

Ceridian-UCLA Pulse of Commerce Index™

By UCLA Anderson School of Management

May 11, 2011



UCLAAnderson
School of Management

Pulse of Commerce Index Falls 0.5 percent in April Holds on to most of exceptional 2.7 percent gain in March

Recovery continues as Index posts 17th straight month of year-over-year growth See-saw economic performance persists – GDP outlook good, not great

The Ceridian-UCLA Pulse of Commerce Index™ (PCI), issued today by the UCLA Anderson School of Management and Ceridian Corporation fell 0.5 percent on a seasonally and workday adjusted basis in April, marking a continuation of the see-saw economic performance experienced over the past twelve months.

Though down in April, the decline offset only a fraction of the exceptional 2.7 percent gain posted in March, which was sufficient to drive continued growth in the three month moving average of the PCI.

This reinforces our cautious, below consensus outlook for GDP growth. The disappointing 1.8 percent growth of real GDP in the first quarter was consistent with the pattern of modest, fitful reflected by the PCI since the middle of 2010. The April PCI release is more of the same — a three month moving average that calls for further growth in GDP, but at a modest rate in the 2-3 percent range, not the 5-6 percent range that is necessary to drive meaningful improvement in unemployment. Absent acceleration in PCI, we continue to expect monthly employment gains to remain rangebound between 150,000 and 200,000 new jobs.

Year over year growth in April was again positive, up 3.5 percent. This was the 17th straight month of year over year improvement in the index and a clear indication that the economic recovery continues. This is particularly encouraging because the index was up against a strong prior year comparison of plus 6.5 percent on a year-over-year basis in April of 2010. From an absolute standpoint, GDP remains ahead of the previous peak reached in Q4 07. But the PCI and Industrial production are still about 5 percent below their previous peaks — meaning that the goods producing component of GDP is still well below its previous high.

Over time, the PCI has shown a substantial correlation with Industrial Production. As reported last month: “The strong March PCI suggests a 0.8 percent gain in industrial production for March when that data is released by the Federal Reserve on April 15.” Notably, the reported number came in precisely on our forecast at 0.8 percent. This was the second straight month that the PCI hit the number “on the head”. Based on the relatively weak April result, the PCI is calling for growth of 0.25 percent in industrial production when the government reports its number on May 17.

Clearly, the PCI closely tracks industrial production. There is also a close historical correlation between retail sales and the PCI. This month, we are broadening the scope of the report to include a discussion of that relationship.

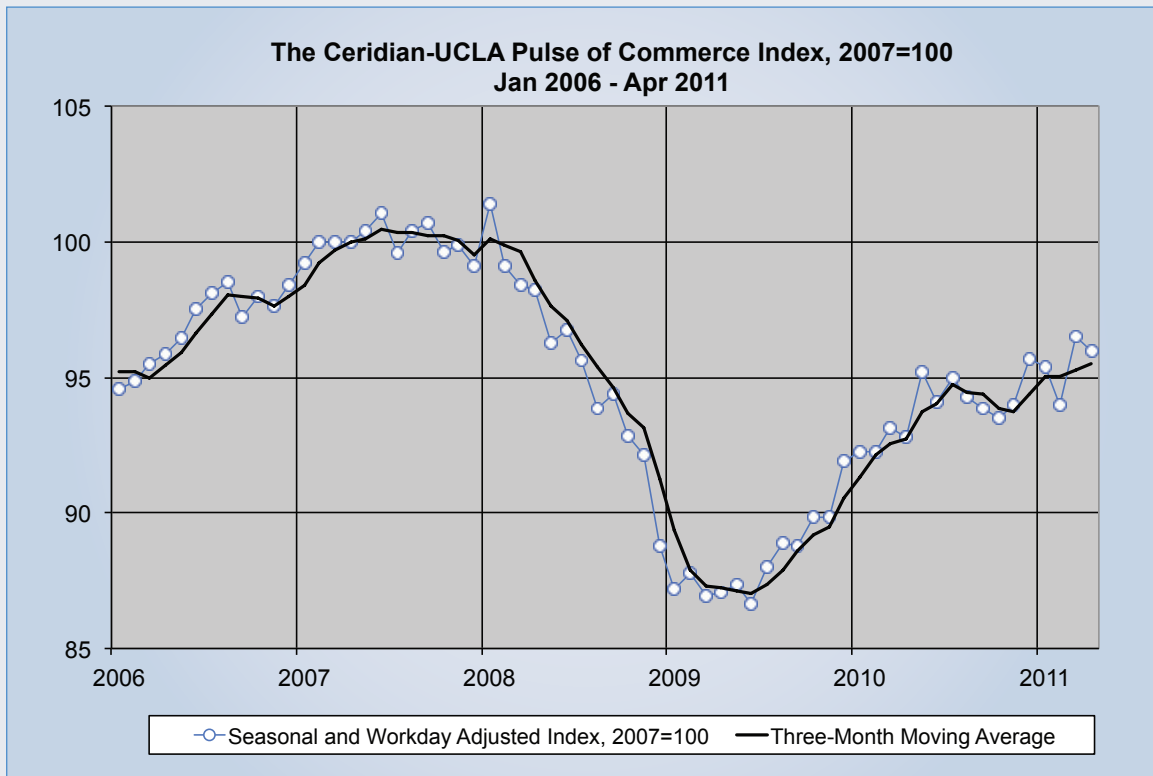
On a regional basis, the decline in the April PCI was widely felt. The heavily trucked regions in the center of the country (West North Central and West South Central) showed positive growth, but all other regions declined, led by the Middle Atlantic and East North Central regions which were off 2.5 percent and 1.5 percent, respectively.

