



Ceridian-UCLA Pulse of Commerce Index[®]

By UCLA Anderson School of Management

July 13, 2011



UCLAAnderson
School of Management

Pulse of Commerce Index Rebounds — Up 1.0 Percent In June

The “she loves me, she loves me not” economy continues

The Ceridian-UCLA Pulse of Commerce Index® (PCI®), issued today by the UCLA Anderson School of Management and Ceridian Corporation rose 1.0 percent in June on a seasonally and workday adjusted basis, a welcome rebound following declines in the previous two months. Despite the stronger performance in June, the economy continues to remain in idle with the PCI remaining below its level at the end of the first quarter.

Over the past year the U.S. economy has been in “she loves me, she loves me not” mode. Bad news has been alternating with good, leaving investors and forecasters nervous and unable to identify sustainable trends. The PCI has had five positive and seven negative months in the last year, registering a tepid 2.0 percent increase year-over-year. Over the same time period, GDP and payrolls have shown wobbly growth, failing to drive a real recovery or reduction in the unemployment rate. This month’s 1.0 percent increase in the PCI could be the start of a positive trend, but a one month spike does not make a trend, particularly in light of the many false starts experienced over the last year. Until there is enough data to declare a new trend, expect more of the same, somewhat disappointing result — persistent, wobbly uncertain growth.

The drivers behind persistent uncertain growth over the past year are clear. The glimmerings of a recovery experienced in both the PCI and in the GDP during the second half of 2009 and the first half of 2010 were driven mostly by the replenishment of inventories. When the inventory restocking was complete, no other component of demand “picked up the baton.” In past recoveries, this point in the cycle was characterized by consumer demand for homes and cars and all varieties of other goods and services. But this time, consumers seem to be struggling to recover from a binge of overspending, which minimizes their ability to buy “big ticket” items which would drive further economic growth. In addition, higher energy prices are putting a crimp on consumer spending. Also typical of this phase in the cycle would be positive feedback from the job market, with the income and spending created by each new job driving additional demand for more goods and services. But the job market is setting a postwar record for sluggishness — by a wide margin. A weak labor market is normally a symptom of weak aggregate demand, but this time the labor market faces additional high hurdles. A normal job cycle is characterized by temporary layoffs followed by recalls to the same jobs. This time, many of the old jobs are gone, leaving a record number of displaced workers who have to find new skills, locations or aspirations to become reemployed. This takes time.

With the June release, all the PCI data for the second quarter is now available to form a forecast of GDP growth for the second quarter of 2011. Last month we wrote: *“Absent a very strong performance, the June versus March comparison is likely to be small or even negative, which suggests that the growth rate of the PCI in the second quarter compared with the first will be 2.0 percent at best on an annualized basis. This suggests second quarter GDP growth of less than 2.0 percent following the weak 1.8 percent result recorded in the first quarter of 2011.”* This was a very accurate statement. The PCI in the second quarter on an annualized basis is only 2.1 percent higher than the first quarter. This translates into a PCI-based forecast for second quarter GDP growth of 1.8 percent, the same as the GDP growth for the first quarter. In other words, expect “she loves me not” when the GDP numbers are released on July 29, 2011.

