

Ceridian-UCLA Pulse of Commerce Index™

By UCLA Anderson School of Management

June 8, 2011



UCLAAnderson
School of Management

Pulse of Commerce Index Falls 0.9 percent in May

Recovery stalled out in 2010Q3– PCI Calls for Continuing Tepid GDP Growth

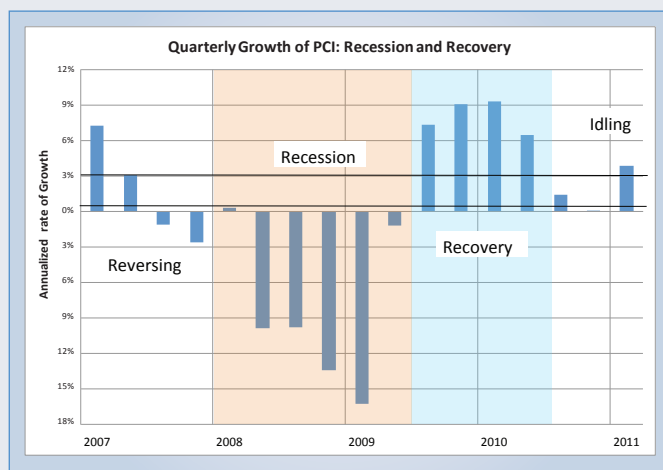
The Ceridian-UCLA Pulse of Commerce Index™ (PCI), issued today by the UCLA Anderson School of Management and Ceridian Corporation fell 0.9 percent on a seasonally and workday adjusted basis in May, after falling 0.5 percent in April. The index has now declined in four of the first five months of 2011, and in eight of the past twelve months. It is clear that the economy is idling, and growth remains a struggle.

On a year over year basis, the PCI was flat in May. This was disappointing in that it ended a string of seventeen straight months of year over year improvement in the index. One glimmer of good news is that May of last year was the strongest month of 2010, and this month's result nearly cleared that hurdle. Nevertheless, the PCI showed no growth, and this is another indication that the economy is stuck in neutral.

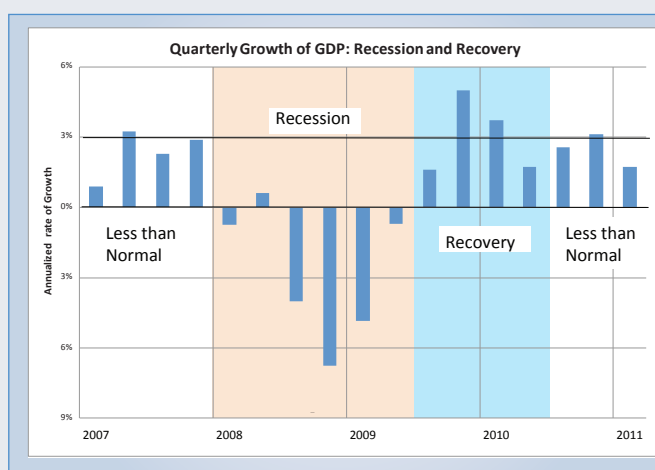
The May result reinforces our long-held cautious outlook for below consensus growth in GDP, and suggests that GDP growth will be less than 2 percent for the second quarter.

Over time, the PCI has proven to be a leading and amplified indicator of GDP. The comparison below illustrates the relationship between the PCI performance and GDP by quarter since 2007.

PCI – Leading Indicator of Quarterly Growth



GDP – Quarterly Growth



According to the economists at the National Bureau of Economic Research (NBER), the recession officially ended in June of 2009, which coincides exactly with the trough of the PCI. Historically, recessions are followed by recovery periods marked by exceptional growth and a strong job market, and then normal growth resumes. The NBER committee of economists strives to guess the date when recessions end, but the committee does not attempt to define the moment when the economy transitions from recovery to normal growth. However, the PCI provides clarity: The recovery paused almost a year ago, in July 2010. During the recovery period (from June of 2009 to July of 2010) the PCI grew at annualized rate of 10 percent. Since that time, the economy has been idling. The PCI fell a bit in the second half of 2010, and has subsequently only returned to the levels of mid 2010.

Economic growth during the recovery period was driven primarily by inventory restocking late in 2009 and early in 2010. Normally, the force of inventory restocking is accompanied by a resurgence in home sales and automobiles, along with millions of job recalls in construction and manufacturing. This time, that did not occur.

