



Ceridian-UCLA Pulse of Commerce Index[®]

By UCLA Anderson School of Management

November 9, 2011



UCLAAnderson
School of Management

Pulse of Commerce Index Increased 1.1 Percent in October Offsetting the 1.0 Percent Decline in September

But decline in August leaves the three-month moving average still falling

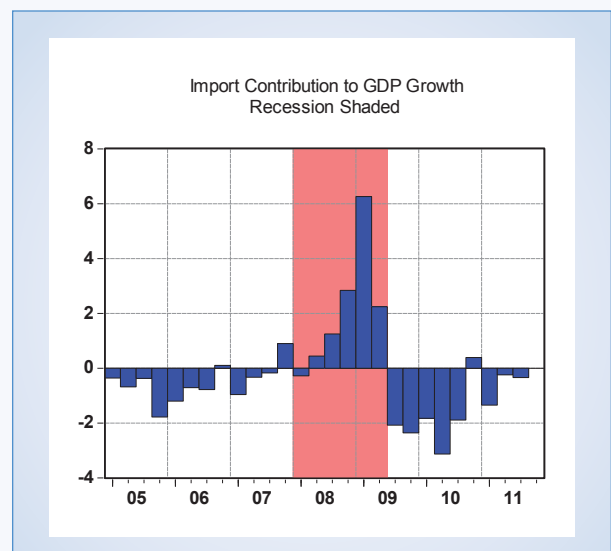
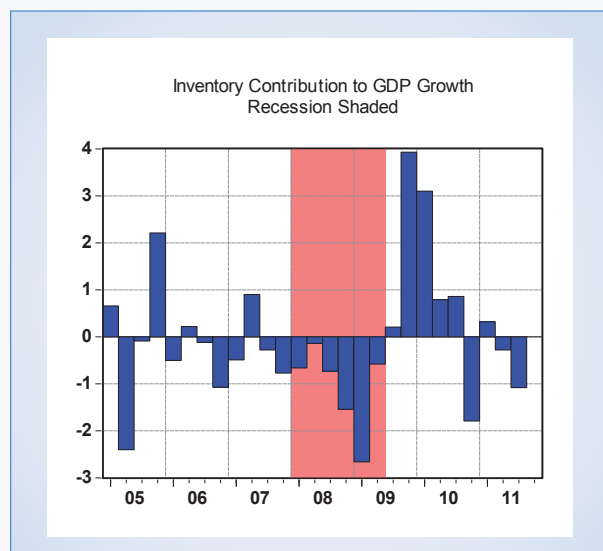
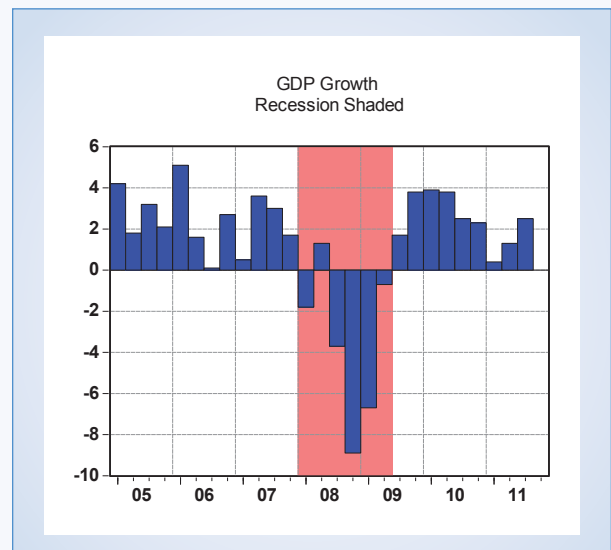
The Ceridian-UCLA Pulse of Commerce Index® (PCI®), issued today by the UCLA Anderson School of Management and Ceridian Corporation rose 1.1 percent in October after three consecutive negative months: -1.0 in September, -1.4 percent in August and -0.2 percent in July.

