

## Crunching the Numbers

## Report predicts ebb, flow

PRFI helps Home Depot execs prepare for flush times or trouble ahead.

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If you are running a massive home-improvement company like, say, Home Depot, you have billions of dollars riding on the ebb and flow of the economy, especially the swirling currents of consumer behavior.

So when Frank Blake became chief executive of the Atlanta-based chain, he searched for a metric, a measure, *something* that would help prepare him for flush times or warn him of trouble. He found one: Private Residential Fixed Investment.

Tracked since 1947 by the Bureau of Economic Analysis, the PRFI includes new home construction, major renovations of existing homes and real estate agent fees, as well as spending on new furniture and fixtures.

Over most of those six decades, the PRFI has represented about 4.5 percent of the

economy. Of course, that number wasn't the only report Home Depot looked at, but the measure distilled many factors down to a fairly reliable marker, said Blake during a session at The Atlanta Journal-Constitution.

PRFI would slip as recessions approached. It would climb as recoveries were beginning.

Armed with a warning of storm clouds on the horizon, a planner can prepare better than some clueless rival. For people paying attention last decade, the PRFI wailed a series of warnings. The PRFI expanded, rising to 5 percent for the first time. Then it soared above 6 percent – way above its historical average.

The ratio was rising because households took on debt and spent at a record pace. Consumer spending surged to nearly 70 percent of the economy and home-building roared to a frenetic pace – all good for Home Depot.

Optimists said it would continue. The PRFI said otherwise. The PRFI-to-economy ratio started dropping, like a foghorn

warning that the economy was about to slam into the shoals.

And slam it did. In late 2007, the economy plunged into recession. More than 8 million jobs were lost – including nearly 400,000 in Georgia. The PRFI kept sinking.

“Every quarter I did our earnings call and I’d go, ‘We’re at a new 60-year low,’” Blake said.

By early this year, the PRFI-to-economy ratio had fallen more than 50 percent to 2.43.

Economist Emily Sanders, president of Norcross-based Sanders Financial Management, called the PRFI “a bit of an esoteric figure,” but said it has tracked consumers pretty well over the years.

The question is: What’s happening now?

A continued dip in PRFI would not be a good sign for consumer spending or the larger economy’s growth, she said. “The big question is whether PRFI will find a floor or whether it already has found one. It does look, at least, like it has found a temporary floor.”

For Home Depot, the number doesn’t seem such a sure-fire

indicator.

“The bad news was that it [PRFI] was falling, but the good news is that we have significantly decoupled from this because our sales have improved,” Blake said.

The slipping measure should mean weaker demand for Home Depot’s goods. But it has not, Blake said. “We are not entirely sure why.”

It could be a reflection of a new reality: With the housing market still sluggish, millions of people may be spending money on relatively minor upgrades, rather than new homes and new furniture.

History does say that the PRFI can’t stay this low for long – not as long as the economy expands. Or maybe there is a new normal in which consumers spend proportionally less than ever before.

“I think PRFI has been a useful benchmark for us and has tracked pretty closely to our performance,” Blake said. “But if ... we continue to have more quarters like this, where PRFI declines and we improve, we’re going to follow what’s actually happening in our business.”