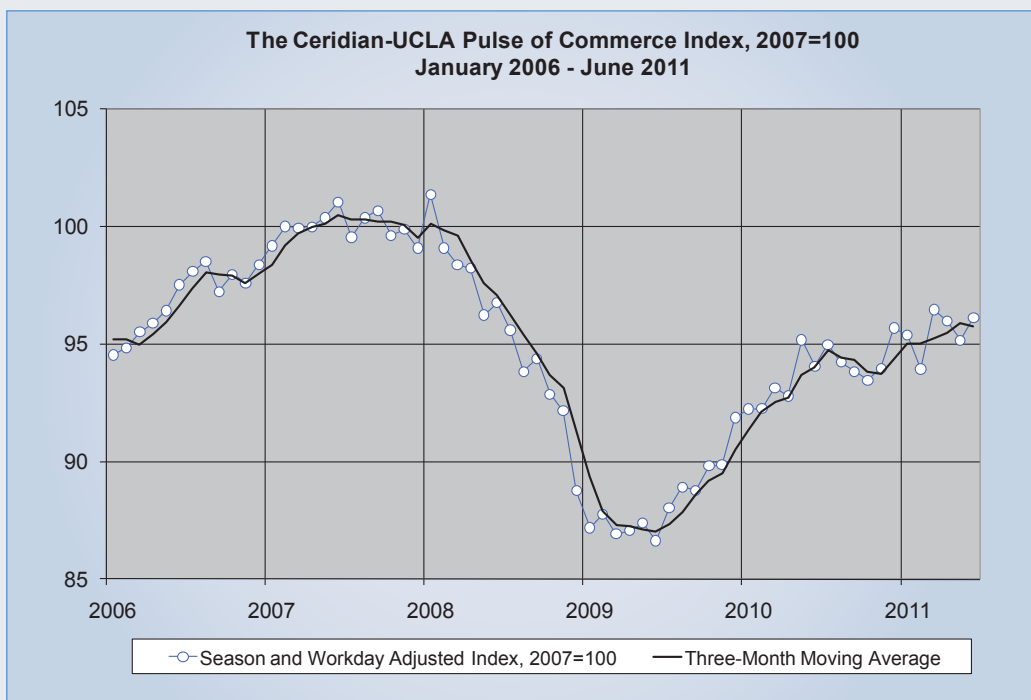
Over time, the PCI has also proven to be a leading and amplified indicator of industrial production. Last month, the PCI forecast of 0.1 percent growth in industrial production for the month of May matched the initial government estimate. This represented the fourth time in the past five months in which the monthly PCI forecast for U.S. industrial production was right in-line with the government’s subsequent report. For June, the PCI is anticipating industrial production to show modest growth of 0.17 percent when the number is released by the Government on July 15, 2011.

Ceridian-UCLA Pulse of Commerce Index June 2011 Data Released July 13, 2011

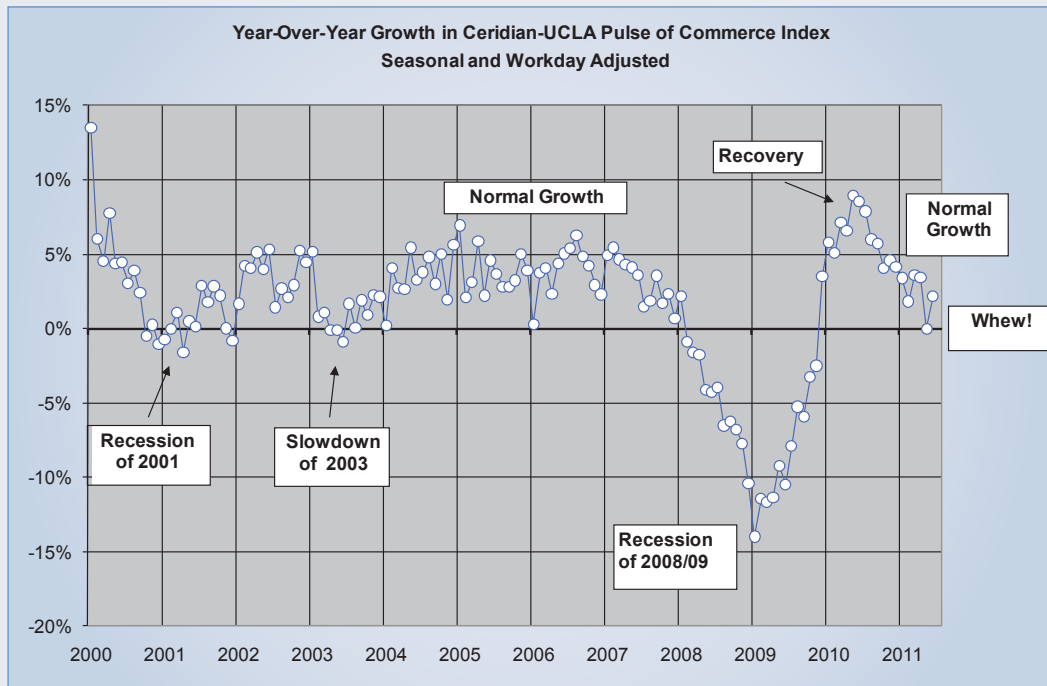
Index Value, (2007=100)	Apr-11	May-11	Jun-11
Seasonally and Workdays Adjusted	96.00	95.17	96.13
Unadjusted Index	94.22	95.81	98.56
Month-to-Month Growth	-0.5%	-0.9%	1.0%
Annualized Growth Rates, Adjusted Index			
Three-Month v. Previous Three Months	2.0%	3.7%	2.1%
Year-Over-Year	3.5%	0.0%	2.2%