The October data offers a welcome relief from the double-dip fears that were rampant a month ago, but one month does not mean a new trend. Until we get a series of positive months, it remains a she-loves-me, she-loves-me-not economy with bad news followed by good followed by bad.

Moreover, the positive month-on-month news in October is relative to a very disappointing September result. Though the growth in October offsets the September decline, it doesn't offset the cumulative decline including August and July. The average of the last three months has declined compared with the previous three months at an annualized rate of 5.8 percent, and the PCI remains lower than it was during most of the first half of 2011.

Given the weak PCI, the advance estimate of third quarter GDP growth of 2.5 percent was surprising, but the final estimate may be lower. The PCI measures inventories in motion, and it is noteworthy that the inventory component of GDP contributed minus 1.1 percent to the overall 2.5 percent growth rate. In other words, if there had been no negative contribution of inventories, the growth rate would have been a healthy 3.6 percent. The positive growth of the PCI in October is the first sign that the inventory contribution to growth will turn positive, thus contributing to a favorable fourth quarter number.

Additional corroborating evidence of the weakness in inventories comes from the Ports of Long Beach and Los Angeles being down 3 percent in import volumes



compared with a year earlier. In the third quarter, imports contributed only minus 0.3 percent from GDP growth, compared with minus 2.0 percent or more when the recovery seemed to be taking hold from 2009Q2 to 2010Q3.

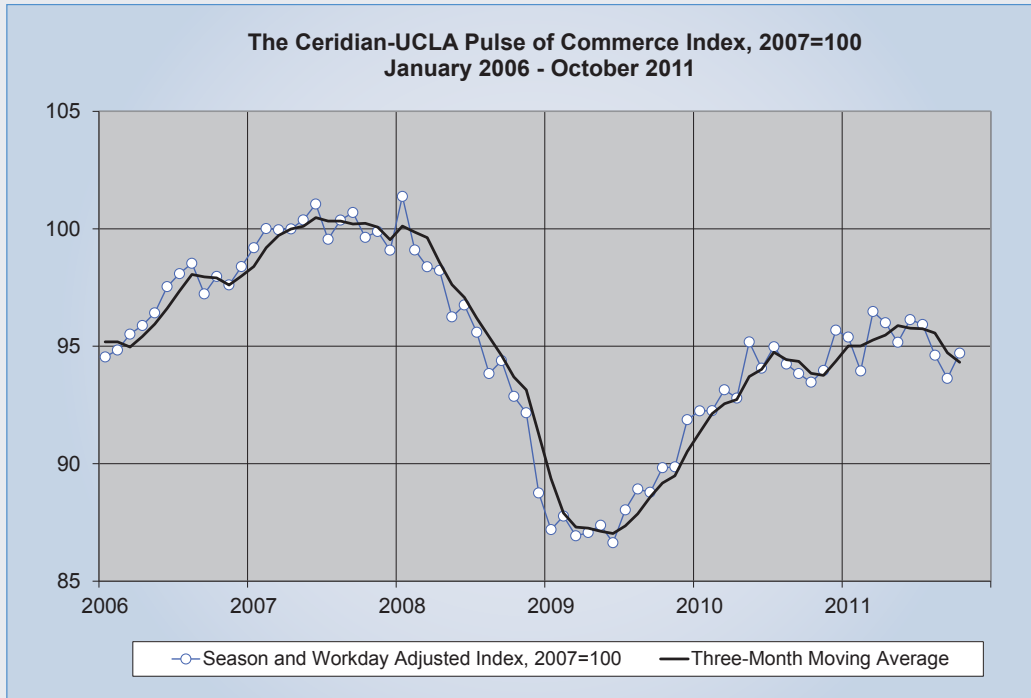
Last month we wrote, *“The positive point of view on this extremely disappointing news is that businesses, in the face of the considerable concerns about growth, are unwilling to restock for a potentially vibrant holiday season at the same time as normal and they are planning to ramp up inventories late this year, if and when the sales start to materialize. In other words, what we are observing this month is only a weak forecast of future sales, a forecast that doesn’t have to be self-fulfilling. With lean inventories, increases in sales mean increases in production and in jobs.”* The October data are consistent with this, but we will need a strong November and December for the December level to exceed last year’s December. Incidentally, the last two December’s have been unusually strong, hinting at a new holiday seasonal pattern, and promising better data in the months to come. However, the improvement in October was concentrated in the third week, and by the end of October, trucking activity adjusted for the season was as weak as it was at the end of September. This does not lay the foundation for a strong November.