The PCI slid a bit in the second half of 2010 as the force of inventory restocking inevitably receded, and since then has been on a wobbly, less-than 3% growth trend. This has resulted in less-than normal GDP growth with unusually high variability.

Based solely on the moving average for the past three months, the PCI is calling for GDP growth of 2.6% for the second quarter. However, because the March result was truly exceptional (up 2.7 percent compared with February) it creates a high bar for the June number. 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.

Over time, the PCI has also shown a substantial correlation with Industrial Production. Still buoyed by the strong March number, but followed by declines since then, the PCI is anticipating IP to show modest growth of 0.05 percent for May when the number is released on June 15, 2011.

On a regional basis, a swath of the East (the East South Central, Mid Atlantic and New England regions) continued to experience increases, however trucking activity declined across the rest of the country.

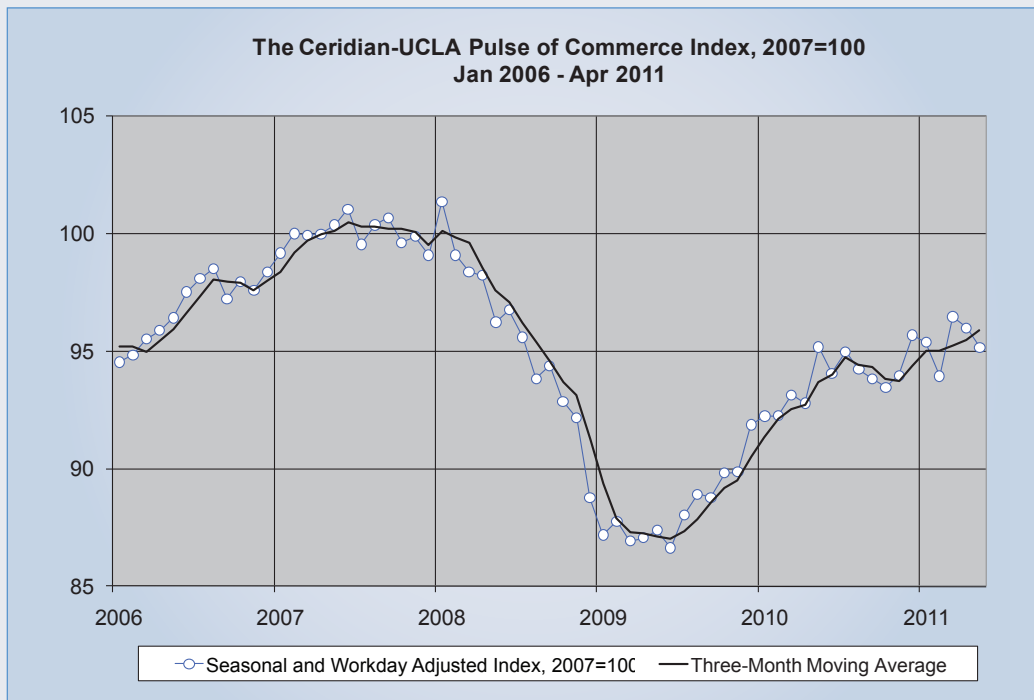
