand was improving in late 2008 -- ultimately triggering the demand side events that started the "recovery" that the National Bureau of Economic Research (NBER) has now concluded completely ended the "Great Recession" by June, 2009. The uptick in our data preceded by a several months the bottom of the equity markets in early March, 2009. And Keynesians should note that the turn in consumer demand was a full two months before the American Recovery and Reinvestment Act of 2009 (ARRA) was enacted (and probably a full year before substantial amounts of Federal fiscal stimulus monies reached the real-world economy).

Perhaps more importantly, when we expanded the above chart's comparison time frame we saw 2012 diverge significantly (and downward) from 2008. Some quick observations from the expanded chart are**:**

-- On-line consumer demand for discretionary durable goods in 2012 was substantially worse (on a year-over-year basis) than 2008 while we were heading into the general election -- even though the 2008 election arguably occurred during the very heart of the "Great Recession."

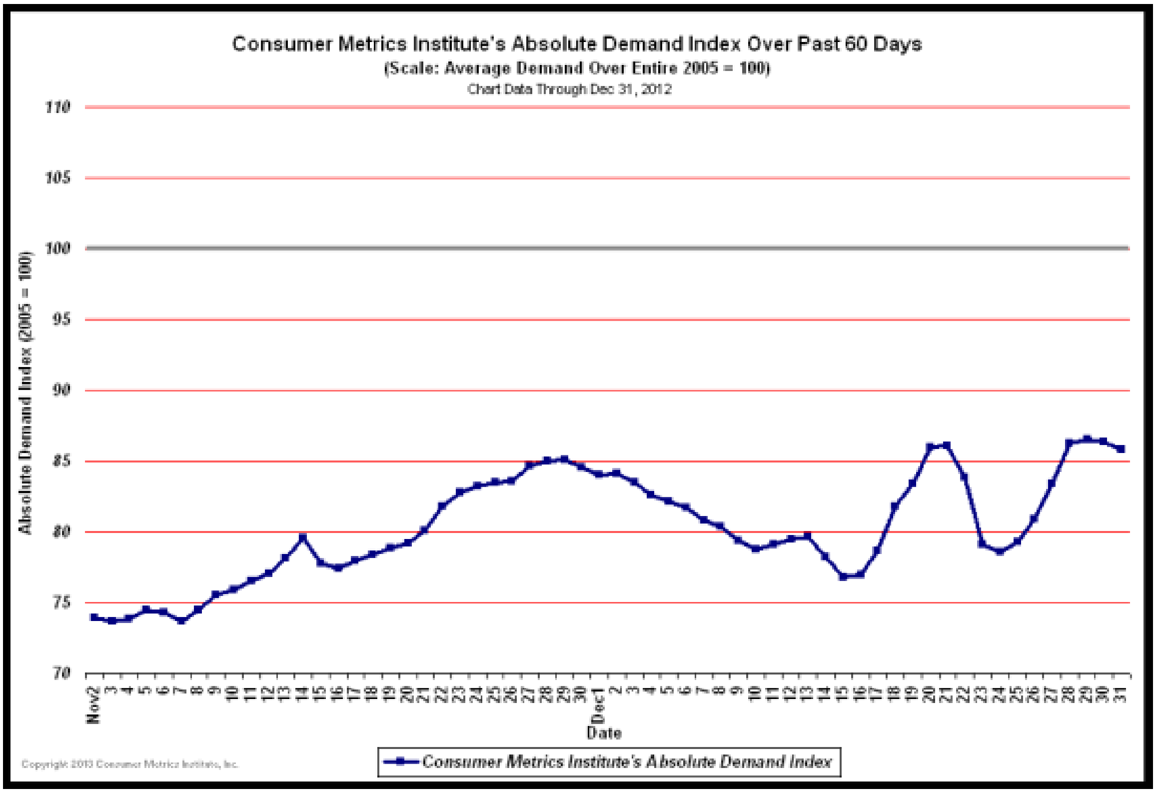
-- The chart indicates that the economic distortions/distractions of Sandy commenced several days prior to landfall as storm related preparations displaced normal commerce for as many as 10 million households. Post-landfall on-line consumer demand did not return to pre-landfall levels for 10 days.

