

Ceridian-UCLA Pulse of Commerce Index™

By UCLA Anderson School of Management

July 13, 2010



UCLAAnderson
School of Management

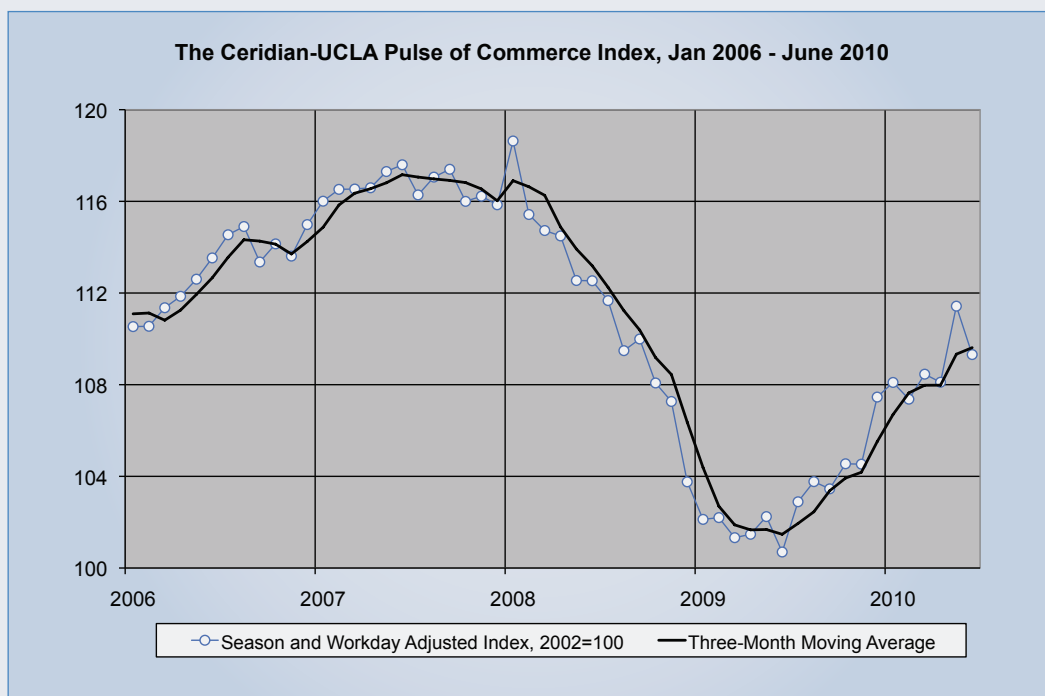
June Takes Away Some of May's Gains, But Ends the Month Strong

The Ceridian-UCLA Pulse of Commerce Index™ (PCI) by UCLA Anderson School of Management, adjusted for season and for monthly workdays, fell 1.9% in June, taking away two-thirds of May's 3.1% gain. This release comes in the midst of a string of other disappointing releases that have raised concerns about future growth and ignited fears of a double-dip recession. The June PCI is not as worrisome as it appears, however, for three reasons.

1. Some of the Memorial Day effect, which usually is confined to May, leaked into June this year, making May appear better but June appear worse.
2. The weakness in June was confined to the first two weeks, and the month finished strong, raising hopes for a strong July.
3. Even though June is weak, year-over-year and quarter-over-quarter comparisons remain very positive, very far from numbers that would hint of a double-dip recession anytime soon.

The PCI grew at the annualized rate of 6.2% in the second quarter of 2010, down from 9.7% 2010Q1 and 8.5% 2009Q4. The weaker PCI in the second quarter is consistent with GDP growth in the 2.5%-3% range, still positive but a disappointing contrast with recoveries that have averaged 5% growth per year.

Prospects for growth in industrial production, which were upgraded following the exceptional May PCI, have been rolled back because of the weakness in June.