Ceridian-UCLA Pulse of Commerce Index, October 2011 Data Released November 9, 2011

Index Value, (2007=100)	Aug-11	Sep-11	Oct-11
Seasonal and Workday Adjusted	94.62	93.63	94.71
Unadjusted Index	100.69	93.70	96.78
Month-to-Month Growth	-1.4%	-1.0%	1.1%
Annualized Growth Rates, Adjusted Index			
Three-Month v. Previous Three Months	-1.3%	-4.3%	-5.8%
Year-Over-Year	0.4%	-0.2%	1.3%

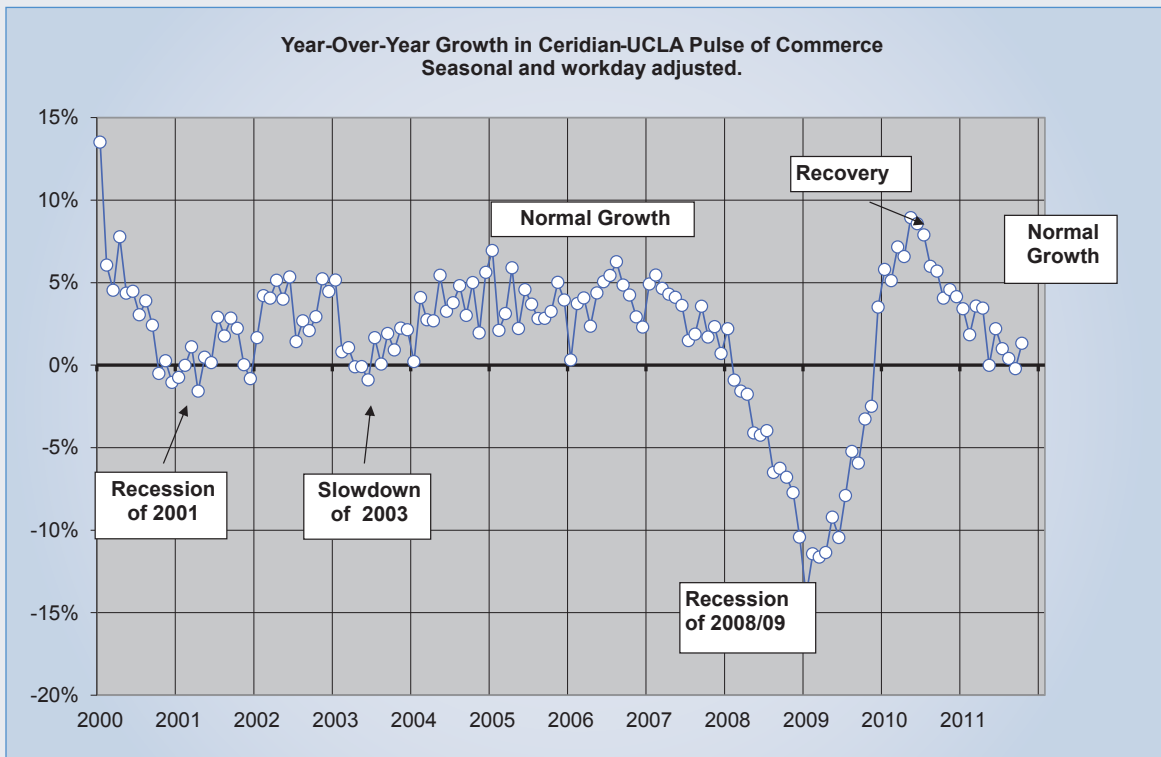
Revised seasonal and workday adjustment through 2010q12
 Workday adjustment depends on monthly fractions of weekend days.
 Seasonal adjustment using X12