-- The post-election 2012 behavior of consumers also benefited from the relative proximity of the "Black Friday" kick-off to the holiday shopping season. In 2012 that kick-off occurred at the earliest possible calendar date, whereas in 2008 the same kick-off occurred at nearly the latest possible date.

-- Anyone seeing economic "green shoots" within the 2012 "Black Friday" retail reports should be cautioned that "Black Friday" sales (and pre-"Black Friday" promotions) in 2012 may have once again only pulled demand forward from the more traditional December spending season. The decline in consumer interest since "Black Friday" 2012 may indicate that recent retailer behavior (particularly the extraordinary levels of promotional pricing and advertising) has caused a structural change in the seasonal holiday spending patterns of the American shopper. And this year would not be the first time that such a temporal shift in spending patterns has been observed. The consequences of these changes in both retailer and consumer behavior on retailer margins and inventories will probably not be fully recognized until the first quarter of 2013.

Updated Charts

Besides the potential for a shift in the timing of Holiday spending, most of the charts tell us a story of continued lackluster consumer activity**:**



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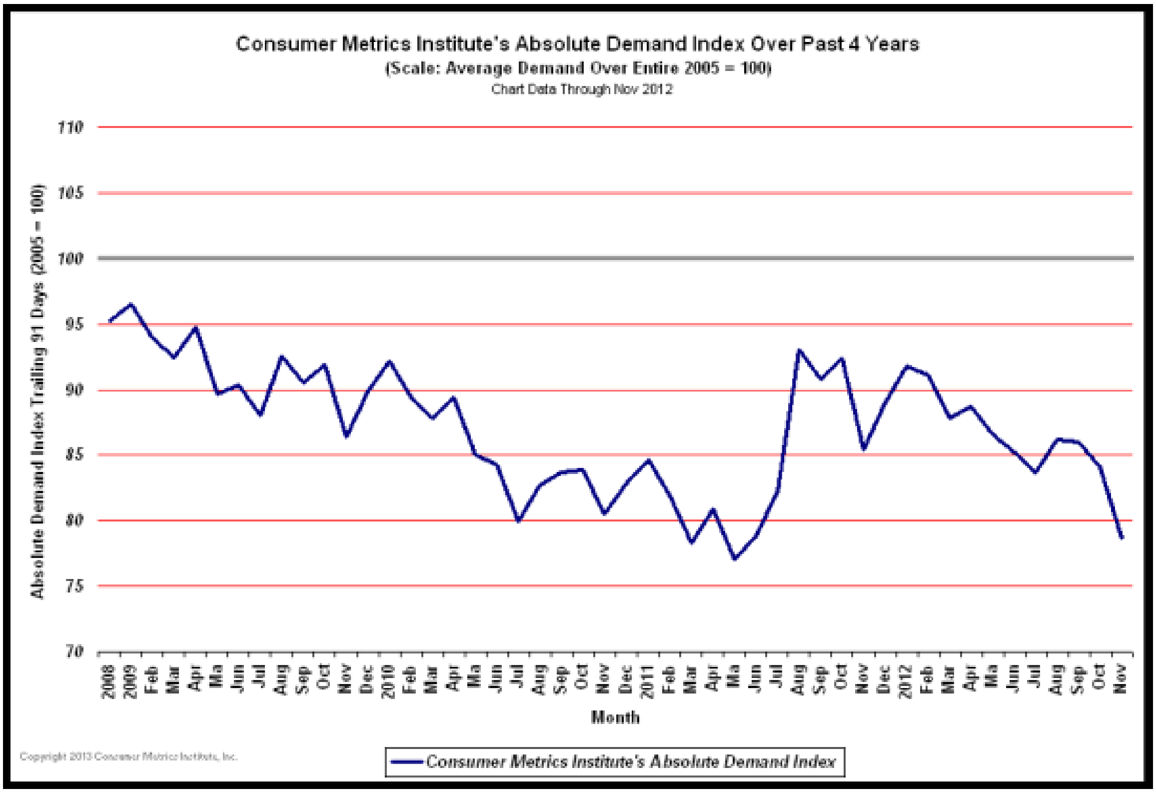
The above "Absolute Demand" chart chronicles the past 60 days, and we can clearly see signs of a "Black Friday" uptick -- followed almost immediately by a post-"Black Friday" fade. The overall view is one of ongoing sluggish consumer demand, with the short term impact of deeply discounted "Black Friday" promotions superimposed upon the longer term trend line.