Ceridian-UCLA Pulse of Commerce Index, June 2010 Data Released July 13, 2010

Index Value, (2002=100)	Apr-10	May-10	Jun-10
Seasonally and Workdays Adjusted	108.11	111.43	109.31
Unadjusted Index	108.54	109.50	112.51
Month-to-Month Growth	-0.3%	3.1%	-1.9%
Annualized Growth Rates, Adjusted Index			
Month-to-month	-3.8%	43.8%	-20.5%
Year Over Year	6.5%	9.0%	8.6%

Workday adjustment depends on the number of weekdays and weekend days in each month.
Seasonal Adjustment using X12

Three Reasons Why the Weak June PCI Does Not Suggest a Double Dip

1. A Delayed Memorial Day Effect Moved Transactions From June to May

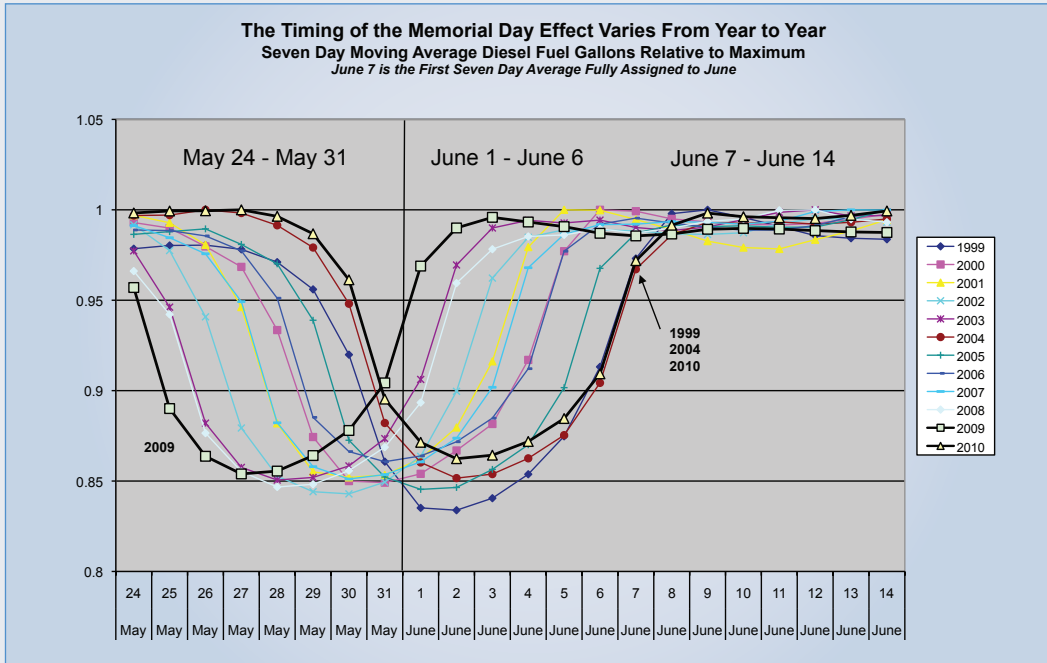
The Memorial Day effect on diesel fuel purchases is depicted in the first figure on page four which illustrates the seven-day moving average of diesel fuel gallons purchased from May 24 to June 14, for each of the years from 1999 to 2010, all data divided by the maximum in that calendar interval during each year.

The basic shape of the Memorial Day effect is virtually identical from year to year, lasting 12-13 days and diminishing the seven-day average sale by 15%. The timing is not the same, however. The earliest Memorial Day effect occurred last year, 2009, which had a bottom for the seven day average on May 27 and a back-to-normal seven-day average on June 2 or 3. In contrast, this year the bottom was reached on June 2 and the effect wasn't over until at least June 8.

As far as our monthly data are concerned, the critical day in this figure is June 7, the first seven-day average wholly in June. If the Memorial Day effect is over by June 6 or earlier, then it is impacting only the May data. The three years in which the effect substantially spilled into June are this year, 2010, and also 1999 and 2004, the three instances in which Memorial Day was on May 31, the last day of the month. The other year in which a small part of the Memorial Day effect leaked into June was in 2005 when Memorial Day was on May 30, the next to last day of the month. (The earliest response was in 2009 when May 31 was on a Sunday and there was a full week between Memorial Day and the first day of June.)

