BrandLoyalties.com Special Commentary

08/14/2013: Further Observations on GDP and Chart Updates

(Web page version is here)

Kent:

You should have received free copy of the following report last week from Rick Davis at the Consumer Metrics Institute. If you are interested in the macro reports from the Consumer Metrics Institute, please contact me at Tony@BrandLoyalties.com. The annual corporate subscription rate for the entire macro data set is $1,950.

Thanks,

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The markets reacted positively when the BEA's latest GDP release at first glance reported an improvement in growth rates relative to the prior quarter. Unfortunately it required a somewhat longer attention span to notice that the quarter-to-quarter "improvement" resulted primarily from a drastic (almost sleight-of-hand) downward revision to the prior quarter, which was accomplished while nobody was looking. A full third of the prior quarter's growth had vanished only 30 days after being last reported. And although the headline number might have been better than consensus expectations, it was still relatively weak and once again propped up by dubious deflaters.

But the real substantive "news" in the release was the fact that we have learned for the first time that during the first quarter of 2011 (1Q-2011) ***the US economy was in contraction***. And not just by a tad -- the rate of contraction was in all regards material**:** -1.29%.

Sadly, we find no sense of indignation in the media or outrage in Congress that an agency with a fiduciary obligation to accurately track the state of the US economy somehow misses serious bad news for over two years. And from the lack of a ruckus it appears that most people are simply saying**:** "So what? Does it matter what happened over two years ago?"

To understand if it matters, just consider**:** what would have happened to the equity markets back in late April 2011 if the truth had been known in "real time"? Or consider the election prospects for the then incumbent Administration, which a year later proclaimed that the "private sector is doing fine."

Yes, sometimes it does matter what really happened over two years ago. Especially if an agency of the Federal Government is considered the ultimate arbiter of "truth" for the happenings in question.

If this was an intelligence agency screw-up just come to light, we would already be entertained by daily Congressional inquiries probing exactly who within the Administration knew this, and when did they know it. All with the intent of extracting a political pound-of-flesh from the erring agency in the process.

But as far as we can tell, in this case there is no outrage. Nobody seems to be asking if the delay in recognizing a material economic contraction was the consequence of incompetence -- or far more troubling, was by design. Perhaps someone in Washington feels that it is in the best interests of the state to keep bad news from disturbing the already anemic national spending psyche (or any ongoing asset bubbles, for that matter).

Perhaps the BEA just didn't know how bad 1Q-2011 was prior to last week. But if it took them 24 months to realize that the economy was contracting, maybe they should be fired. And if they knew long before last week yet withheld that information until the next regularly scheduled revision cycle for purely bureaucratic reasons, they should probably still be fired. And if they knew the truth long ago but shared the information only with Mr. Bernanke (as a "state secret" too vital to national security for declassification), then our democracy is in serious jeopardy. And if the bad news was delayed primarily at the behest of the agency's political masters, then our democracy is already toast.

There can be sins of omission even in the world of economics. And a functioning democracy clearly requires better transparency than what we have just witnessed with these revisions.

