

Investors Look to Consumer for Clues to Recovery

Wall Street looks to retail earnings for clues about consumers' willingness to spend

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Investors will get some guidance about the economy this week from data issued not by the government, but by big retailers in the form of third-quarter earnings reports.

The financial markets are still trying to get a sense of whether consumers, while worried about unemployment, are nonetheless willing to spend, especially as the holiday season approaches. Retailers' earnings reports and outlooks for the future should give them clues about the economic recovery. Investors will also get a first look at on consumer sentiment during November.

“For this economy to really come back, we have to depend on the consumer,” said Yu-Dee Chang, principal of ACE Investment Strategists LLC.

The greatest obstacle to increased consumer spending is unemployment. And it's not only unemployed consumers who aren't spending, it's also those who are afraid of losing their jobs.

Investors did find some positives in the Labor Department's largely bleak October employment report on Friday. While the government said unemployment has risen above 10 percent for the first time since 1983, the market managed a modest advance as investors theorized that the weak labor market would mean the Federal Reserve will keep interest rates low for some time. The major stock indexes ended the week a gain of 3 percent.

Still, while traders ultimately didn't panic about the jobs data, they do know that the report could bode poorly for consumer spending, the largest component of the nation's economic activity.

Retailers' monthly sales reports released Thursday showed shoppers were still were not splurging as unemployment climbed and credit remained tight. And the Fed said consumers borrowed less for a record eighth straight month in September.

“Consumers aren't going to spend as much if they are worried about their jobs,” said Ray Harrison, principal of Harrison Financial Group in Citrus Heights, Calif.

A hesitant consumer is particularly troubling heading into the holiday shopping season, and economists say that longer-term, stronger consumer spending will be necessary to sustain a recovery.

Analysts say, however, that some retailers may be the beneficiaries of consumers' continuing caution, which has made many of them migrate to the lowest-priced stores.

“People will still spend,” Harrison said. “They will just adjust where they spend.”

Wal-Mart Stores Inc., the nation's biggest retailer, has seen an influx of price-conscious shoppers and is expected to announce higher third-quarter earnings on Thursday. Last month, the discount retailer said it

expects sales to grow this year and increase at a faster pace next year.

Other retailers, including teen retailer Abercrombie & Fitch Co., and department stores Macy's Inc. and JC Penney Co. are also due to report earnings this week. Wall Street will want to know if the companies actually made money from higher sales, not because of cost-cutting.

An uptick in spending will give the markets an added boost of confidence, said Peter Worden, co-founder of FreeStockCharts.com in Durham, N.C.

“When the holidays are actually here, people do tend to rationalize,” Worden said. “They say, ‘well, Christmas only comes once a year,’ and then they go spend.”

Meanwhile, the market will get another reading Friday on consumers' mind-set. The Reuters/University of Michigan consumer sentiment index is expected to rise to 72.0 in the early part of November from 70.6 in October, according to economists estimates.

Mixed economic data in recent weeks, including a surprise drop in consumer confidence reported by the Conference Board, have made it difficult for investors to get a sense of where the economy is headed, and that has meant choppy trading. The Fed pointed to hopeful signs about the economy last week but also said it would keep interest rates low for “an extended period” to help stimulate growth.

While the market often jumps at good news, investors can't shake fears that the economy won't be able to maintain the 3.5 percent annual pace of growth seen in the third quarter as government stimulus programs wind down.

“Investors are going to have to take emotion out of this market if we are going to have a recovery,” Harrison said. “The underlining is still there. The economy is improving.”

Past performance is not necessarily indicative of future results. The risk of loss exists in futures trading.