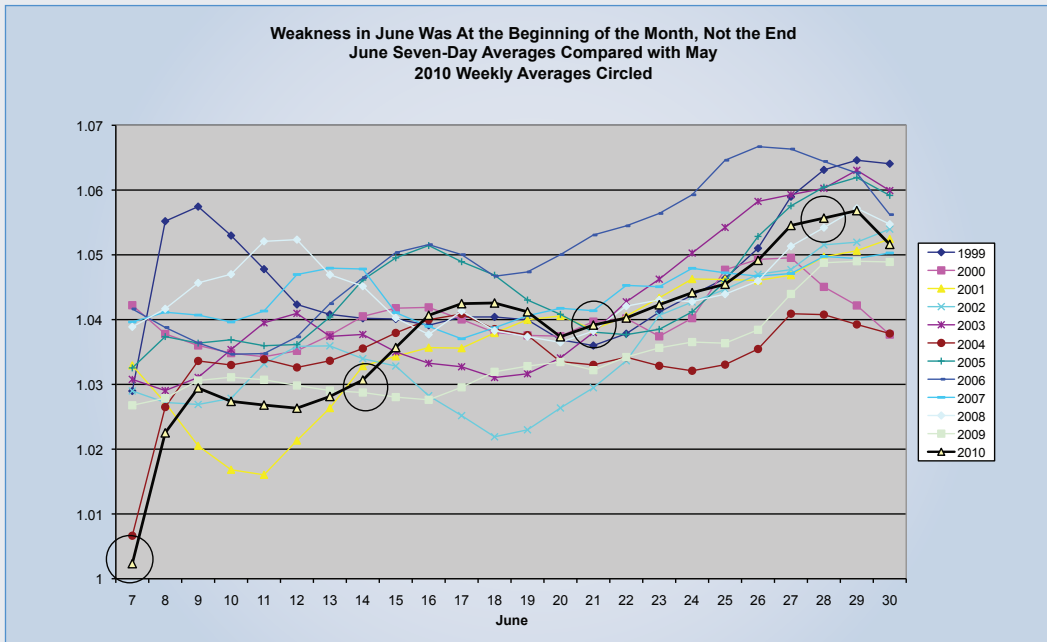
A correction for the delayed Memorial Day effect matters some but not enough to offset the extreme swing from May to June this year. The first week of June 2010 was approximately 3% below normal because of this effect. Since that is only one week of four, the monthly impact is $\frac{3}{4} = 0.75\%$. Transferring these gallons from June to May, we need to change the May and June growth rates by 0.75 from 3.1% in May and -1.9% in June to 2.4% in May and -1.2% in June, thus still very healthy growth in May followed by a decline in June.

May 31 Day of Week	
Year	Weekday
1999	Monday
2004	Monday
2010	Monday
2005	Tuesday
2000	Wednesday
2006	Wednesday
2001	Thursday
2007	Thursday
2002	Friday
2003	Saturday
2008	Saturday
2009	Sunday