Ceridian-UCLA Pulse of Commerce Index, April 2011 Data Released May 11, 2011

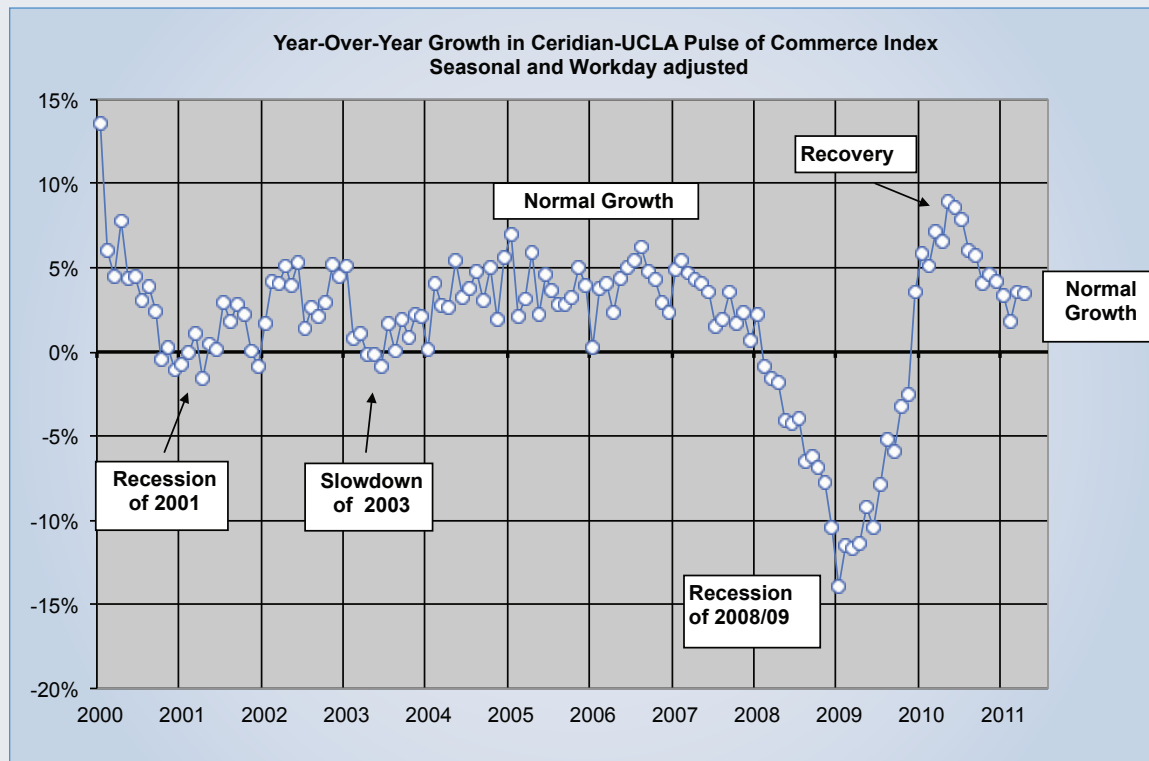
Index Value, (2007=100)	Feb-11	Mar-11	Apr-11
Seasonally and Workdays Adjusted	93.95	96.48	96.00
Unadjusted Index	88.07	101.60	94.22
Month-to-Month Growth	-1.5%	2.7%	-0.5%
Annualized Growth Rates, Adjusted Index			
Three-month v. Previous Three Months	5.4%	3.9%	2.0%
Year-Over-Year	1.8%	3.6%	3.5%