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

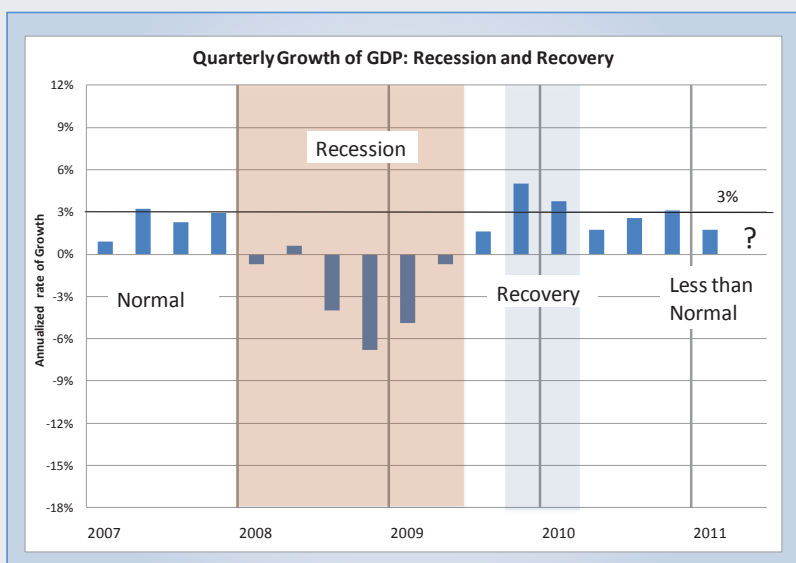


After dipping slightly in May, the June year-over-year growth is again positive. This is particularly encouraging because June of the prior year was strong. The year-over-year comparisons get easier in the second half of the year, which bodes well for continued strength in year-over-year performance in the PCI.

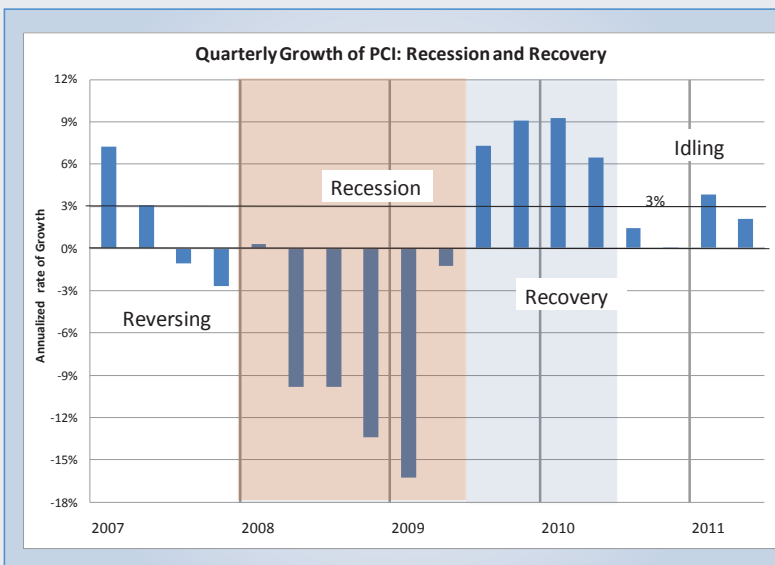
The PCI — An Early and Amplified Indicator of GDP