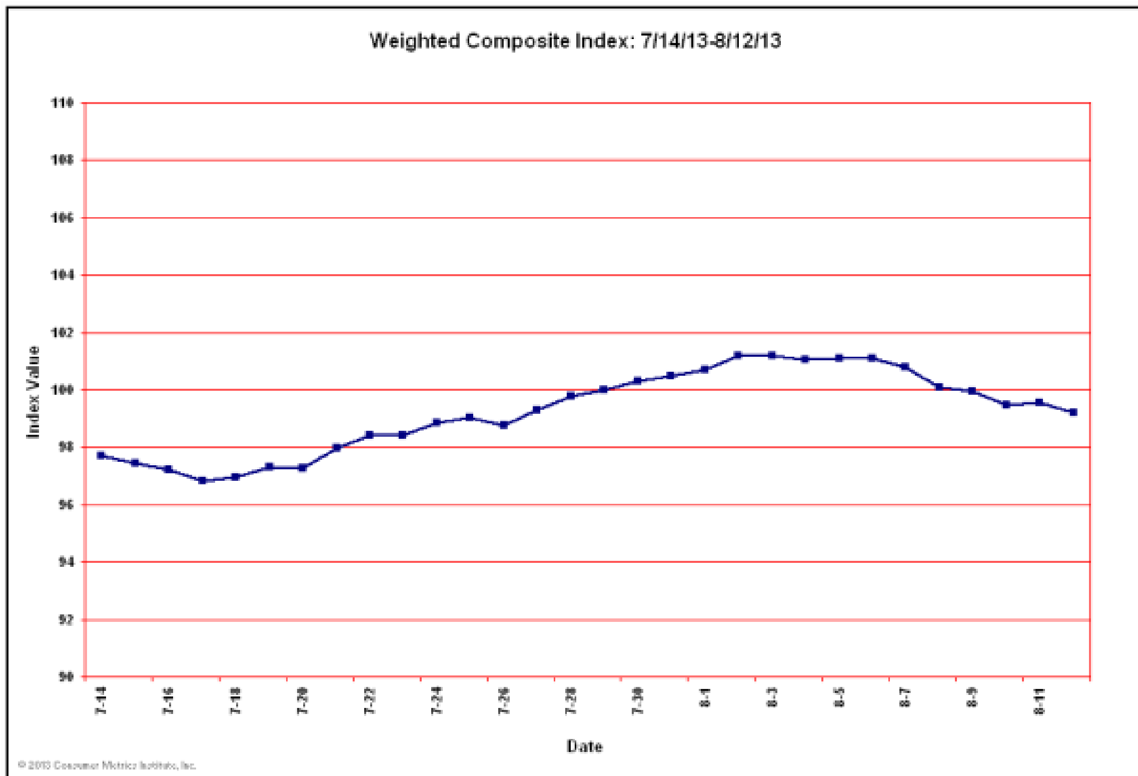
The origin of the GDP report dates back to FDR's second administration -- which was blind-sided by the 1937-1938 recession, a second dip within the Great Depression. FDR tasked Wesley Mitchell with creating a series of economic measurements that could inform fiscal policy on a more timely basis.

That purpose -- timely data to provide better informed fiscal policies -- has been completely lost on the current BEA.

(By the way, the fourth quarter of 2012 (4Q-2012) has just now been revised downward to about the same level that the now admittedly contracting 1Q-2011 was just prior to this latest revision (a minuscule +0.14%). This follows a pattern that almost exactly mirrors what happened to the 1Q-2011 numbers in last July's revision. We won't be surprised to find out (12 or 24 months from now) that 4Q-2012 was contracting, just as 1Q-2011 was two years before anyone admitted it.)

Updated Charts

Meanwhile, here at the Consumer Metrics Institute we believe in publishing the data, good or bad, on a daily basis. In this case we have good news, for our Weighted Composite Index has returned into positive territory, recording at least 5 consecutive positive YOY days for only the second time in over a year**:**



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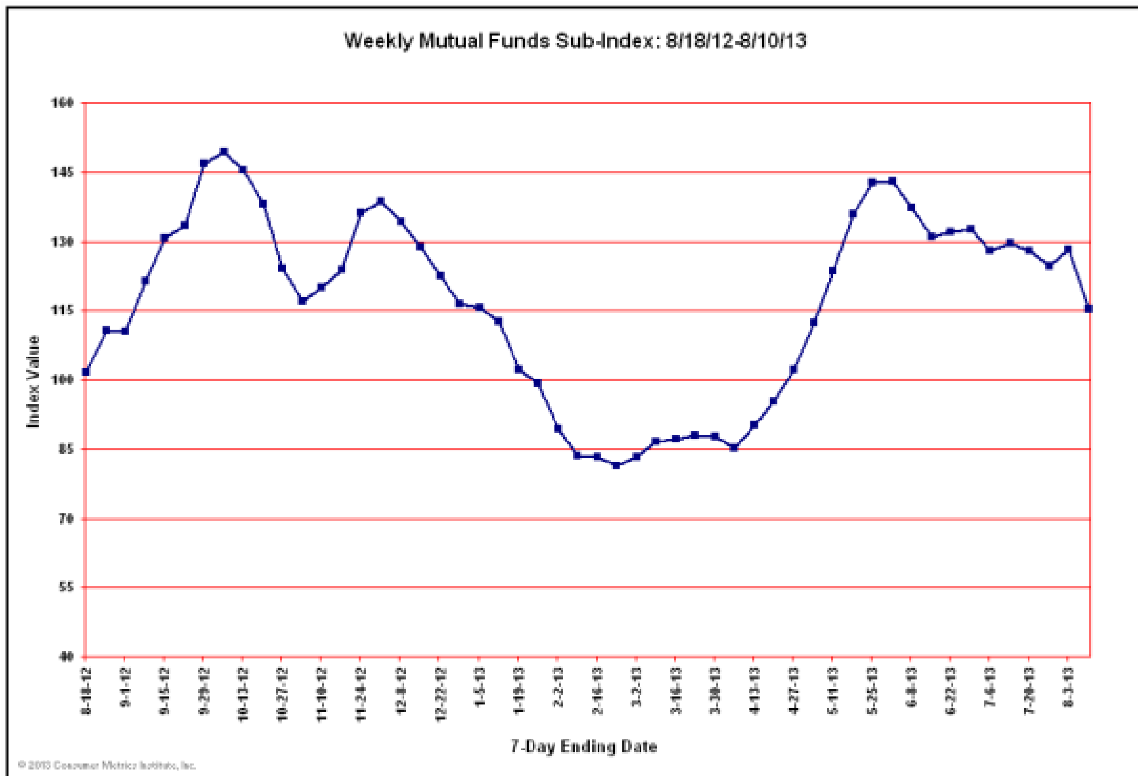
Interestingly, for the first time in several years the rise in that index has been largely driven by consumer interest in Financial products, including Mutual Funds**:**