GDP and Pulse of Commerce Index

Ceridian-UCLA Pulse of Commerce Index, May 2011 Data Released June 8, 2011

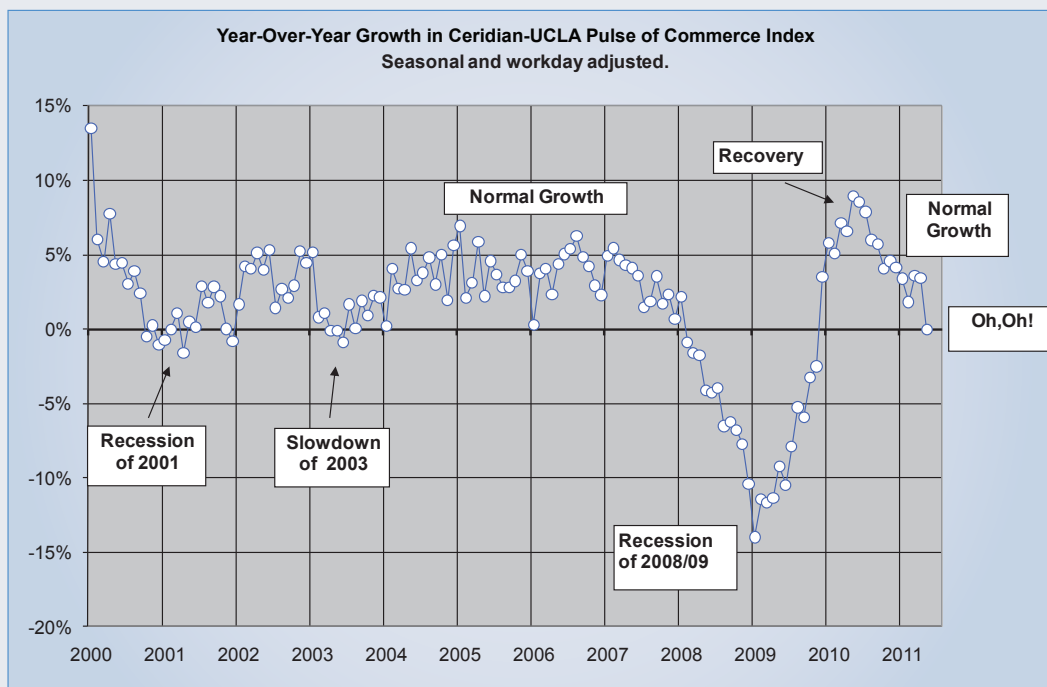
Index Value, (2007=100)	Mar-11	Apr-11	May-11
Seasonally and Workdays Adjusted	96.48	96.00	95.17
Unadjusted Index	101.60	94.22	95.81
Month-to-Month Growth	2.7%	-0.5%	-0.9%
Annualized Growth Rates, Adjusted Index			
Three-month v. Previous Three Months	3.9%	2.0%	3.7%
Year-Over-Year	3.6%	3.5%	0.0%

Workday adjustment depends on monthly fractions of weekend days.
Seasonal Adjustment using X12

PCI and Three-Month Moving Average

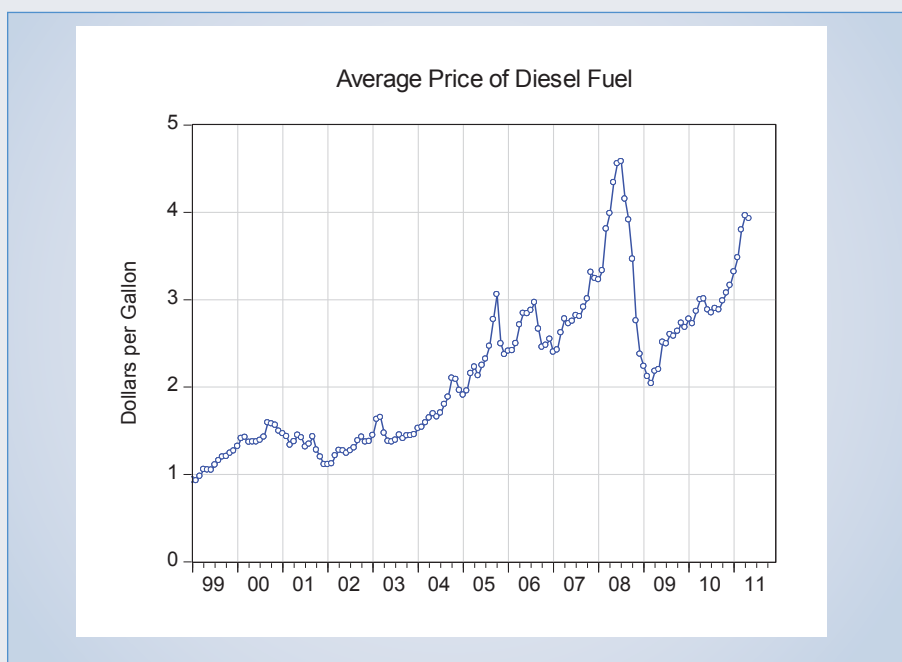


Year-over-Year Growth of PCI



Year-over-year growth in May was flat, breaking a string of 17 consecutive months with year-over-year growth in the index.

Higher Fuel Prices May Be Slowing the Economy



The average price of diesel remained stubbornly high in May at \$3.93, compared to \$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 what they were 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. 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.