Rates of growth of US GDP are illustrated in the bar graph below. Calendar year 2007 was characterized by normal growth of nearly 3 percent. The negative performance during 2008 and the first half of 2009 clearly indicate the recession. Indication of a real recovery would require greater than a “normal” 3 percent rate of growth, which occurred only in the last quarter of 2009 and the first quarter of 2010 when inventories were rebuilding. Since then, growth has been less than normal, with Q2 2011 threatening to be another less-than-normal number.

Rates of growth of the PCI during the same period are illustrated in the next figure (p. 5). The different phases of the economy over the past four years are much clearer, because the PCI is an early and amplified indicator of GDP. Notably,



the PCI turned negative in the second half of 2007, offering an early warning sign of what was to come. Furthermore, during the recession, the PCI decline exceeded the GDP decline by a factor of three. Following that, the PCI indicated a clear recovery that lasted four quarters, with growth exceeding 6 percent (twice normal). In contrast, the last four quarters have been weak ones for the PCI. We've described this period with a trucking metaphor — idling — to suggest that things will improve dramatically when and if the trucks start rolling again!



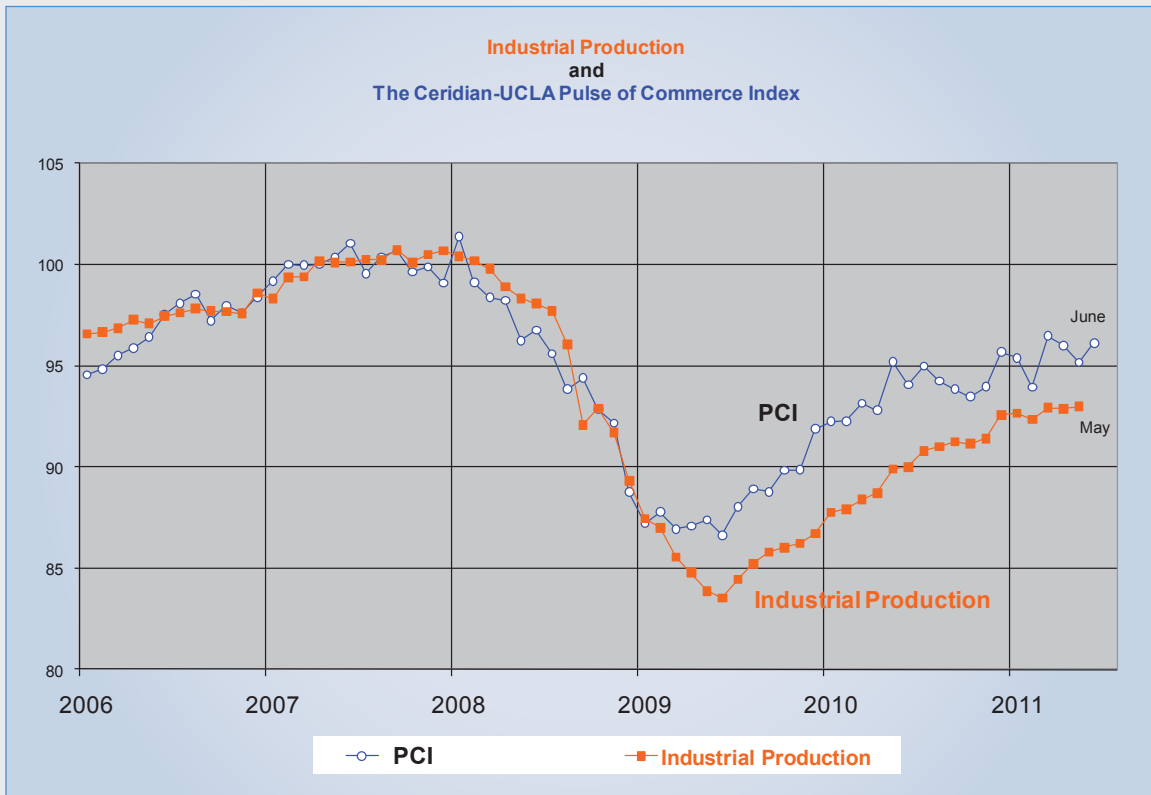
Foretelling Industrial Production