Taking a slightly longer perspective, we can see that the entirety of last year's second-half bounce has melted away**:**



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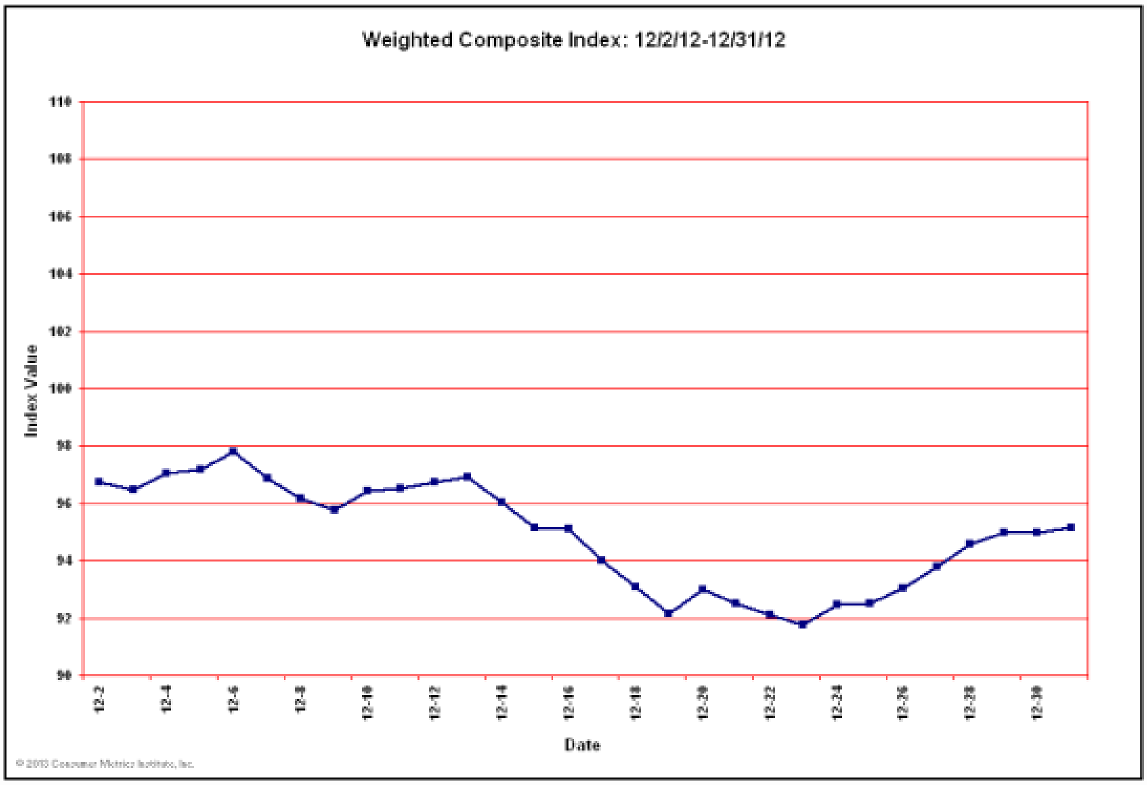
And our year-over-year Weighted Composite Index is similarly lagging -- now moving in a zone some 5% off of last year's level**:**