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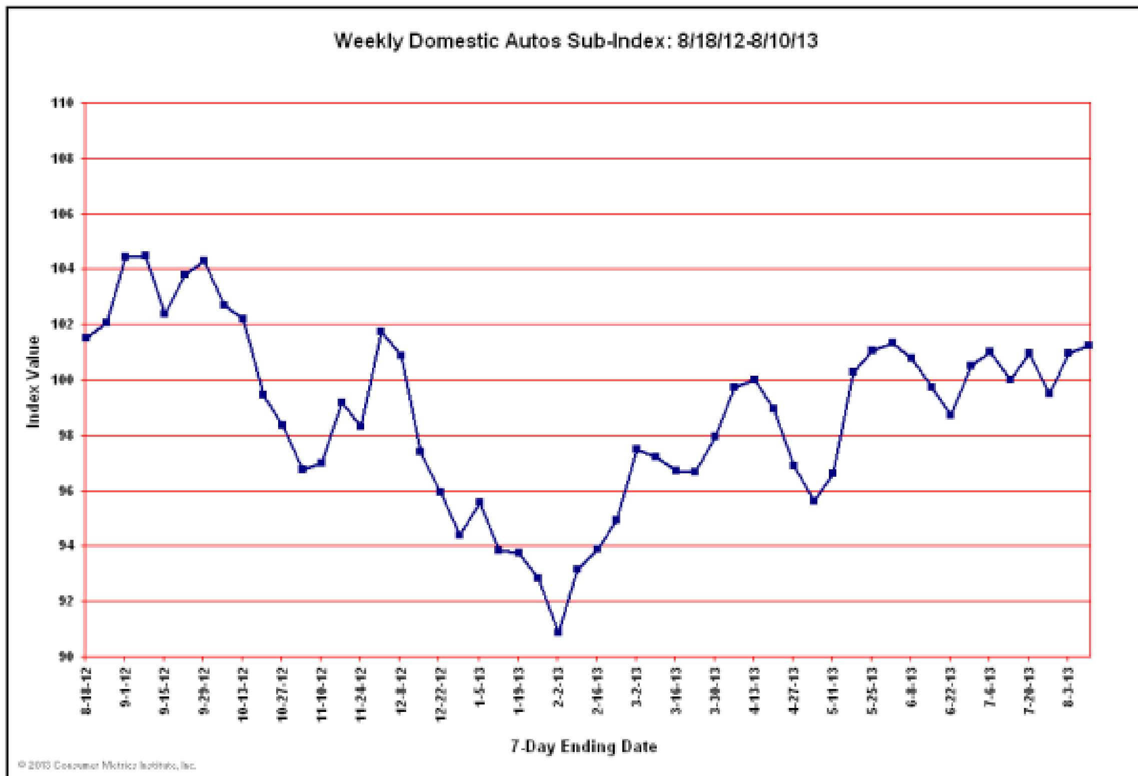
and to a much lesser extent by consumer interest things you can actually consume -- as exemplified by Domestic Autos, which have now fully recovered from a late January downward blip**:**



