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Consumer Confidence Soars Past Forecasts

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NEW YORK — Consumer confidence zoomed past economists' forecasts in April to its highest level since November, reflecting a growing sense that the economy may have bottomed out and Americans might be prepared to spend more money.

The findings released May 5 offered hope that families could open their wallets after months of austerity, but experts cautioned that shoppers were unlikely to splurge while layoffs are still looming.

"When people feel better, they increase their spending," said Gary Thayer, chief economist at Wachovia Securities.

But while people are spending a little more freely on everyday items, he said, they are "cautious and holding back on expensive items." "We will probably see consumers save a little more and hold back on spending until the job market starts to improve," he said.

Chicagoan Al Sams is not so sure the economy is improving. The 34-year-old said his rent is going up \$50 a month, and his company is no longer giving raises or quarterly bonuses.

"I'm really just cutting the dollar, going to the clearance rack now," he said. "I'm stretching the dollar."

Economists noted that the overall increase in confidence was due in part to the recent stock market rally, and they still do not expect consumer sentiment to return to healthy levels this year.

Still, they saw the 12-point jump — the biggest gain since November 2005, when the economy was recovering from hurricanes Katrina and Rita — as significant.

"Recent signals of stabilization or improvement in the economy have been relatively weak and dispersed," said Brian Bethune, chief U.S. Financial Economist at IHS Global Insight, in a note released to investors May 5.

"This is the first signal that actually showed a significant upward quantum leap."

Positive signals from the housing and financial markets add further evidence that a trough in the economy is "more clearly on the radar screen," Bethune added. But he does not expect the economy to bottom out until September or October.

A housing index released May 5 showed that home prices dropped sharply in February, but for the first time in 25 months the decline was not a record — another sign the crisis could be easing.

The Standard & Poor's/Case-Shiller index showed prices in 20 major cities tumbled by 18.6 percent from February 2008. That was slightly better than January's 19 percent.

The Dow Jones Industrial Average slipped

8.1, or 0.1 percent, to 8,016.95 after being down as much as 86 points in the hours ahead of the consumer confidence report, according to preliminary calculations.

The Consumer Confidence Index, measured by the Conference Board, soared to

39.2 from a revised 26.9 in March. That is the highest reading since November's 44.7 and far surpasses economists' expectations for 29.5. The results come from responses received through April 21 of a representative sample of 5,000 U.S. households.

April's huge jump follows a small increase in March and a free fall in February. Still, the index remains well below year-ago levels of 62.8. The survey showed a substantial improvement in consumers' short-term outlook, including their assessment of the job market.

Sams, who works as a consultant in finance, said he's not worried about his job security.

"I'm pretty comfortable with it," he said. "But you don't want to leave because of the way the economy is." There are plenty of economic challenges remaining.

The U.S. real gross domestic product decreased at an annual rate of 6.1 percent in first-quarter 2009, from 6.3 percent in fourth-quarter 2008, according to estimates released by the Bureau of Economic Analysis.

With companies still laying workers off, people could keep cutting back their spending — which could send the economy spiraling downward again. Economists expect the unemployment rate — now at

8.9 percent and the highest since late 1983 — will hit 10 percent by the end of the year and keep climbing next year before it starts coming down.

Dennis Jacobee, Gallup Poll's chief economist, said that consumer mood — which the research company tracks on a daily basis — has actually worsened in recent weeks.

That data does not yet take into account the effect of swine flu and Jacobee anticipates that confidence will either level off or decline further in coming months.

For now, Andy Little says he's spending the way he normally would.

"And prices are better on things, so I'm taking advantage of that, and I think it's good to put the money into the economy if you can," said Little, a 49-year-old technology consultant from Joliet, in Chicago's southwest suburbs.

"I think that if people are comfortable and have money, they should spend it."