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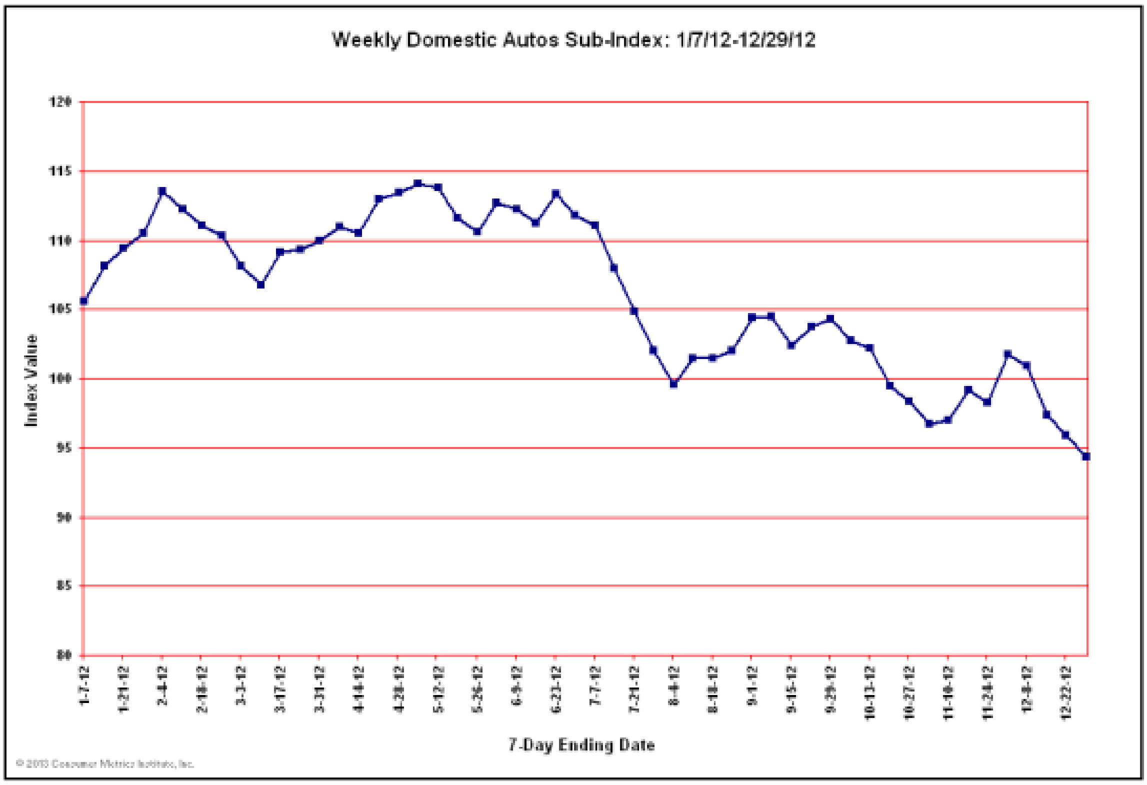
(It is important to note that the above charts are weighted according to the financial impact of the recorded consumer activity on the economy. In those charts the car and home buying that substantially expands credit levels contributes far more to the economy than "feel-good" spending (i.e., consumer self-medication for "frugality blues") measured at the on-line equivalent of shopping malls. In contrast to the transaction value weighted charts above, all of the sector charts below are transaction volume weighted and more prone to upticks caused by "feel-good" spending.)

When we try to get our arms around the bigger issues impacting the economy, we often turn to the "usual suspects," those bell-weather items that can serve as good proxies for the true psyche of consumer households, particularly when those households are looking ahead to their ability to service new loans. The first of the usual suspects is the automotive market, where financing is still available for most of the consumers who want it. Our first chart is for US domestic brands**:**



