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The Confident Consumer: Leading the Way to a New Year's Rebound

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Thursday, December 05, 2002

By Hilary Kramer

FOX NEWS

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ADVERTISEMENT Consumers have done all the really hard work of keeping our economy buoyant during the worst bear market since the Depression. Their never-ending propensity to spend helped to make this recession win the reputation as one of the briefest and shallowest in U.S. history. Indeed, the consumer has revved up this economy and brought us into the recovery phase. Why was this possible? Because spending makes up two-thirds of gross domestic product. But, the key issue on Wall Street's mind these days is whether the consumer can continue to drive the economy -- not just through the holidays but through 2003 as well. The answer is that it is looking good.

A string of lukewarm and even negative economic news gave way to hope this month as consumer confidence edged up in early November and wholesale prices recorded a record drop in October. Sure, neither of these reports guarantees a rosy future without bumps, but both did provide encouragement that the current downturn will be shallow and that prices will not surge when the economy picks up again.

The steep 1.6 percent plunge in last month's producer price index signaled that consumer prices may also have fallen, and likely will be tame in the immediate future. Consumer confidence had been staggered by the September 11 terrorist attacks, but the University of Michigan report which was issued on November 8 preliminarily shows that the November consumer sentiment index rose for the second month in a row -- from 82.7 to 83.5.

Now, this report quite puzzlingly contradicts the other leading report of consumer confidence released on October 29. This report, compiled by the Conference Board, showed the index of consumer confidence plunging to a nine-year low of 79.4 in October. This was quite concerning as the 14.3 point dive exceeded any drop in the measure since 1990 -- except for the one following the September 11 terrorist attacks. Why the concern? Such large declines rarely occur outside of recessions.

The difference may have been due to car and truck sales which have boomed because of car companies offering zero-interest rate financing and this positively affected the Michigan survey. The bottom line is that these stark differences in the two consumer confidence reports show that data and statistics are very sensitive to many variables. Old-fashioned observation and the analytics of looking at the real sales and profits of specific companies in an industry -- in this case, it is retail -- can often times lead to more accurate conclusions than these reports achieve. Looking at the retail establishments and their third quarter results -- Wal-Mart, Target, Costco, Kohl's, Lowe's, and even Tiffany & Co. -- shows us that the consumer is still shopping—and there is no sign that it will let up as we enter the holidays.

The employment picture is a big determinant of consumer confidence and, thus, the propensity to spend. So, when on November 14, the Labor Department reported that the number of those filing first-time applications for unemployment benefits declined to a three-month low last week, it indicated that we may be heading for stabilization in our labor market. Initial jobless claims dropped for a second consecutive week (for



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the week that ended November 9), falling by 8,000 to 388,000. That marked the lowest level since the week of August 3. The four-week average, which is also given to smooth out fluctuations, dropped by 6,500 to a two-month low of 396,750. The numbers surprised Wall Street, which had expected an increase of 8,000 initial claims. Furthermore, hours worked are rising, and weekly pay continues to outpace inflation. Plus, as mortgage rates fall further, refinancing is setting records. Extra money from cash-outs and lower monthly interest payments gives the consumer some breathing room.

Also, progress continues to be made for workers on the job. Hourly earnings of production workers posted solid increases in both August and September. Although the yearly growth in pay slowed this year, hourly earnings are still rising 3 percent. With such spectacularly low inflation, the buying power of workers is growing. Lastly, hours worked in September rose for the second consecutive month, recovering the entire July drop and calming the fears of a double-dip recession. That is good news.

And there is more! On November 18, The Federal Reserve Bank of San Francisco issued a report that the length of joblessness resulting from last year's recession has been less severe in comparison to other recent downturns. The report details that "the recent peak unemployment rate of 6 percent is well below the peaks" seen in earlier recessions, and "despite the persistence of the current slowdown," job losses haven't reached the duration seen in the recessions that took place between, 1975 and 1976, 1982 to 1983 and our second to last recession, in 1991.

And it is more than the labor picture that is giving us high hopes to the consumer sector. Homeowners are getting a big helping hand by refinancing their mortgages. In early October, loan applications to refinance an existing mortgage rose by 25 percent versus one year ago.

Consequently, there is every indication that this holiday should be filled with lots of cars in the shopping center parking lots and consumers' spending money with confidence. Why? There is extra money in their pockets -- from refinancings and pay checks -- and the hope that our leadership will continue to do what is necessary to make our country the safest and most prosperous in the world.

Happy New Year.

Hilary Kramer serves as a business news contributor at Fox News Channel. She joined the network as a regular guest on **Cashin' In** in May 2001. Currently, Kramer is the senior strategist and adviser at Montgomery Asset Management.

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