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 is 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 our forecasts of industrial production, based on the PCI released monthly for January 2011 to July 2011. As shown, the PCI forecasts have compared favorably over time with the government’s numbers. The Federal Reserve’s estimate of industrial production for the month of June will be released on July 15th. The PCI indicates industrial production will show a modest increase of 0.17% when it is reported at that time. This represents an improvement from last month’s forecast because of the strength of the June PCI.

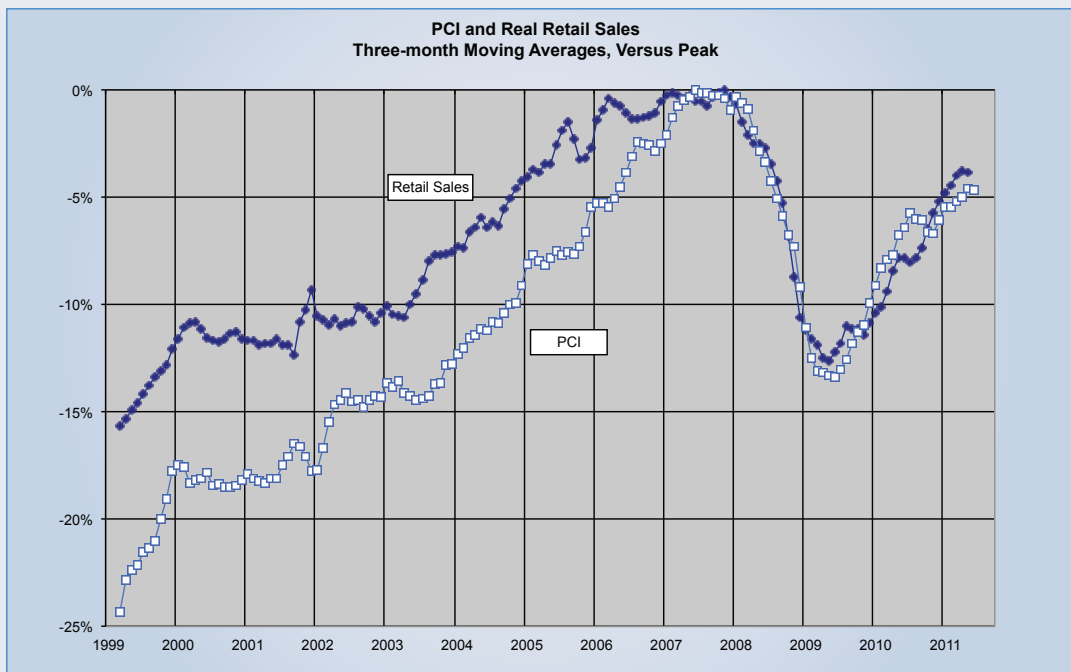
Growth of Industrial Production: Fed Estimate and PCI Forecast

	Fed Estimates by Release Date					PCI Forecast by Release Date					
	2/15/11	3/17/11	4/15/11	5/11/11	6/16/11	2/9/11	3/9/11	4/12/11	5/11/11	6/8/11	7/13/11
Jan-11	-0.06%	0.24%	0.15%	0.11%	0.10%	0.34%					
Feb-11		0.00%	0.07%	-0.26%	-0.32%		-0.02%				
Mar-11			0.80%	0.72%	0.60%			0.76%			
Apr-11				-0.01%	-0.03%				0.25%		
May-11					0.10%					0.05%	
Jun-11				Release	July 15						0.17%
Jul-11											0.18%
Aug-11											0.21%
Sep-11											0.11%



PCI Shows a Strong Correlation to Retail Sales

As indicated below the PCI has shown a strong correlation with retail sales over time. The June result indicates that retail sales for the month are likely to be flattish versus last month, but relatively strong compared to the prior year.