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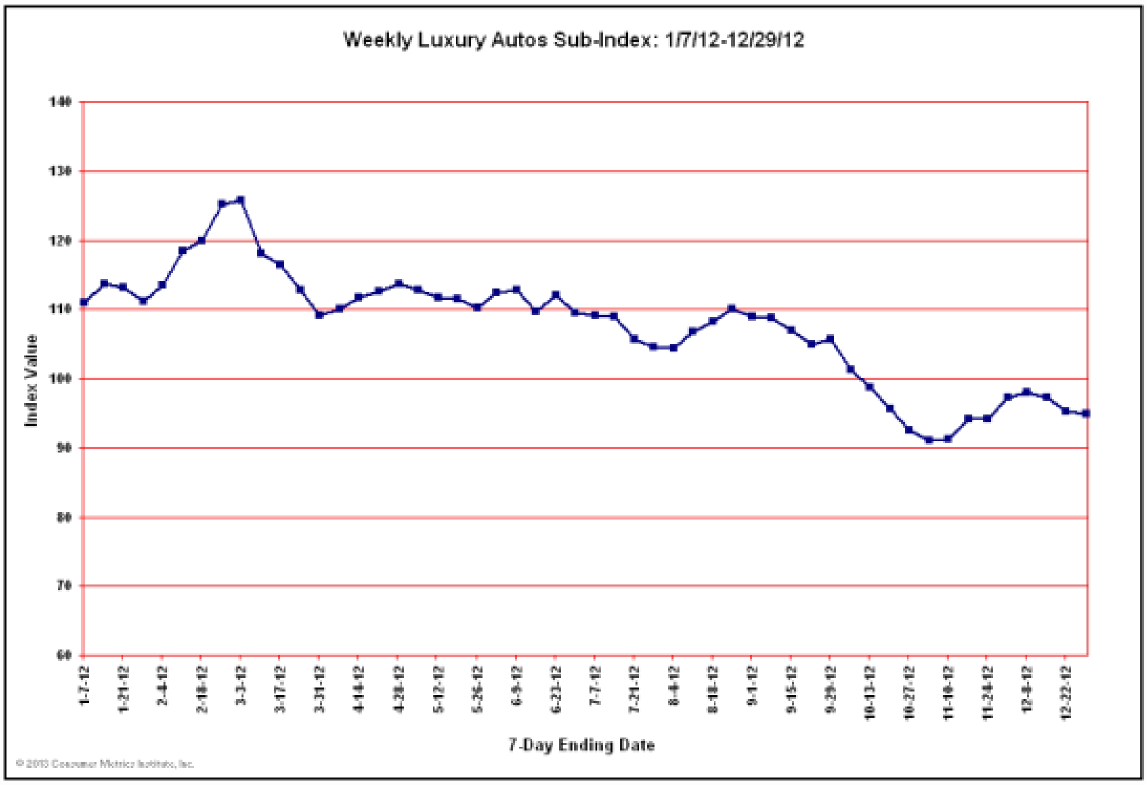
Clearly the six month boost in domestic auto sales visible in the left half of the chart has come and gone, with the most recent readings essentially neutral year-over-year. But the recent swoon is also felt in the luxury market, irrespective of country of manufacture**:**