PCI and Three-Month Moving Average



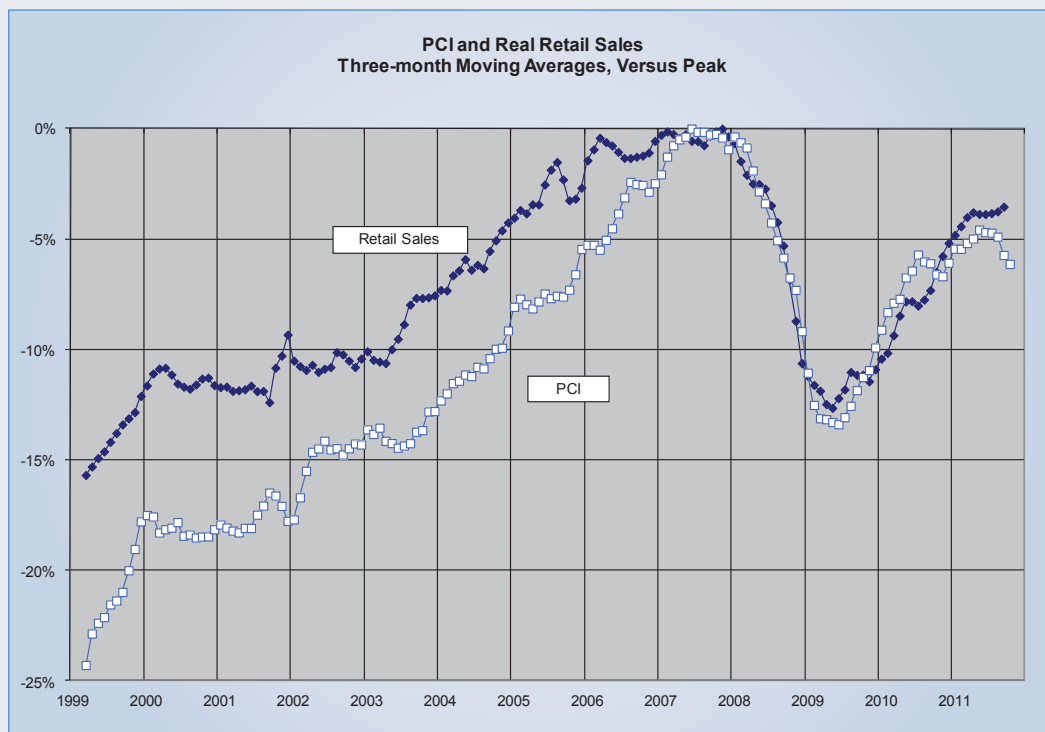
Year-Over-Year Growth of PCI

The year-over-year growth in the PCI is back up above zero, but hovering near zero, like it was during the slowdown of 2003.



Retail Sales and the PCI: Inventories in Motion

The growth in real GDP is to a large extent driven by growth in consumer spending. One important symptom of consumer spending is real retail sales, which are compared with the PCI in the figure below. In this figure, both the PCI and the real retail sales have been normalized by their maximum value, making it easy to see that both declined from their peak values by 13 or 14 percent.