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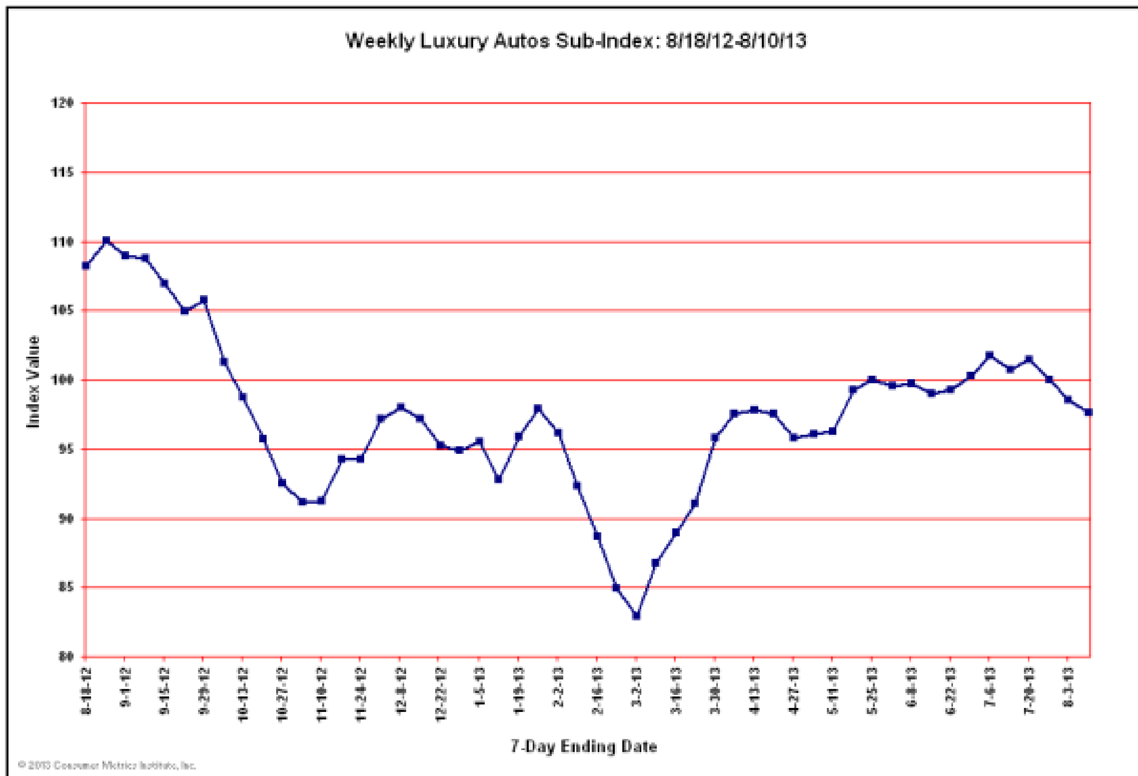
That same downward blip can be seen among the Luxury brands, although the bottom is shifted about a month**:**