Revised seasonal and workday adjustment through 2010q12
 Workday adjustment depends on monthly fractions of weekend days.
 Seasonal Adjustment using X12

PCI and Three-Month Moving Average

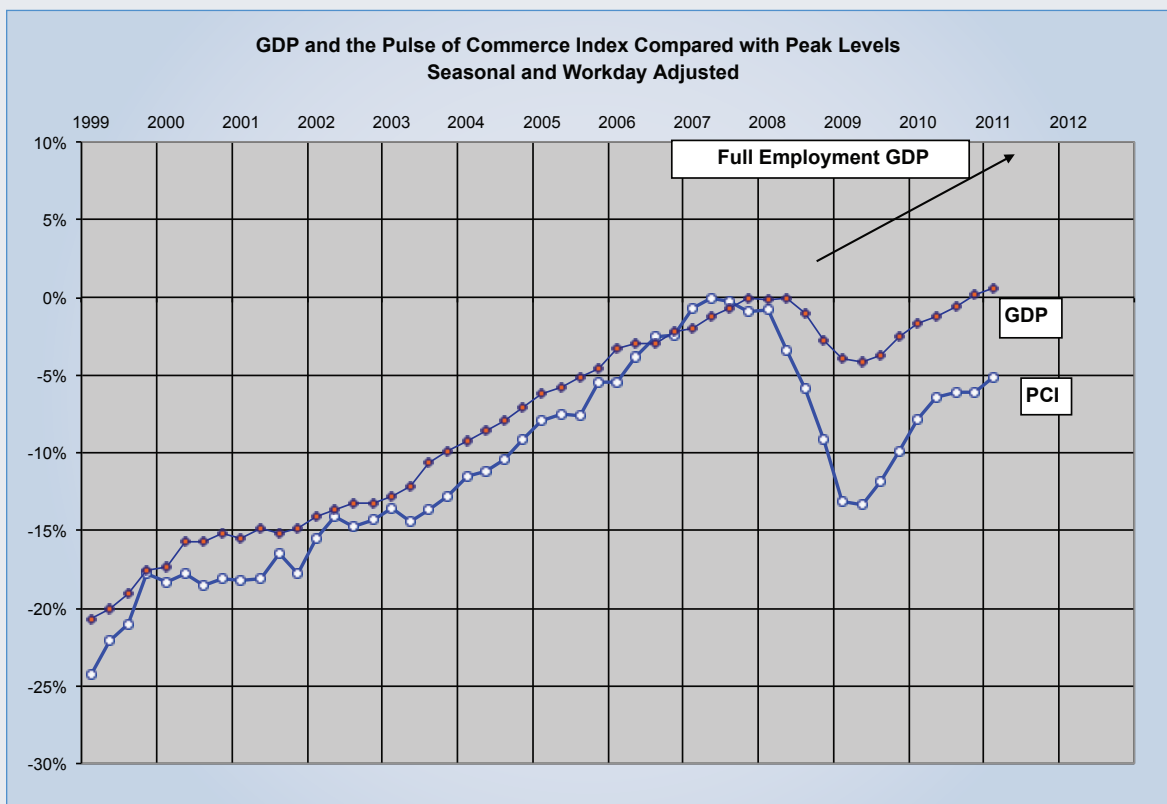


Year-over-Year Growth of PCI



April represents the 17th consecutive month of year-over-year growth in the index. The PCI returned to growth in December of 2009 and has been growing, albeit sometimes fitfully, ever since. From a year-over-year standpoint, growth bottomed out in January of 2009 and has been in recovery mode since then. The figure above illustrates the year-over-year growth. It indicates that since 2000, we've had two recessions, one strong recovery, one slowdown and two periods of normal growth. During these normal growth periods, the PCI growth rate fluctuates around 3% per year. We had a spell of normal growth from 2004 to 2006, and it appears we've experienced a period of normal growth over the past six months. In early 2010, we experienced a very brief recovery period characterized by growth in the PCI reliably above 5% per year.