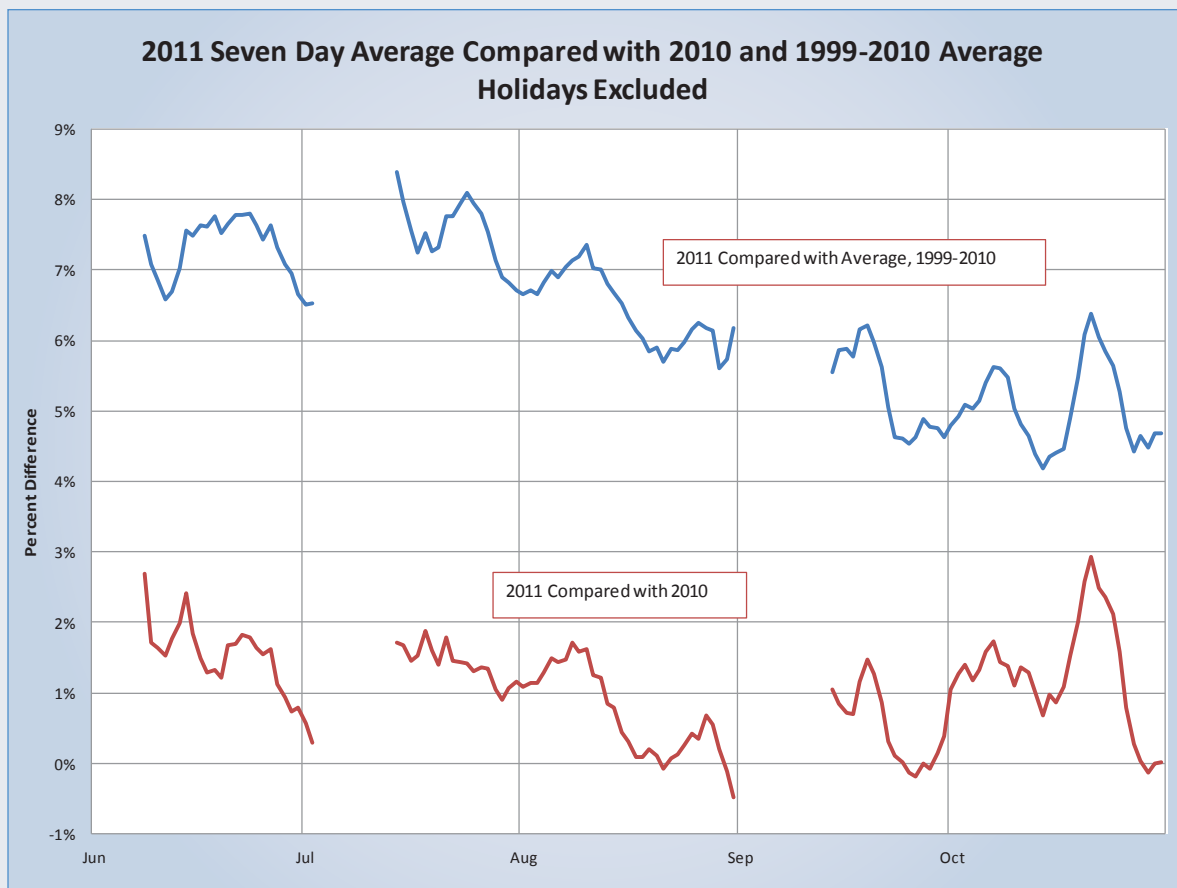
Viewing the PCI as a measure of inventories in motion, it appears that inventory restocking early last year in 2010 got ahead of real retail sales, and the decline in the PCI in the second half of 2010 was an indication of inventory realigning with sales. Coincident with the decline in the PCI in summer of 2010 came heightened concerns about a second dip, which dissipated as the economy continued to grow in the second half of 2010.

Over the summer of this year, we experienced another episode of double dip anxiety and a coincident decline in the PCI. Though the double dip fear has dissipated again, the PCI and real retail sales continue to move in opposite directions, a repeat of 2010. Last year the disconnect between the PCI and real retail sales was resolved with a burst in trucking activity, which seems most likely this year although some commentaries suggest retail sales are falling short of expectations.