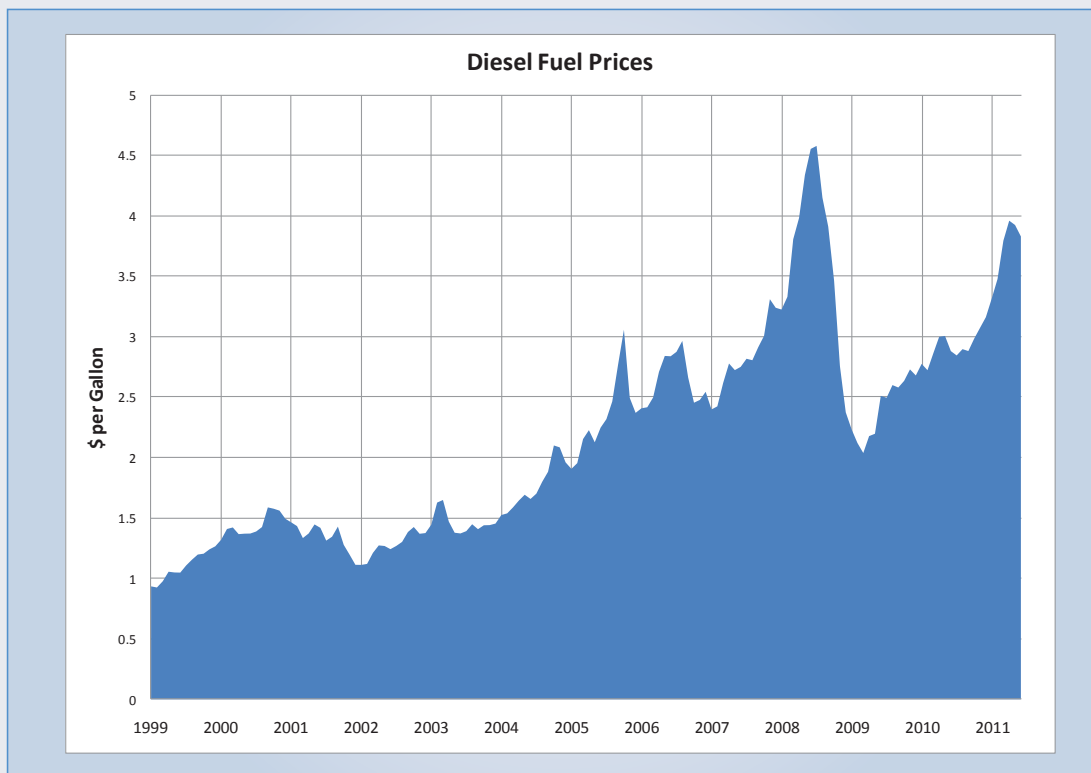


Higher Fuel Prices Continue to Impact the Economy

The average price of diesel remained stubbornly high in June at \$3.83 per gallon compared with \$3.93 in May, and \$3.96 in April. The good news is that May ended a string of seven consecutive months of sharply rising diesel fuel prices, but prices are still almost double the levels of two years ago.