2. The Weakness Was in the Beginning of June, Not the End

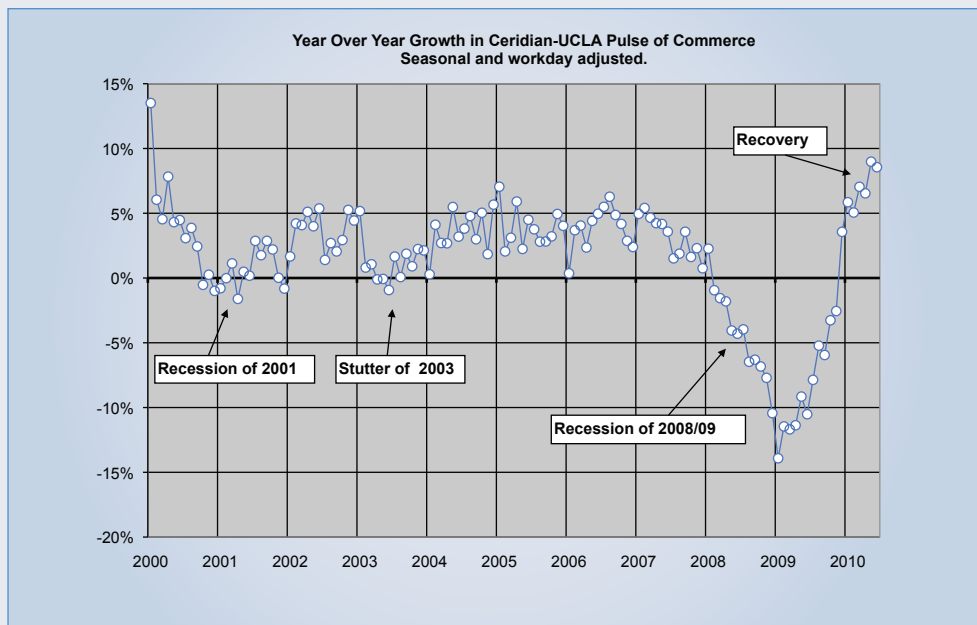
The figure below illustrates the daily seven-day averages for each of the eleven Junes in the data base, beginning with the June 7th number, which is the first seven-day average that involves only June data. Each of these averages is divided by the May average, and it is evident that June is generally up by about 4% compared with May. The circles capture the four weekly averages that comprise the first four weeks of June, but not the last two days. The June weakness is confined to the first two weeks but the last two are right in the middle of the June pattern, ending up 5% above the May average.



3. There is No Second Dip in the Year-Over-Year Numbers

The year-over-year change in the PCI had been in the 5%-7% range during the first four months of this year. These rates of increase are better than normal levels, but not the 10-12% rates that would be produced in a recovery strong enough to put Americans back to work. The May year-over-year PCI growth of 9.7% brought us close to that 10% goal, but June brings us back a bit to 8.6%.

Even with the weak June number, there is nothing in these data suggestive of a second recessionary dip. The figure below has the year-over-year PCI comparisons since 1999. In terms of its impact on trucking (and GDP too) the 2001 recession was very mild while the 2008/09 is accurately labeled the Great Recession with the PCI falling in January 2009 14% below its year-earlier level. But all of 2010 has had very strong year-over-year growth rates of the PCI in excess of 5%. Trucking was very weak in what is labeled in the figure the Stutter of 2003. That is when we should have been talking about a second dip, not now.



Foretelling GDP: Good Growth, Not Exceptional Growth

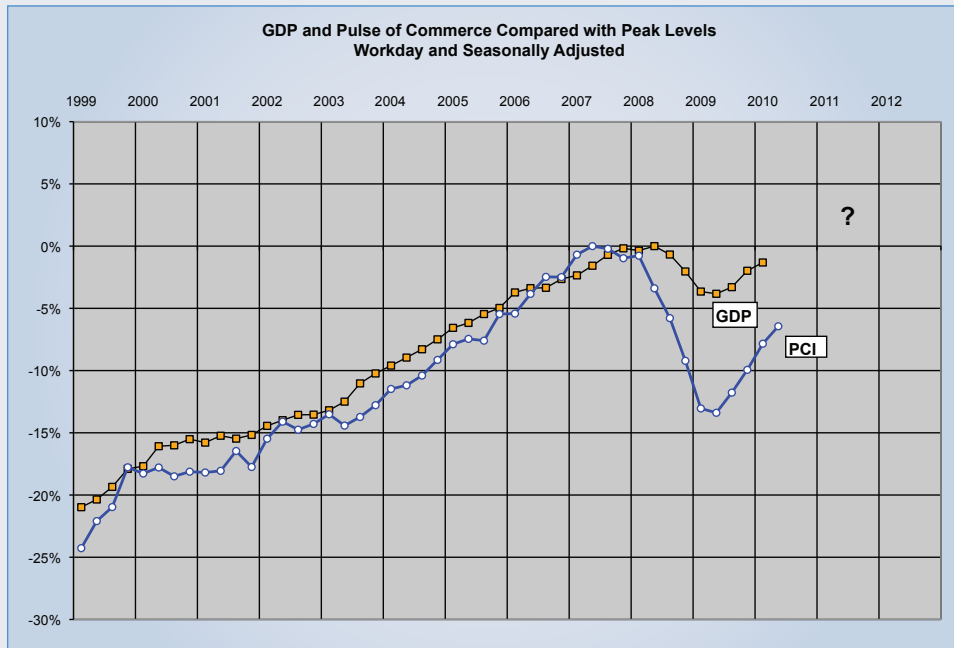
The GDP numbers are issued quarterly. With the June PCI data now available the second quarter PCI is complete. The growth rates of the PCI and real GDP since 2008 are reported below, including the 6.2% rate for 2010Q2. That is the weakest quarterly growth number since the recovery began in 2009Q3 and it suggests a second quarter GDP growth rate of only 2.5%, way below the 5-6% needed to put unemployed Americans back to work.