GDP and Pulse of Commerce Index



The initial estimate of the first quarter GDP growth rate of 1.8% is consistent with the PCI, which had signaled exceptional growth during the inventory rebuilding period during the second half of 2009 but slowed down considerably in the summer of 2010. Since the middle of last year the PCI has been suggesting modest growth in the 2—3% range. This leaves real GDP well below trend growth and falling farther behind. This allows the labor markets to add jobs but not at a rate that could increase the employment to population ratio. In this slow growth scenario, a continued fall in the unemployment rate could be a result of a rise in discouraged workers opting out of the labor force. These individuals are not captured in the unemployment count.

Foretelling Industrial Production

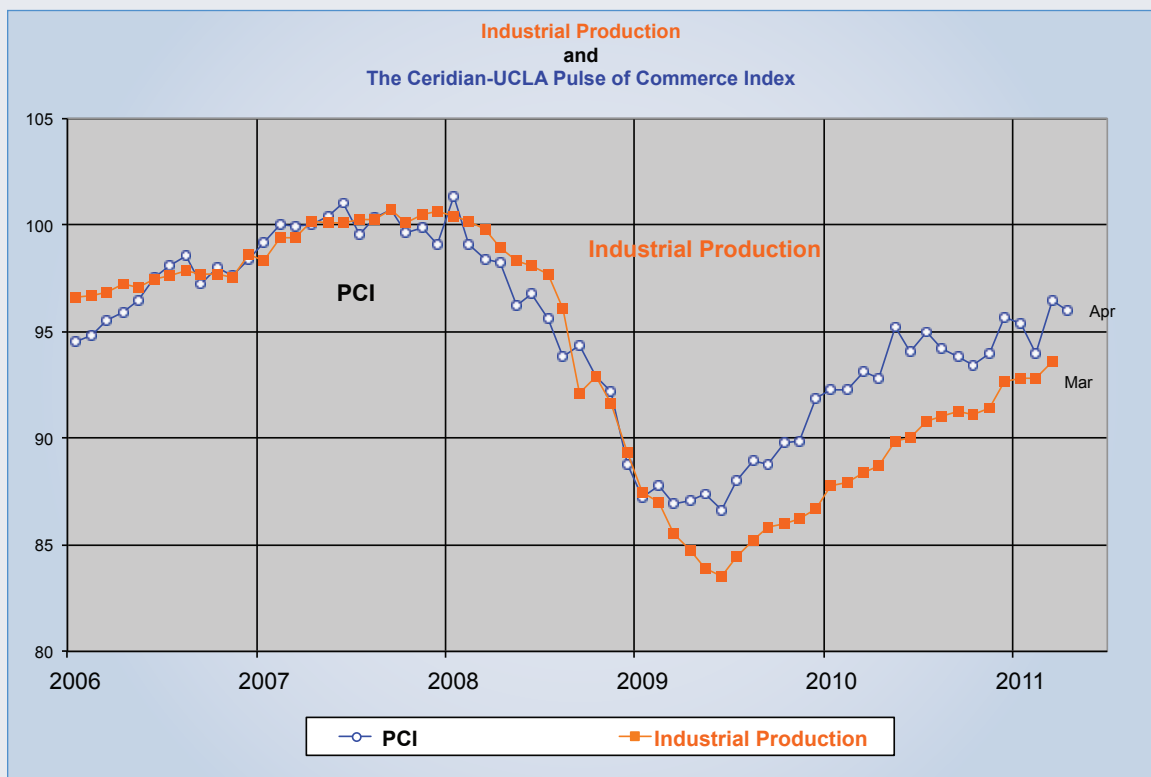
With the assistance of an econometric model, the PCI can be translated into future industrial production values. Over time, the PCI has been highly correlated to industrial production and useful in predicting the direction and magnitude of Industrial Production prior to its release each month. The “forecasts” in this report rely only on the PCI and do not make use of other variables such as employment in manufacturing and the PMI index.