Foretelling Industrial Production

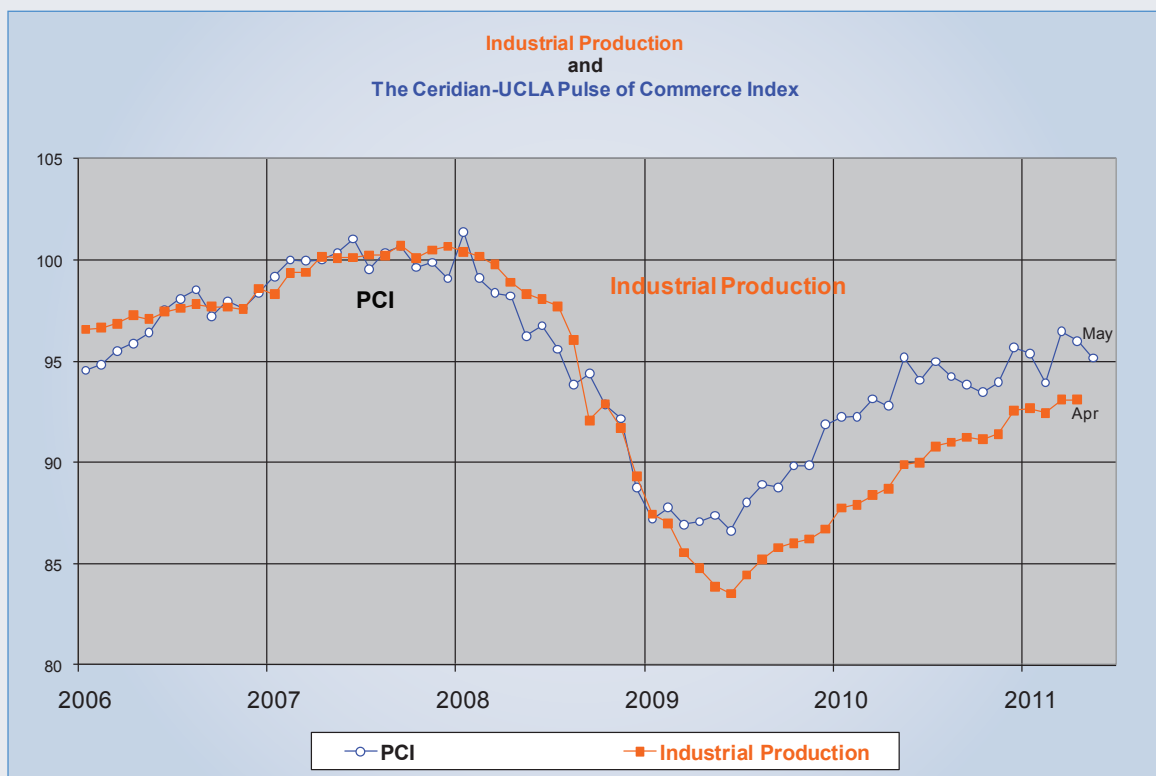
With the assistance of an econometric model, the PCI can be translated into future industrial production values. Over time, the PCI has been highly correlated to industrial production and is useful in predicting the direction and magnitude of Industrial Production prior to its release each month. The “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