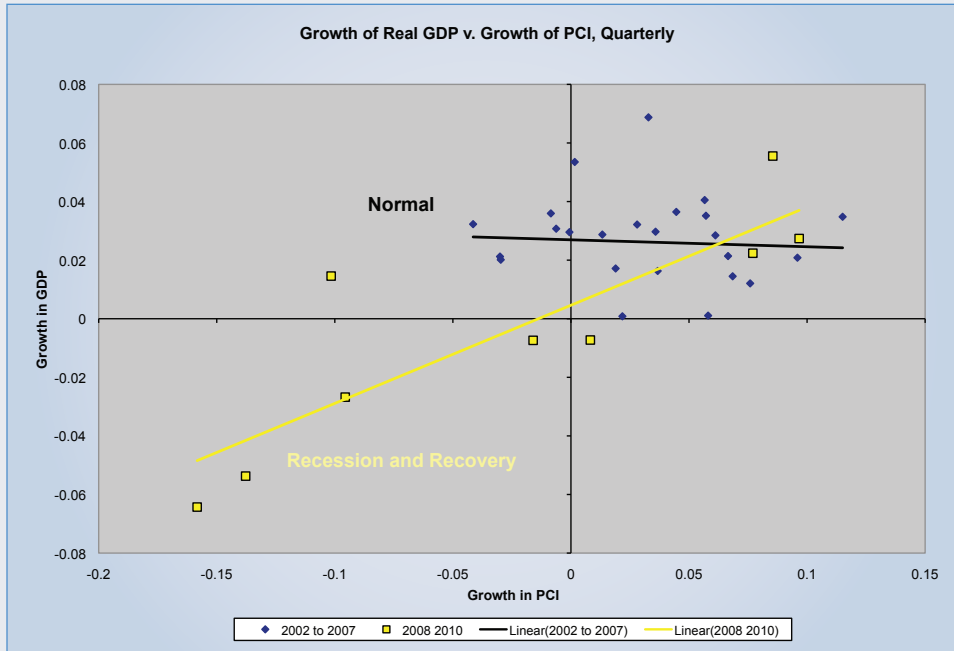
The long-term close association between the PCI and Real GDP is evident in the figure on page six which illustrates the data relative to their peak values. This long-term relationship was broken in the recession of 2008/09 which involved a

Annualized Rates of Growth			
		PCI	GDP
Recession	2008Q1	0.8%	-0.7%
	2008Q2	-10.2%	1.5%
	2008Q3	-9.6%	-2.7%
	2008Q4	-13.8%	-5.4%
	2009Q1	-15.8%	-6.4%
Recovery	2009Q2	-1.6%	-0.7%
	2009Q3	7.7%	2.2%
	2009Q4	8.5%	5.6%
	2010Q1	9.7%	2.7%
	2010Q2	6.2%	

larger fall in the goods component of GDP than in the service component, and a consequent more extreme drop in the trucking activities supporting the production of goods.