The PCI is released on or about the 10th of the month and the corresponding Industrial Production Index is generally released a week later. The table below has the Federal Reserve’s estimates of the growth of industrial production in the first five columns, as they have been revised over time. The next six columns in the table are forecasts based on the PCI released monthly for November 2010 to July 2011. The numbers typed in bold are

one-month ahead forecasts and the current estimates of Industrial Production, which conform well in general. The Federal Reserve's estimate of industrial production for the month of April will be released on May 17. The PCI indicates industrial production will show an increase of 0.25% when it is reported at that time. This represents a markdown from last month's forecasts because of the weakness in the April PCI.

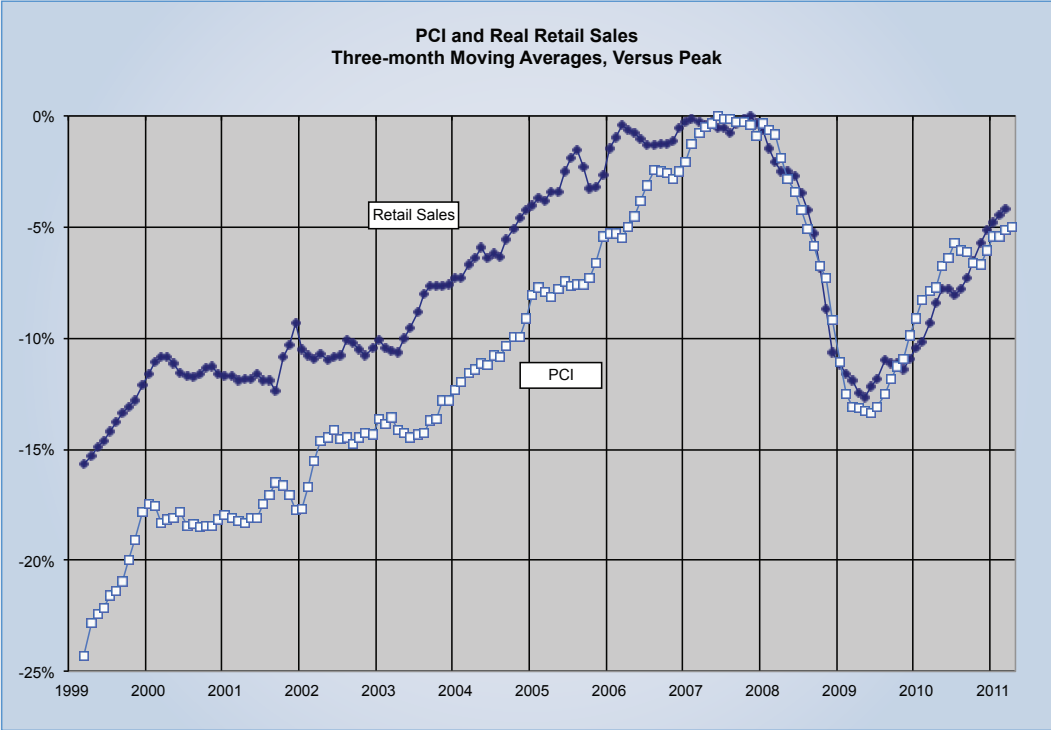
Growth of Industrial Production: Fed Estimate and PCI Forecast

	Fed Estimates by Release Date					PCI Forecast by Release Date					
	12/15	1/14	2/15	3/17	4/15	12/7	1/11	2/9	3/9	4/12	5/11
Nov-10	0.41%	0.26%	0.28%	0.36%	0.31%	0.01%					
Dec-10		0.84%	1.16%	1.41%	1.34%		0.61%				
Jan-11			-0.06%	0.24%	0.15%			0.34%			
Feb-11				0.00%	0.07%				-0.02%		
Mar-11					0.80%					0.76%	
Apr-11					17-May						0.25%
May-11											0.39%
Jun-11											0.25%
Jul-11											0.31%