Seven Day Averages

The decline in the PCI on a daily basis is illustrated in the figure below. What this shows is that the improvement in October was concentrated in the third week, but by the end of October, trucking activity adjusted for the season was as weak as it was at the end of September. This does not lay the foundation for a strong November.

To make this figure, seven-day averages are used to eliminate the very large weekday effect, and the "seasonal" effect is controlled for by comparing with previous seven-day averages, 2011 versus 2010 and 2011 versus the averages from 1999 – 2010. The figure illustrates the fact that the 2011 PCI values in June were 7 percent greater than the 1999 – 2010 average and 1-2 percent greater than 2010. By the end of October, the PCI was only 4.5 percent higher than the 1999-2010 average, and about the same as 2010.



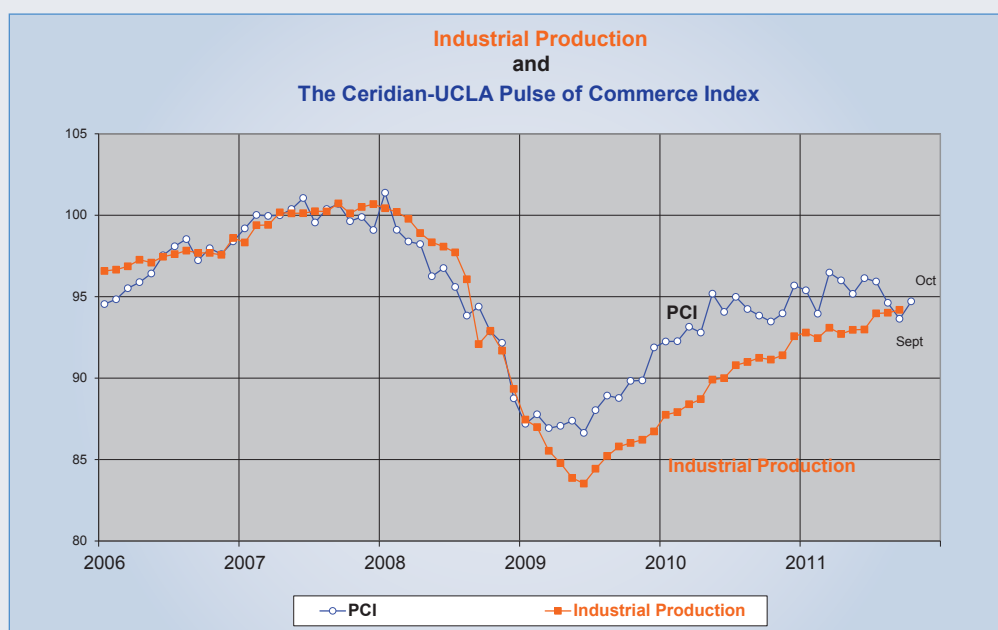
Foretelling Industrial Production

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 with 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 from July 2011 to the present, as they have been revised over time. The next six columns in the table are forecasts based on the PCI released monthly. 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 October will be released on November 16. The PCI suggests that the Industrial Production growth rate for October was 0.12 percent.