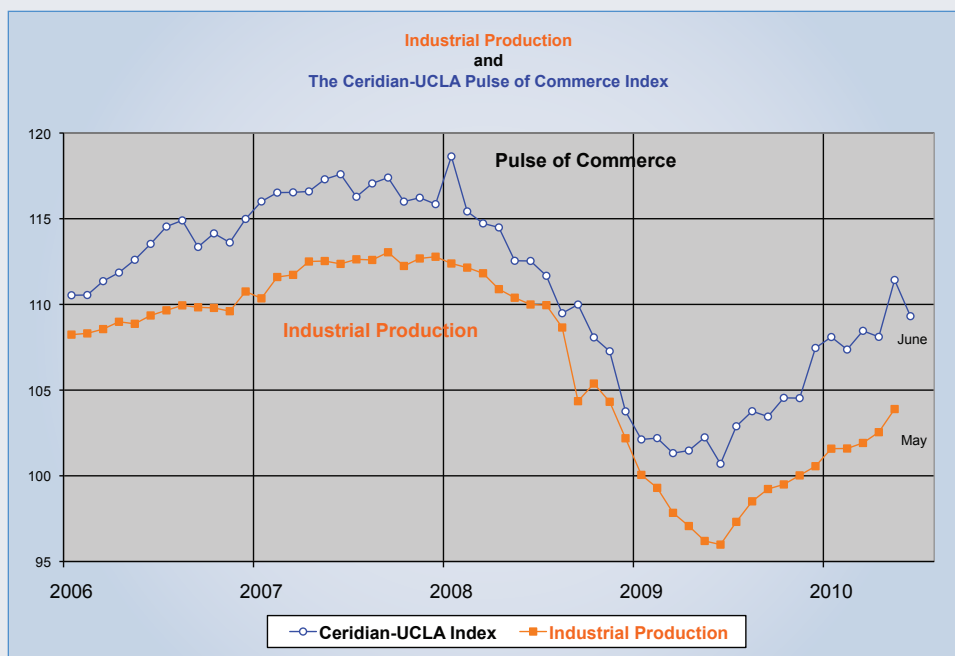
The altered relationship between the PCI and GDP in recessions and recoveries requires altered forecasting of GDP growth for the same time periods. The figure on page seven is a scatter diagram comparing the quarterly growth in the PCI with the growth of GDP for two different periods – the normal growth period from 2002 to 2007, and the subsequent recession and recovery. Each of these subsets of data has its own best-fitting regression line. Notice that in normal growth periods there is no quarter-by-quarter association between the growth in the PCI and the growth in real GDP. In these normal periods, there are a host of small things that affect quarterly GDP growth that are not associated with trucking activities in that quarter. But a clear relationship between quarterly growth of the PCI and the growth of GDP kicks in during recessions and recoveries when it is the goods component of GDP that is dominating the growth outcomes. From the regression line applicable to the recession and recovery, the forecast GDP for this quarter based on a PCI growth of 0.06 is approximately the 2.5% rate that is suggested by a regression analysis using an error-correction model that allows the predictive impact of the PCI to vary as the ratio of RGDP to the PCI wanders from its historical norm.





Foretelling Industrial Production: Upward Revisions

The Ceridian-UCLA Pulse of Commerce Index tracks closely on a monthly basis the Industrial Production Index, as illustrated in the figure below.



With the assistance of an econometric model, the PCI can be translated into future Industrial Production values. 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 through May 2010 in the first column. The June IP data will be released on July 16, but revised thereafter, sometimes substantially. The next four columns in the table are forecasts based on the PCI released monthly from March to July of this year.

The story of this table is that each subsequent release of the PCI until May had come with a lowering of expectations of the growth of industrial production, as the ripple from the extremely strong December PCI became fainter and fainter and as the Fed’s estimates of IP growth have disappointed. But the May PCI released in June called for upward revisions of all the forecasts and the (initial) May industrial production growth rate was the very strong 1.31%.

