Overview

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.

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 further information on how the index is created and the underlying data refer to www.ceridianindex.com.

January Reality Check

The Ceridian-UCLA Pulse of Commerce Index (PCI) by UCLA Anderson School of Management fell in January at the annualized rate of 36.8%, almost completely offsetting the increase in December. The more reliable three-month moving average for January managed to show a 3.3% gain at an annualized rate, following an exceptional annualized rate of 14.6% in the previous month.
First Year-Over-Year Increase Since 2008

Though the January 2010 number is disappointing, the PCI is 3.6% above its year earlier level, similar to pre-recession year-over-year values. The more reliable three-month moving average is 2.3% above the previous year’s value, which is the first time that there has been a year-over-year increase since April 2008, 21 very difficult months ago.

Ceridian-UCLA Pulse of Commerce Index, January 2010 Data
Released February 10, 2010

<table>
<thead>
<tr>
<th>Index Value, (2000=100)</th>
<th>Nov-09</th>
<th>Dec-09</th>
<th>Jan-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seasonally Adjusted</td>
<td>104.38</td>
<td>108.60</td>
<td>104.53</td>
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<td>Three-Month Average</td>
<td>104.35</td>
<td>105.55</td>
<td>105.83</td>
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<tr>
<td>Not Seasonally Adjusted</td>
<td>100.09</td>
<td>104.89</td>
<td>106.02</td>
</tr>
</tbody>
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Year-Over-Year Percent Change

| Monthly Data, Not Seasonally Adjusted | -0.5% | 3.4% | 3.6% |

Quarterly Percent Change at Annual Rate

| Three-Month Average, Seasonally Adjusted | 5.8% | 7.3% | 9.6% |

Monthly Percent Change at Annual Rate

| Monthly Data, Seasonally Adjusted       | 8.6% | 60.8% | -36.8% |
| Three-Month Average, Seasonally Adjusted | 11.1% | 14.6% | 3.3% |
Was that 5.7% GDP Number Cause for Celebration?

Recoveries from recessions often have had GDP growth near 5%, robust job markets and falling unemployment. But the last two recoveries have had weaker GDP growth and weaker labor markets. That’s the big economics story of 2010. Will the job market revive and put Americans back to work, or will we have another disappointing year?

Though the labor market appears to be showing few signs of recovery, the 2009 Q4 advance estimate of GDP growth equal to 5.7% was a strong number that suggests a powerful recovery is in the works, assuring that the labor market will begin to heal soon. But many commentators have dismissed the GDP number as a one-time aberration caused by an inventory build-up that is not likely to be repeated. The PCI early this year will shed light on this important issue and the weak January value supports the doubters who are looking for GDP growth rates in 2010 much lower than the 5.7% we just experienced.

The long-term relationship between real GDP and the PCI is illustrated in the figure below which displays the data relative to the peak values during the 2008 recession. One salient feature of this figure is the close association in the long run between the two series. Another salient feature is the greater volatility of the PCI in recessions, a symptom of the fact that the (truckable) goods sector suffers much more than the service sector in recessions as consumers and businesses postpone their purchases of durable goods and equipment but continue to rent housing, go to school and visit doctors.
The close long-term association between the Pulse of Commerce Index and real GDP calls for a convergence of their values, which suggests that the two series can be expected to return to their peak values at roughly the same time. That thought is the basis for a calculation to determine if the PCI and real GDP are increasing at a commensurate rate. The figure above has projections for real GDP and for the PCI based on their rates of growth in the fourth quarter of 2009, thus not factoring in the disappointing January PCI.

This figure reveals that although the 7.3% growth rate of the PCI in 2009 Q4 was a great number, at that rate the PCI will not exceed the 2007 Q2 peak until 2011 Q3. In great contrast, if we get two more 5.7 values for GDP growth, we will exceed the 2008 Q2 peak in 2010 Q2, more than a year before the projected full recovery of the PCI. Rather than a 7.3% PCI, a value more like 15% is needed to bring the PCI in line with GDP in the near future. What did the New Year bring? We had a very disappointing 3.3% January number (annualized growth of 3-month moving average). Things are going to have to look a lot better in February and March to turn this worry into optimism about the power of the recovery.

**Early Alarms and An Early “All Clear” from the Index**

The PCI forecasts many series including GDP. To make this clear, quarterly rates of growth of the PCI and real GDP for the last three years are illustrated in the figure below. An early alarm from a declining Index in 2007 Q3 accurately predicted the weakness in GDP growth over the subsequent three quarters and a very loud alarm in 2008 Q2, even as GDP was growing nicely, accurately predicted the collapse of the economy in the second half of 2009. If forecasters had had that information, it is hard to imagine that they would have been lulled into a state of optimism by that misleading GDP number, and businesses would have done more to prepare for the coming storm with anticipatory moves on inventory and employment, helping to make the downturn in the second half of 2008 less severe. Last, in this figure, is the “all clear” bell that came from the PCI in 2009 Q2, foreshadowing the positive GDP growth that occurred in the subsequent two quarters.
Foretelling the Movement in Industrial Production

The Pulse of Commerce Index tracks and anticipates the Industrial Production Index, which is released a week later in the month.

The figure below reveals that weakness in the PCI in the second quarter of 2008 preceded the collapse of Industrial Production. In addition, the PCI bottomed out in March of 2009, three months before the trough of Industrial Production in June 2009.

Commentary

It is broadly believed that the recession ended in the summer of 2009, though this has not yet been made official by the NBER Business Cycle Dating committee. A consensus has also emerged that the recovery we are currently experiencing will be a weak one, with GDP growth in the range of 2-3% per year, too low to drive down the unemployment rate. The disappointing January value of the Ceridian-UCLA Pulse of Commerce Index is compatible with the lower end of that range, and does not portend the kind of economic growth that can offer significant improvements in the labor market. We will need better PCI levels in February and March to support optimism again.
The sharp reduction in the annualized rate of growth of the three-month moving average of the national Pulse of Commerce Index from 14.6% in December 2009 to 3.3% in January 2010 was very widespread with only the East South Central having a better January than December. Negative rates of growth of the PCI occurred on both coasts, while the center of the country was still experiencing growth in the movement of goods.
About the Ceridian-UCLA Pulse of Commerce Index

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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.

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