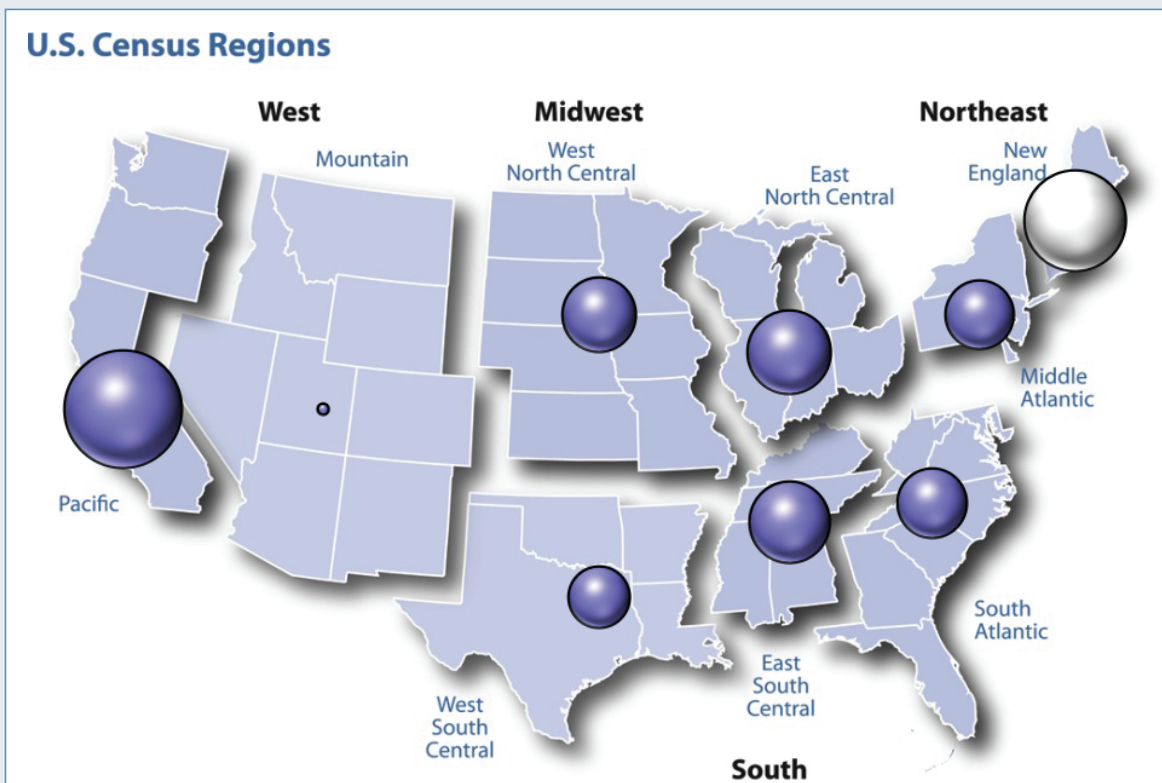
Growth of Industrial Production: Fed Estimate and PCI Forecast

	Fed Estimates by Release Date					PCI Forecast by Release Date					
	Jul	Aug	Sep	Oct	Nov	Jun	Jul	Aug	Sep	Oct	Nov
May-11	0.10%	-0.08%	0.22%	0.26%	0.27%	0.05%					
Jun-11		0.19%	0.37%	0.08%	0.03%		0.17%				
Jul-11			0.90%	0.90%	1.05%			0.00%			
Aug-11				0.18%	0.05%				-0.26%		
Sep-11					0.19%					-0.55%	
Oct-11					16-Nov						0.12%
Nov-11											0.23%
Dec-11											0.20%
Jan-12											0.04%



Regional Summary

Except for the New England, the improvements in the PCI were experienced by every region.



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 Monthly Growth Rates

Seasonally and Workday Adjusted, Sorted by October 2011 Value

Monthly Percent Change				
	Aug-11	Sep-11	Oct-11	2010 Share
Pacific	1.4%	0.3%	3.1%	5.8%
East North Central	-2.3%	0.1%	1.6%	18.2%
East South Central	-3.0%	-1.5%	1.5%	11.5%
West North Central	-1.0%	-2.2%	1.3%	10.0%
US Overall	-1.4%	-1.0%	1.1%	100.0%
South Atlantic	-0.3%	-1.4%	1.1%	17.8%
Middle Atlantic	-0.6%	-2.4%	1.1%	6.7%
West South Central	-0.8%	-0.2%	0.8%	19.1%
Mountain	-2.9%	-0.8%	0.0%	9.6%
New England	0.3%	2.2%	-2.3%	1.4%

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.

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.