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By Mitchell Goldberg: Consumers: Often what they do and what they say are not the same story



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Consumer confidence figures from August were crushed (The Conference Board). The reasons are clear; infighting in Washington, D.C., European Union debt crisis, and the S&P 500 downgrade of U.S. long term debt (Treasury securities with less than one year maturities are still triple A rated) were the main culprits.

But what about all those retail sales? Back to school sales, same store sales (Thomson Reuters), and automobile sales (Ford, General Motors, Chrysler) have been solid lately. If things are so bad, then why are consumers spending at such a brisk pace? It may mean that things aren't as bad as people are saying. The answer has to do with a term called "anecdotal evidence." You see, measuring consumer confidence is like measuring the mood of a bunch of people during one quick snapshot of time. And while psychology is very often the tale that wags the dog, it can change abruptly. Consumer psychology measures group think, but people's perception of their own station in life was most likely missed in the overall consumer figures. The fact is, planned layoffs by business have been trending lower and this could be having the effect of making workers feel like their own job is safer. In fact, a recent report on CNBC.com (<http://www.cnbc.com/id/44330152> and conducted by www.Snagajob.com) indicates strongly that more workers feel confident about saying "I quit" and finding a new job. Want proof? Companies have reached a point where efficiency can't be improved much more by more layoffs. Also, consumer credit usage gained meaningfully early this past spring, a sign of increasing comfort among those who are employed during a time when supposedly talk of double dip recession picked up (Federal Reserve). According to the Chicago Fed branch, within the manufacturing center of the U.S., its Activity Index improved in July, indicating improved industrial and manufacturing production.

The upside to this is that when business gains more confidence, it will have to hire more workers in order to meet any expected gain in sales. Then again, this has always been the order of the ebb and flow of employment. Productivity figures are often a presage to hiring and firing.

But that confidence thing sure is hard to predict. It's tough to see what can actually turn around confidence...the psychology among businesses that hire. Two things that are actually being floated in D.C. are a relaxation in some environmental regulations and bank capital levels. Another thing is President Obama's and Congress's very low approval ratings. If you believe a politician's first and second jobs are to get elected and re-elected, you couldn't be blamed if you think politicians will conjure up something to help themselves in that task. In this case, I mean fiscal policy to help complement the Fed's monetary policy. By the time you read this, we'll have heard an earful about the President's new stimulus package and the Republican's response to it. Regardless of which side of the aisle you hail from, the focus in Washington has moved away from healthcare and bank reform to job creation and economic growth. This is the key to the turnaround in confidence; a change in the conversation in Washington.

The Europeans haven't hit the right chord yet and while financial markets are desperate to be placated, the policy responses there are moving closer to what investors would want. Simply put, the Eurozone has no interest in falling into a financial wasteland any more than we do. Buying sovereign debt of Italy and Spain, so far as I can tell, has been the most important move yet because the markets are moving much faster than governments are capable of; it buys them time. All the moves so far on the other side of the pond have been about buying time; eliminating short sales in bank stocks is an example of this.

In all my years of plying a living in financial services, I have never seen extreme low or high confidence figures stay in place for long. It will take time, longer than any of us would like, but it always happens this way. In this time of tremendous uncertainty and extraordinary low confidence, leading edge investors will be watching what comes next, some of which is turning positive, as opposed to the current Armageddon.

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