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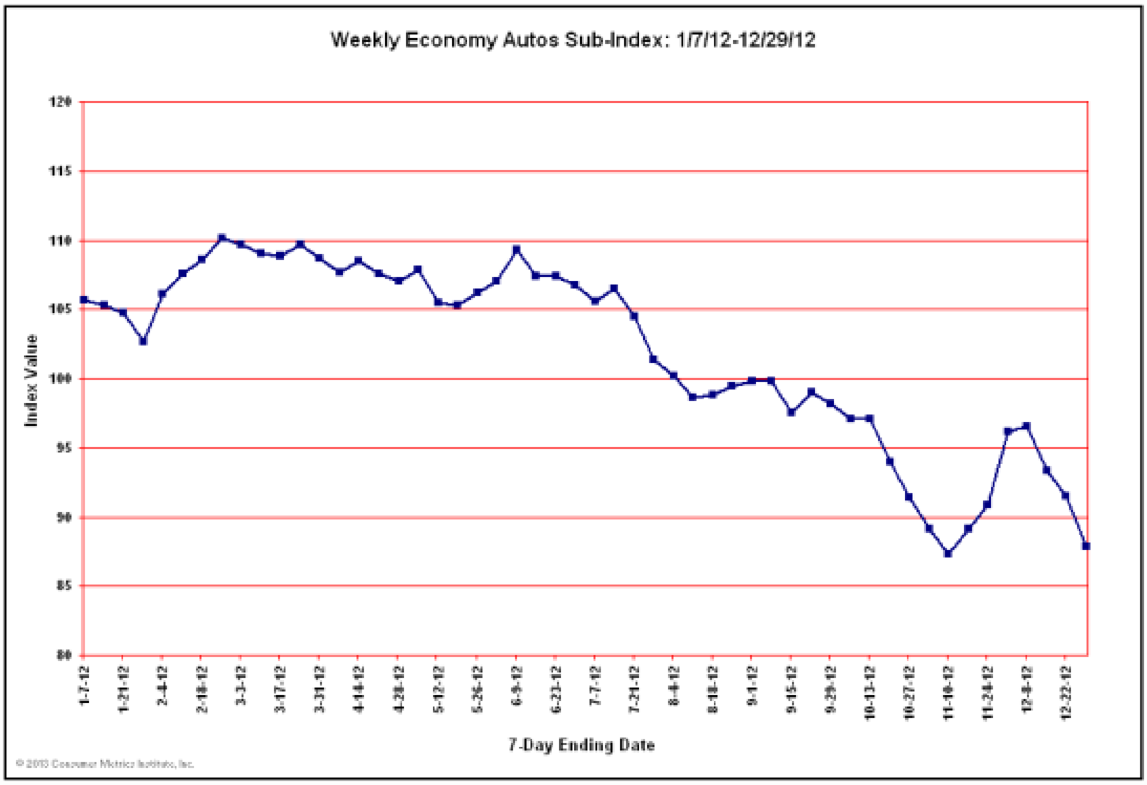
And the market malaise is even shared by the "economy" brands, which were particularly weak during the first part of November**:**



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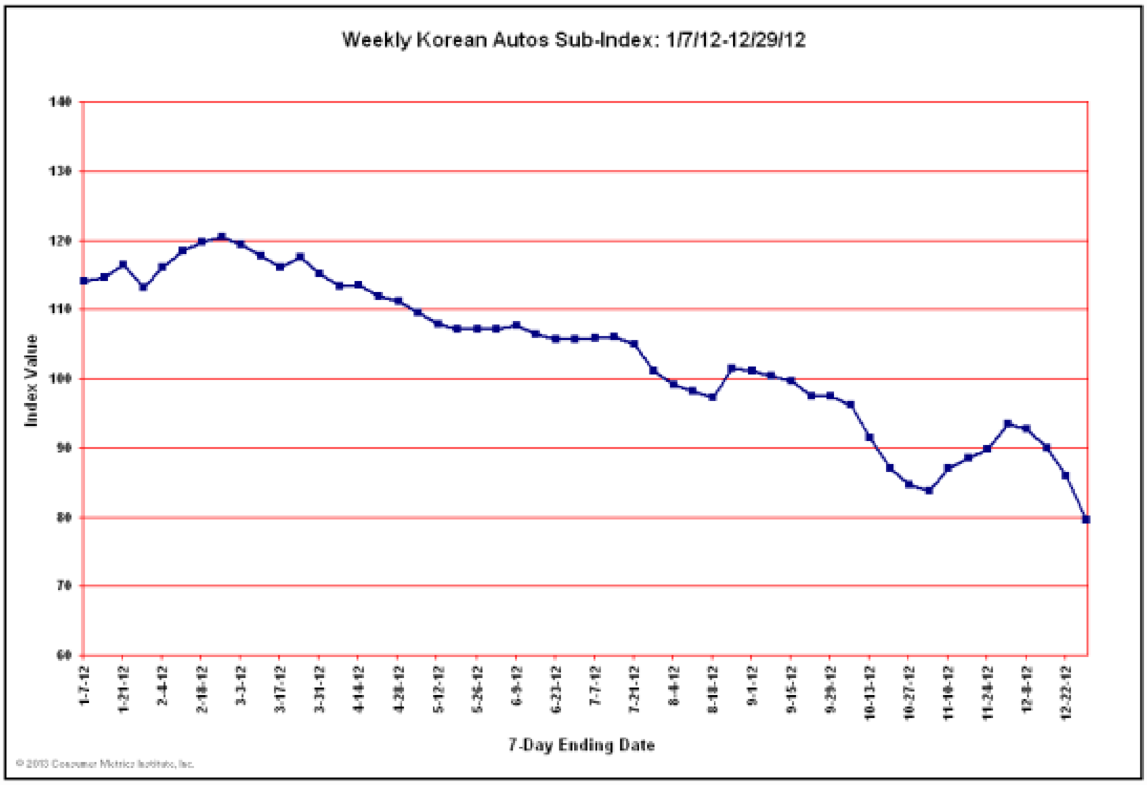
And as we have noted before, the most amazing change has been in consumer demand for the Korean brands -- which had shown nearly uninterrupted year-over-year growth for the past four years before finally going seriously negative in September and October**:**