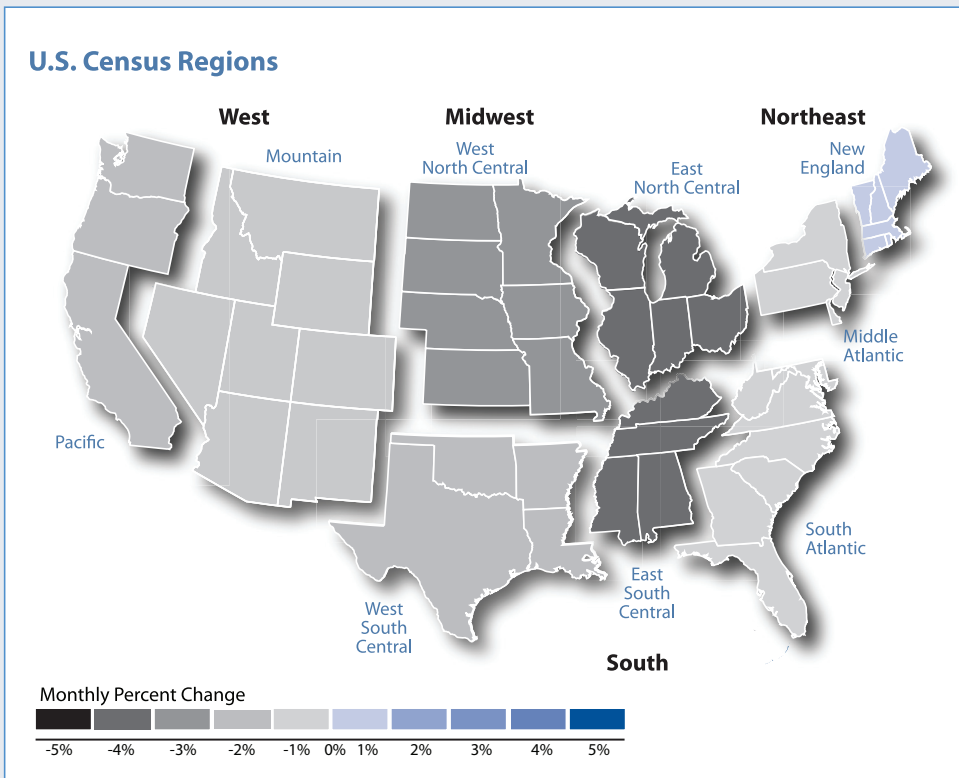
The weak June PCI is calling for a revision in the opposite direction, lowering the expectation for industrial production in June from 0.65% to 0.25%, and for July from 0.70% to 0.58%.

Monthly Growth of Industrial Production (Actual and Forecast)

	Fed Estimate	Forecasts				
	7/10	3/10	4/13	5/12	6/10	7/13
Apr-10	0.61%	0.85%	0.64%	0.40%		
May-10	1.31%	1.15%	0.90%	0.59%	0.85%	
Jun-10			0.67%	0.59%	0.65%	0.25%
Jul-10				0.66%	0.70%	0.58%
Aug-10					0.73%	0.52%
Sep-10						0.68%

Regional Summary

The boom in trucking activity last month in May was very widespread, with only the Middle Atlantic region (NY, New Jersey and Pennsylvania) experiencing a decline. The decline in June is equally widespread, with only New England experiencing an increase.



Ceridian-UCLA Pulse of Commerce Index

Seasonally and Workday Adjusted Sorted by June 2010 Value

	Monthly Percent Change			2009 Share
	Apr-10	May-10	Jun-10	
New England	2.7%	3.0%	0.9%	1.3%
Middle Atlantic	0.8%	-0.6%	-0.5%	7.0%
South Atlantic	-1.1%	2.9%	-0.5%	18.1%
West South Central	0.0%	2.6%	-1.1%	18.8%
Pacific	-0.5%	3.8%	-1.2%	5.8%
Mountain	0.6%	1.5%	-1.9%	9.7%
US Overall	-0.3%	3.1%	-1.9%	100.0%
West North Central	-0.2%	3.6%	-2.1%	9.6%
East North Central	-1.7%	6.2%	-3.1%	18.3%
East South Central	-0.4%	2.5%	-3.7%	11.4%

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 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.