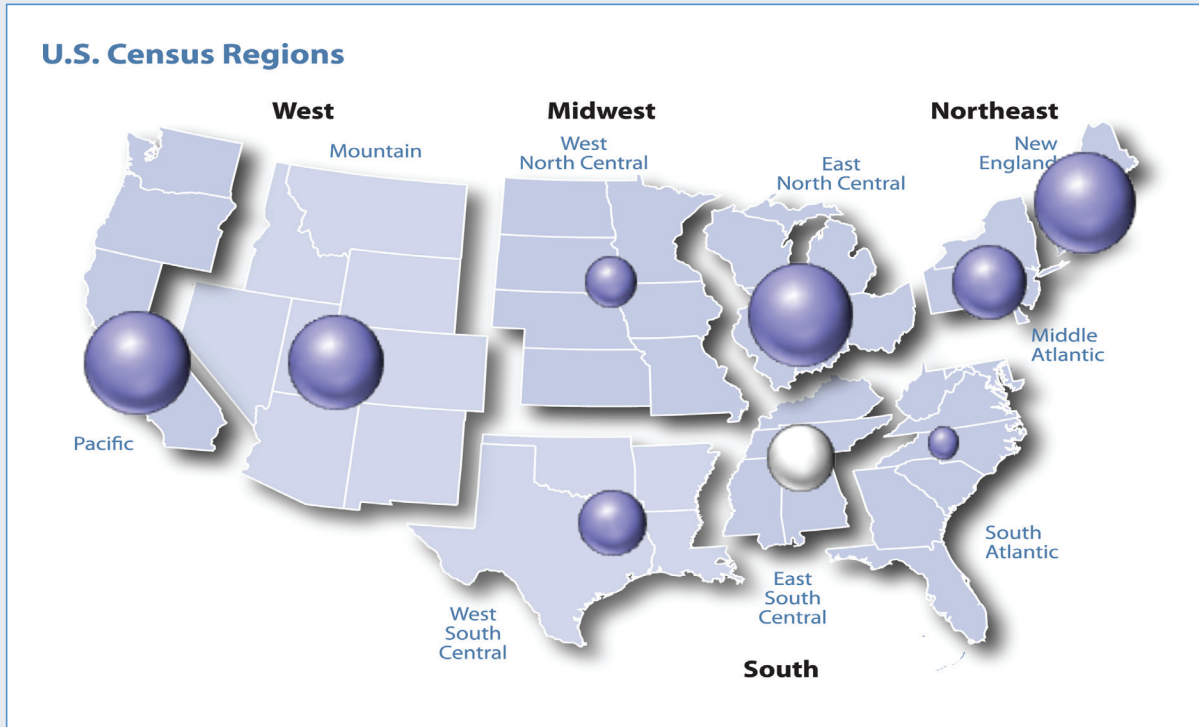
Last month we wrote: *“Though this rise in fuel costs encourages greater fuel efficiencies, we have not found any evidence that the variability in fuel efficiencies affects the movement of the PCI over the short run. The more likely channel through which higher costs of diesel and other refined products 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.”*

Indeed, higher crude oil prices are likely contributing to the sluggishness in growth by sapping the vigor from consumer spending. Persistent U.S. dependence on energy from crude oil even when faced with higher prices means that when energy prices elevate, potential demand for homes and cars goes down the energy drain. We estimate that the recent doubling of crude oil has pushed an additional 2 percent of GDP down that drain. That’s a lot.



Regional Summary

The PCI in June experienced good or exceptional growth in most of the nine Census regions. The one exception was the East South Central region which experienced a 1.0 percent decline, tempered by the fact that the previous month was strong at +2.0 percent.



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.

Ceridian-UCLA Pulse of Commerce Index

Seasonally and Workday Adjusted
Sorted by June 2011 Value

Monthly Percent Change				
	Apr-11	May-11	Jun-11	2010 Share
Pacific	-1.2%	-3.0%	2.5%	5.8%
East North Central	-1.5%	-2.4%	2.5%	18.2%
New England	-0.7%	2.0%	2.3%	1.4%
Mountain	-0.5%	-1.0%	2.0%	9.6%
Middle Atlantic	-2.5%	1.5%	1.2%	6.7%
US Overall	-0.5%	-0.9%	1.0%	100.0%
West South Central	0.4%	-1.0%	1.0%	19.1%
West North Central	0.3%	-1.2%	0.6%	10.0%
South Atlantic	-0.9%	-1.0%	0.2%	17.8%
East South Central	-1.0%	2.0%	-1.0%	11.5%

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.