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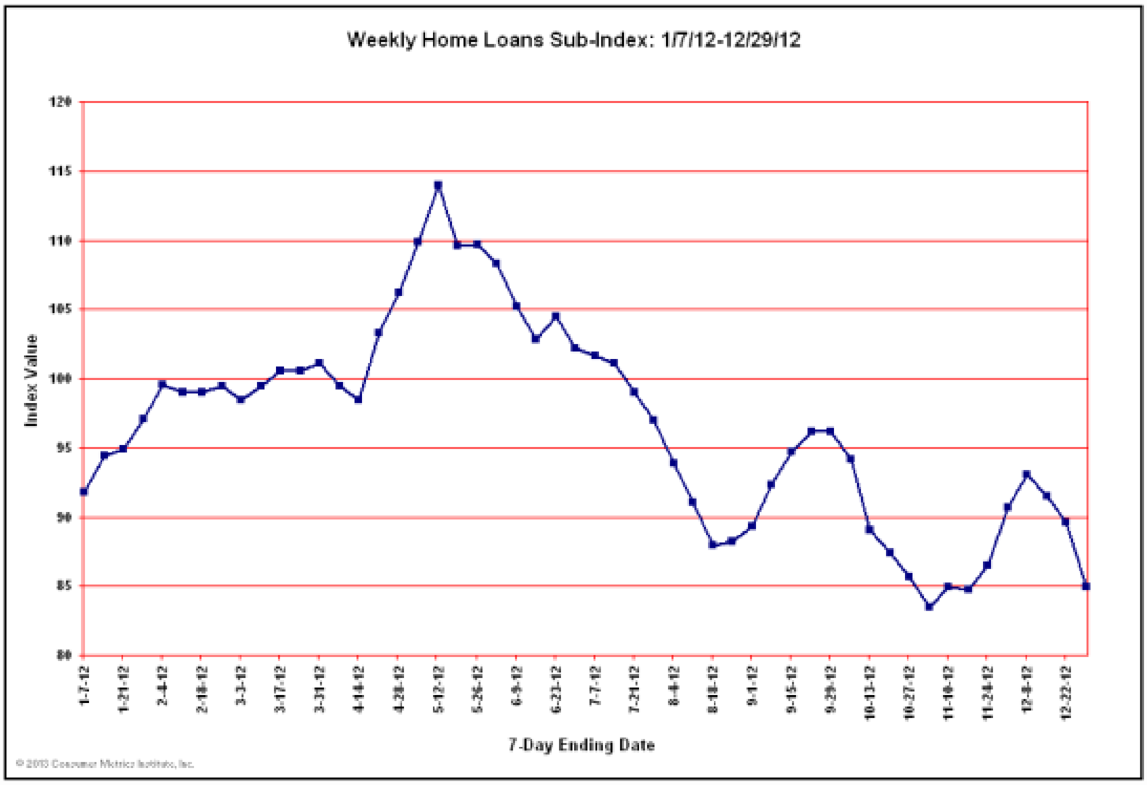
At minimum the latter chart is indicating that the multi-year market share shift to the Korean badges may have finally stabilized. That shift was empowered not only by the recession, but by a new demographic cohort entering the auto market place without deeply rooted loyalties to the more established brand names. But that multi-year trend has now run its course -- although whether that change has come from demographic maturation or competitive pressures remains to be seen.