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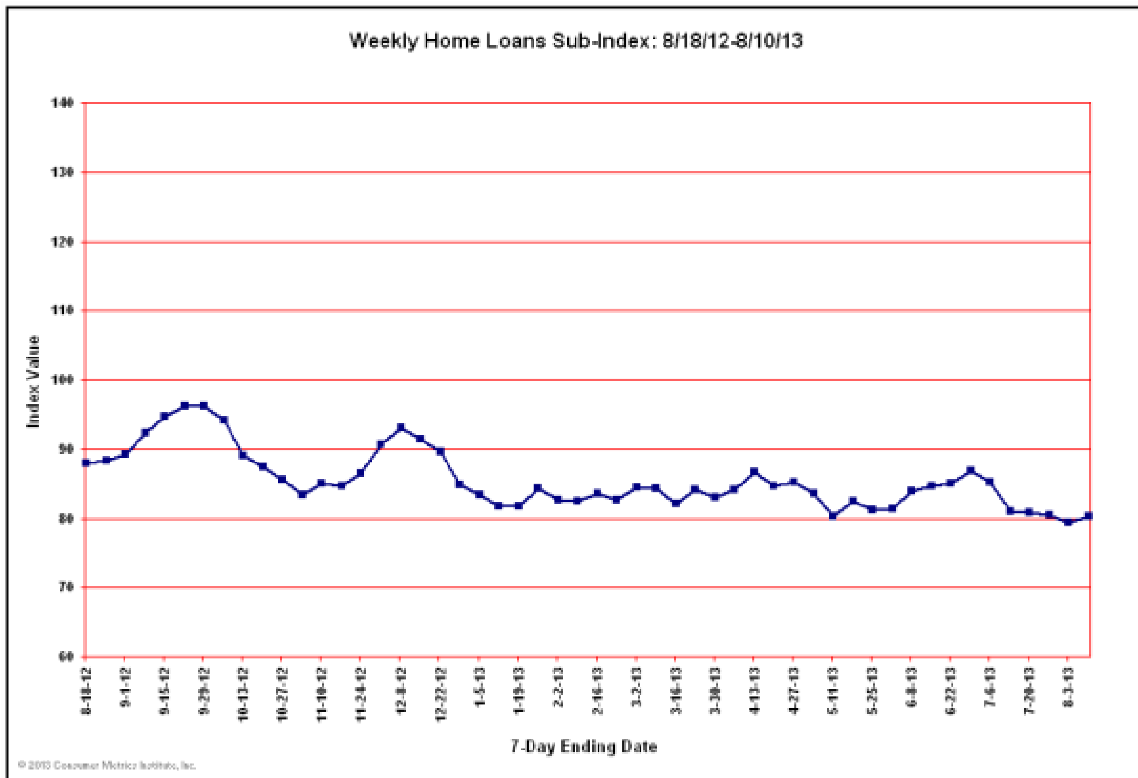
Meanwhile, the headlines in the Housing arena seem to have been generated by existing home prices (as the consequence of tighter inventories) amid cash sales to investors. Our data shows that consumers still have (at best) weak YOY interest in loans for newly acquired residential properties**:**



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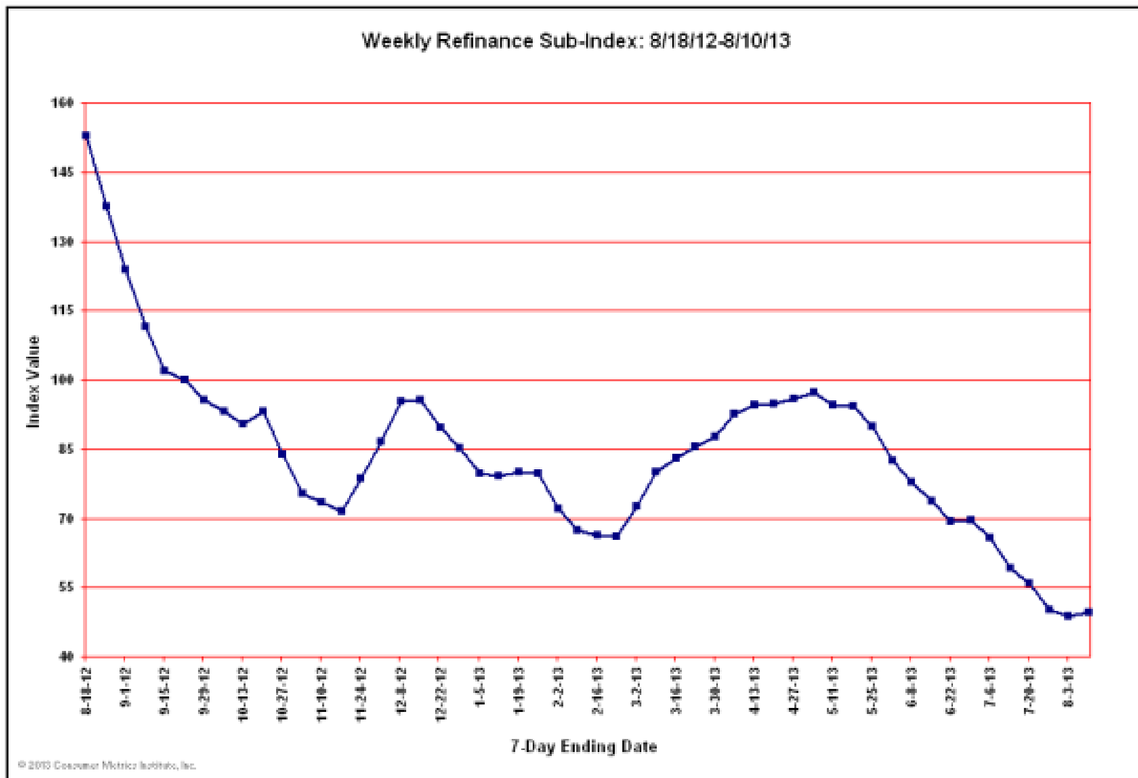
The above chart indicates that whatever may be happening to home prices, they are not being pushed up by a surge of buyers taking out new loans.