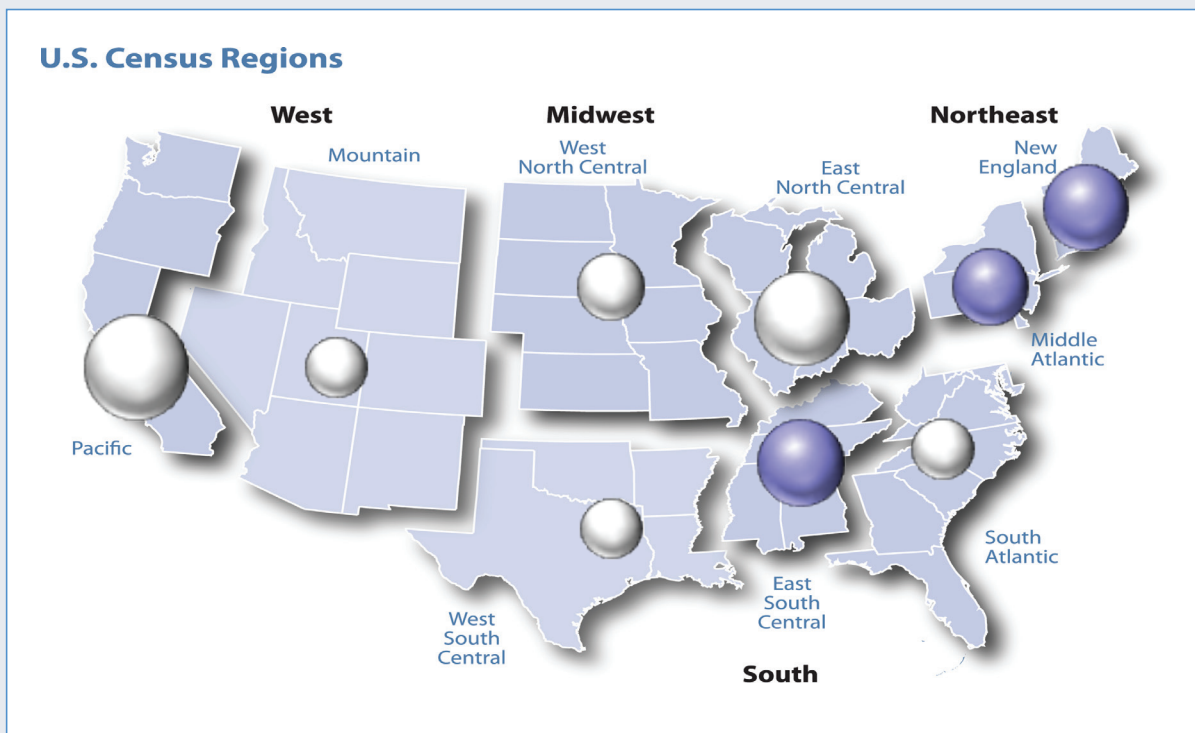
production in the first five columns, as they have been revised over time. The next six columns in the table are forecasts based on the PCI released monthly for December 2010 to August 2011. The numbers typed in bold are one-month ahead forecasts and the current estimates of Industrial Production, which conform well in general. The Federal Reserve's estimate of industrial production for the month of May will be released on June 15. The PCI indicates industrial production will show a modest increase of 0.05% when it is reported at that time. This represents a markdown from last month's forecasts because of the weakness in the May PCI.

Growth of Industrial Production: Fed Estimate and PCI Forecast

	Fed Estimates by Release Date					PCI Forecast by Release Date					
	1/14	2/15	3/17	4/15	5/11	1/11	2/9	3/9	4/12	5/11	6/8
Dec-10	0.84%	1.16%	1.41%	1.34%	1.28%	0.61%					
Jan-11		-0.06%	0.24%	0.15%	0.11%		0.34%				
Feb-11			0.00%	0.07%	-0.26%			-0.02%			
Mar-11				0.80%	0.72%				0.76%		
Apr-11					-0.01%					0.25%	
May-11				Release	June 16						0.05%
Jun-11											0.04%
Jul-11											0.12%
Aug-11											0.21%



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.

On a regional basis, a swath of the East continued to experience increases (the East South Central, Mid Atlantic and New England regions were up 2.0%, 2.0% and 1.5%, respectively), however trucking activity declined across the rest of the country. The East North Central and Pacific Regions were particularly weak, down 2.4% and 3.0%, respectively.

Ceridian-UCLA Pulse of Commerce Index

Seasonally and Workday Adjusted Sorted by Sorted by May 2011 Value

Monthly Percent Change				
	Mar-11	Apr-11	May-11	2010 Share
New England	-2.5%	-0.7%	2.0%	1.4%
East South Central	3.4%	-1.0%	2.0%	11.5%
Middle Atlantic	6.0%	-2.5%	1.5%	6.7%
US Overall	2.7%	-0.5%	-0.9%	100.0%
Mountain	1.2%	-0.5%	-1.0%	9.6%
South Atlantic	0.7%	-0.9%	-1.0%	17.8%
West South Central	5.0%	0.4%	-1.0%	19.1%
West North Central	3.2%	0.3%	-1.2%	10.0%
East North Central	2.9%	-1.5%	-2.4%	18.2%
Pacific	1.5%	-1.2%	-3.0%	5.8%

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.