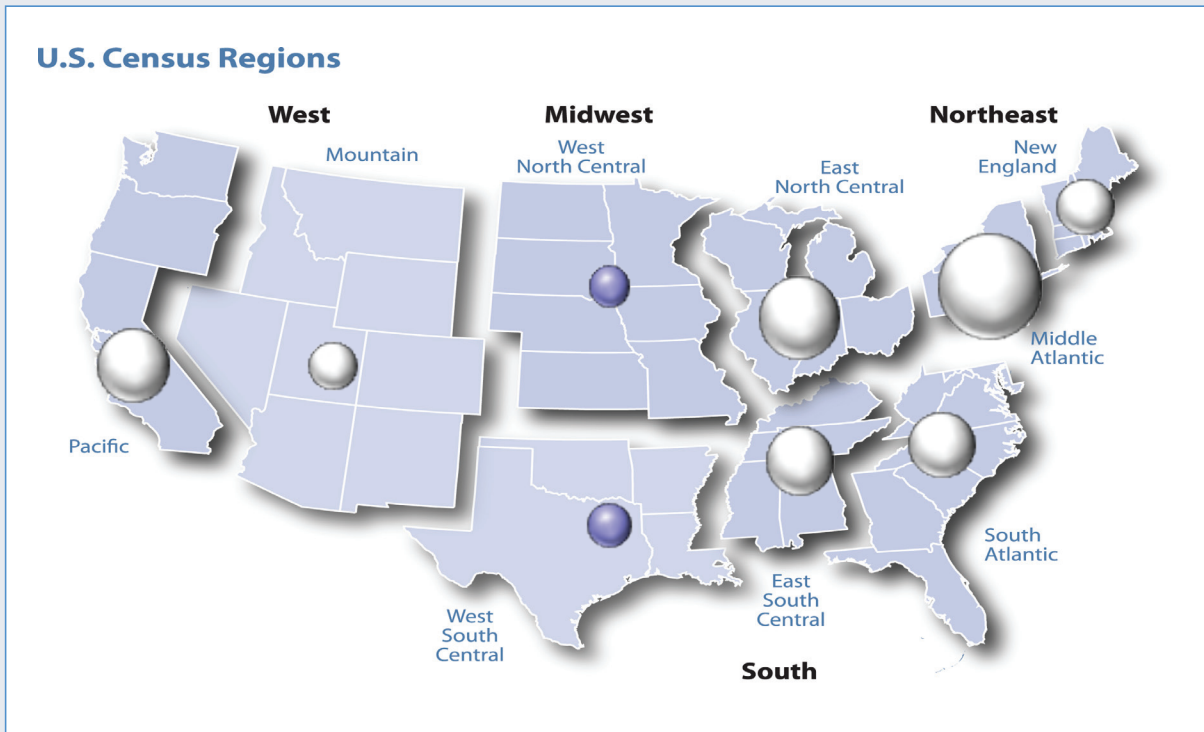


The PCI and Real Retail Sales

The PCI is not only closely correlated with industrial production, it is also highly correlated with real retail sales. Three-month moving averages of the PCI and real retail sales relative to their peak levels are illustrated below. As they say, "this picture is worth more than 1,000 words." Starting on the left, the rapid growth in the PCI closely matches the growth in real retail sales in 1999. Both go flat in 2000, and both start to grow again in the second half of 2001. Between 2001 and 2006, both the PCI and real retail sales experienced sustained growth of roughly 3%. During 2006, the PCI continued to grow steadily as retail sales growth slowed. Then both real retail sales and the PCI peaked in 2007, and plummeted by in tandem during the recession. Both have been recovering at similar rates since mid-2009.



Regional Summary



U.S. Census Regions Legend:

Blue is positive, white is negative. The size of bubble measures the percentage change of the PCI month-to-month. This data was illustrated from the **Ceridian-UCLA Pulse of Commerce Index** table below.