And the combination of the exhaustion of viable refinancing candidates and rising interest rates has continued to take a drastic toll on refinancing (please note the expanded scale below)**:**



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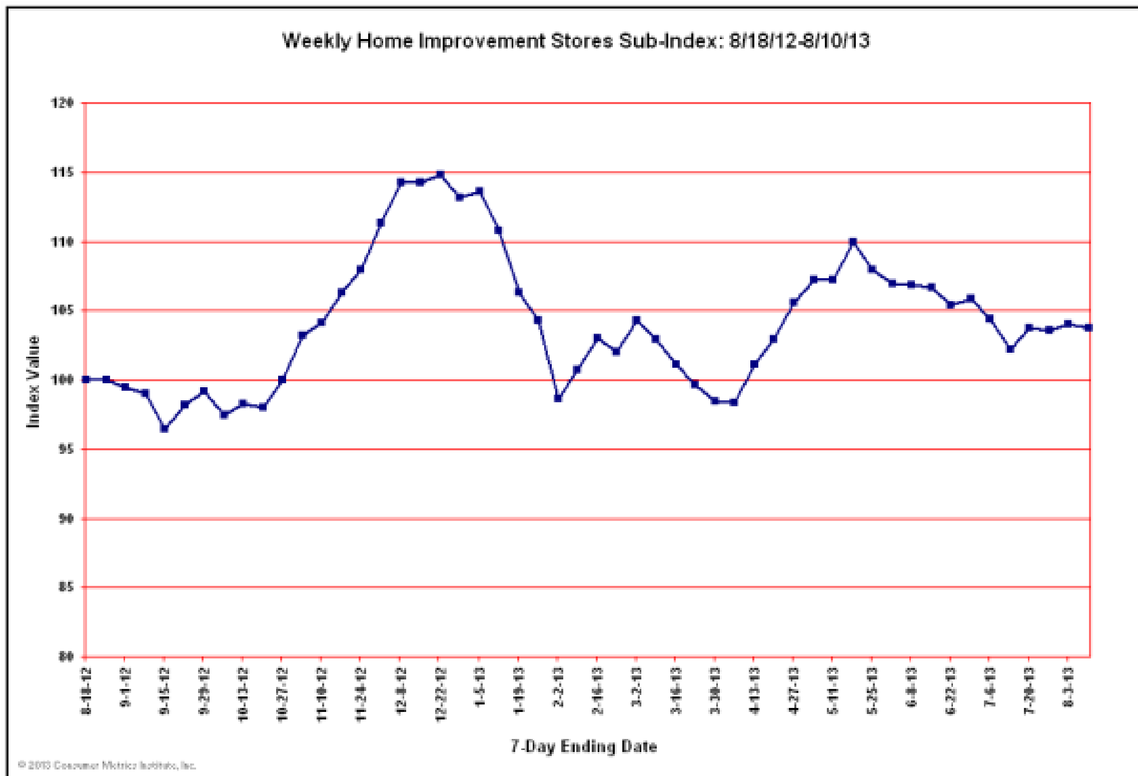
Retail has been a decidedly mixed bag, with Home Improvement stores up somewhat as homeowners spruce up in lieu of swapping out**:**