The housing market is the other key indicator of longer term consumer enthusiasm. Our first chart is for loans for newly acquired residential real estate**:**



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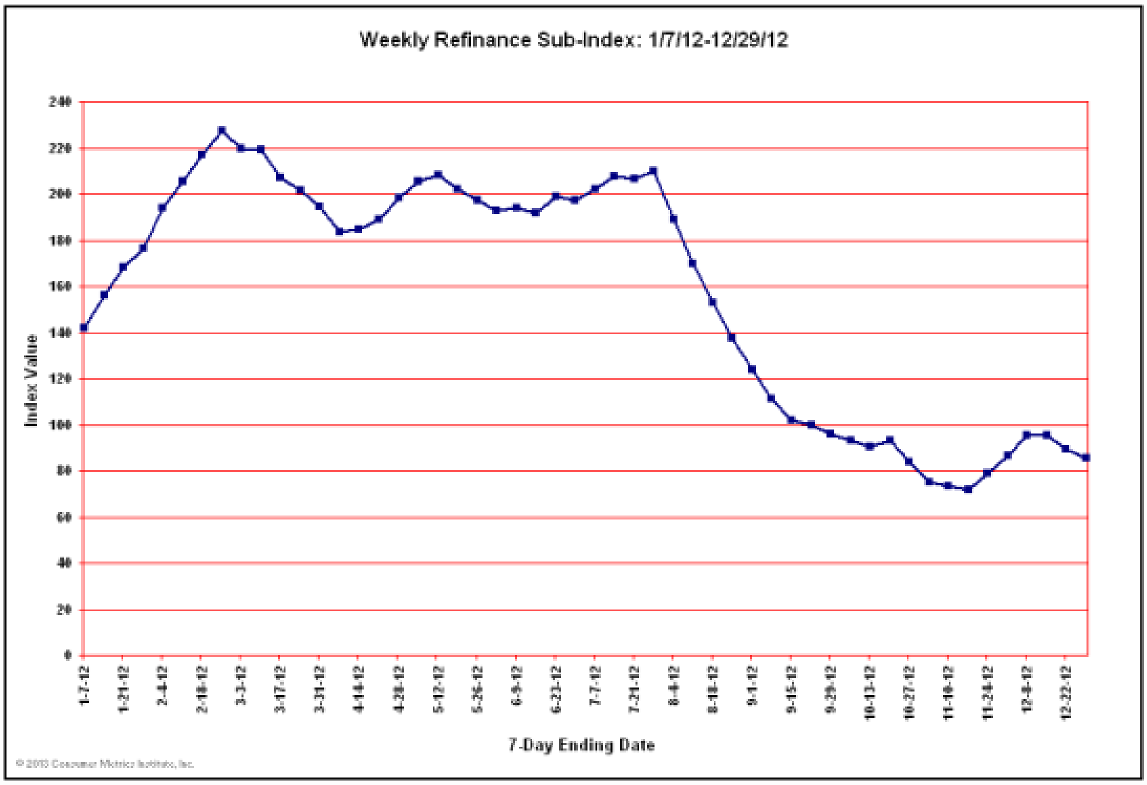
The above chart now shows 5 months of sustained year-over-year contraction -- easily reversing the positive news seen in the prior 4 months. But it is not just new property loans that have weakened**:**



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The level of interest in refinancing is now contracting year-over-year for 12 weeks, after reaching almost astronomical levels in late February and early March (please note the significantly different vertical scales in the above two charts). We would guess that this means that most people in a position to refinance have now gotten around to doing it. It also means that at least one source of increased household cash flows has probably maxed out.

At the risk of beating a dead horse, none of this points to a robust recovery that is driven by healthy consumers. As we have said many times before, the state of the "median" household has not improved meaningfully since mid 2010 -- which not-so-coincidentally was the last time that real per-capita disposable income was showing any signs of material growth.