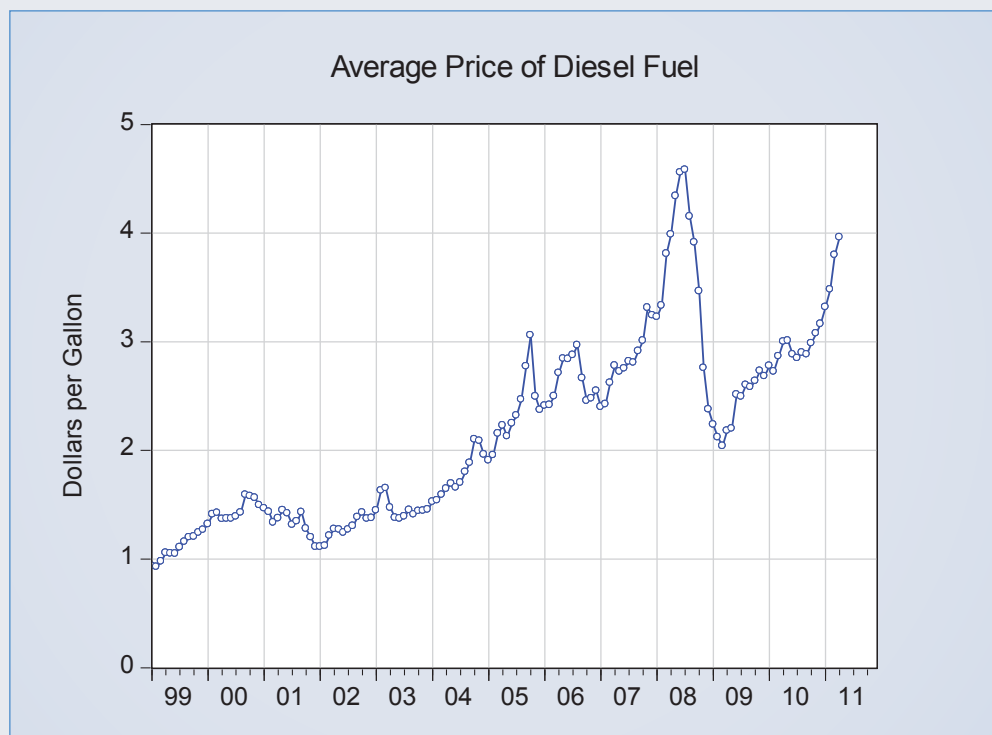
Growth in the PCI continued in the heavily trucked regions in the center of the country (West North Central and West South Central) while all other regions declined, led by the Middle Atlantic and the East North Central regions which were down 2.5% and 1.5%, respectively.

Ceridian-UCLA Pulse of Commerce Index

Seasonally and Workday Adjusted Sorted by Sorted by April 2011 Value

Monthly Percent Change				
	Feb-11	Mar-11	Apr-11	2010 Share
West South Central	-1.7%	5.0%	0.4%	19.1%
West North Central	-2.2%	3.2%	0.3%	10.0%
Mountain	0.4%	1.2%	-0.5%	9.6%
US Overall	-1.5%	2.7%	-0.5%	100.0%
New England	0.9%	-2.5%	-0.7%	1.4%
South Atlantic	-0.2%	0.7%	-0.9%	17.8%
East South Central	-1.4%	3.4%	-1.0%	11.5%
Pacific	0.8%	1.5%	-1.2%	5.8%
East North Central	-1.3%	2.9%	-1.5%	18.2%
Middle Atlantic	-3.9%	6.0%	-2.5%	6.7%

Higher Fuel Prices



The headwind of a very substantial rise in diesel fuel prices continues unabated. In the last month the average cost per gallon elevated from \$3.80 in March to \$3.96 in May, compared with \$2.04 in March 2009. Though this rise in fuel costs encourages greater fuel efficiencies, we have not found any evidence that the variability in fuel efficiencies affects the movement of the PCI over the short run. The more likely channel through which higher costs of diesel and other refined products affect diesel volumes is by slowing the rate of growth of demand. This would be especially worrisome if the economy were late in the expansion and had built up major imbalances that need correction, but early in an expansion with hugely stimulative monetary policy, inflation seems the greater worry than a large drop in growth. Still higher crude oil prices inevitably will suck some of the vigor out of the economy.

About the Ceridian-UCLA Pulse of Commerce Index

The Ceridian-UCLA Pulse of Commerce Index by UCLA Anderson School of Management is based on real-time fuel consumption data for over the road trucking and serves as an indicator of the current state and possible future direction of the U.S. economy. By tracking the volume and location of diesel fuel being purchased, the index closely monitors the over the road movement of produce, raw materials, goods-in-process and finished goods to U.S. factories, retailers and consumers. Working with economists at UCLA Anderson School of Management and Charles River Associates, Ceridian publicly releases the Index monthly and also offers companies access to customized reports and data.

Comments in the monthly report are prepared by Edward Leamer, Chief Economist of the Ceridian-UCLA Pulse of Commerce Index and Director of the UCLA Anderson Forecast.

Ceridian is a global business services company providing electronic and stored value card payment services and human resources solutions. UCLA Anderson School of Management is known globally as a leading school of management. Charles River Associates is a leading global consulting firm that offers economic, financial, and business management expertise to organizations around the world.

For additional information on the Ceridian-UCLA Pulse of Commerce Index, please visit www.ceridianindex.com or call 1-800-729-7655.