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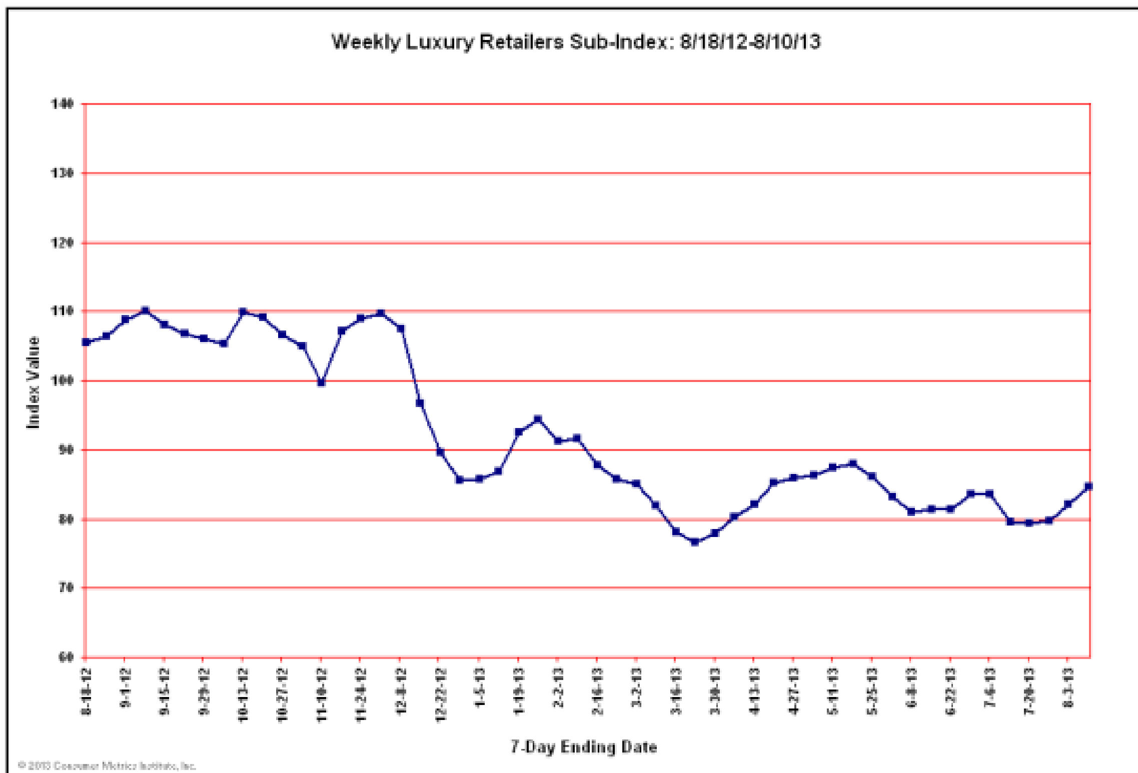
But the high-end luxury retailers have been noticeably weak of late**:**



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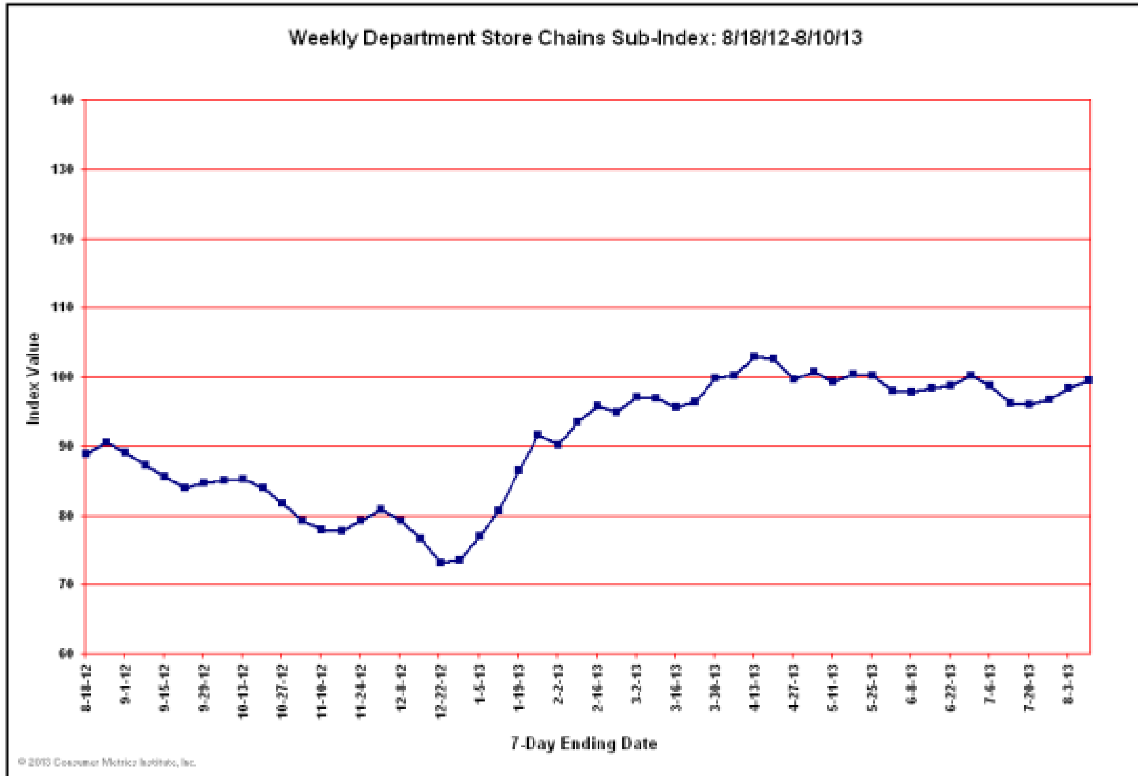
And major department store chains have recovered to relatively neutral territory after the poor YOY showing during last year's holiday season**:**



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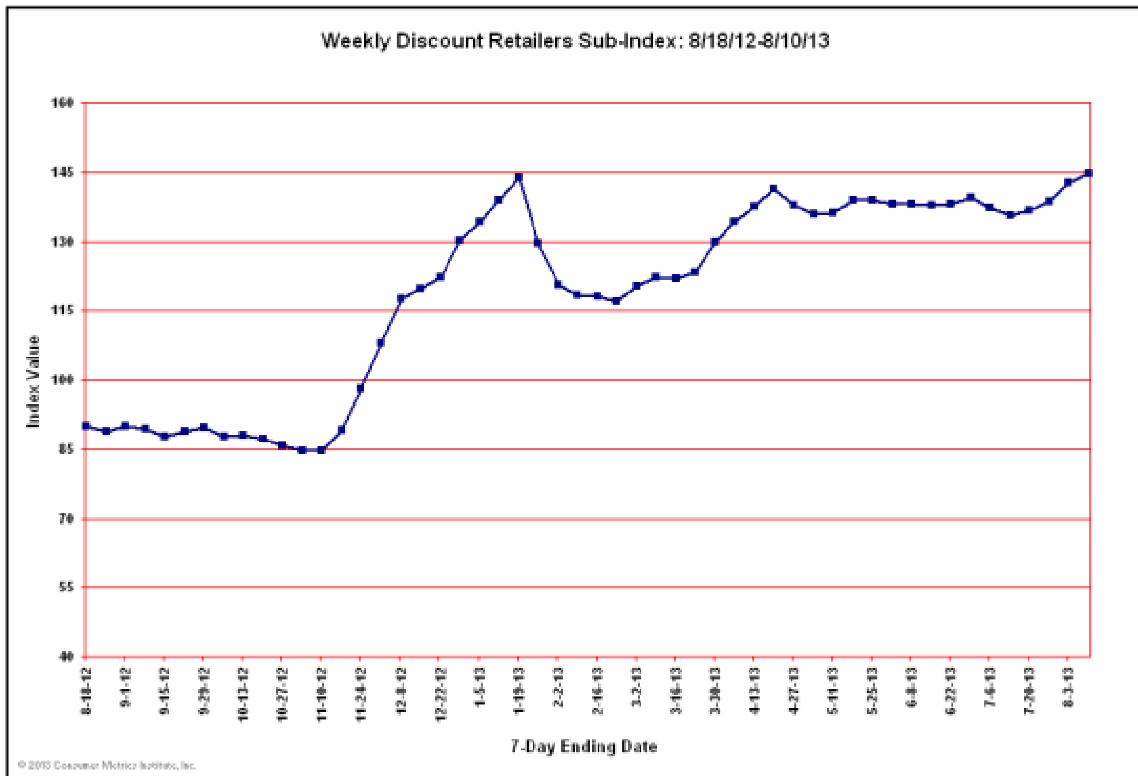
Meanwhile, the arguably counter-cyclical Discount chains have been doing very well**:**



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All of which tells us that although aggregate consumer interest is at about the same level as last year, the distribution of that interest is such that we're not seeing solid demand for the types of durable goods needed to power this economy forward.

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