US CONSUMER CONFIDENCE AND STOCKS

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"Don't worry, be happy…
In your life expect some trouble
But when you worry, you make it double." The song "Don't Worry, Be Happy" was not written by a member of the United States Federal Reserve Board, someone praising the merits of a "long run investment", or a clever politician, but by Bobby McFerrin.

CONCLUSION

Central bankers, financiers, and politicians frequently sing hymns of optimism regarding American and global economic prospects. Many vary their lyrics according to a particular time horizon, whether current, near term, medium term, or long run. The misty vistas of the medium term and long run offer great scope and hope for things to get better, to turn out right. At present, some songs are less joyous than others, and admittedly a few tunes are mournful.

Many intertwined factors of course influence economic and stock marketplace levels and trends. Both Wall Street and Main Street know United States consumer spending greatly affects United States economic growth and significantly influences that elsewhere. In general, won't happy and confident consumers tend to spend more freely? As Memorial Day weekend beckons, why not remember key consumer confidence measures? The Conference Board asserts that its "Consumer Confidence Index ® (CCI) is a barometer of the health of the U.S. economy from the perspective of the consumer." ("Technical Note- February 2011"). The next Index release is 5/31/11.

A review of the Conference Board's Consumer Confidence Index over the past four decades reveals that this measure sometimes can provide helpful guidance regarding the identification (confirmation) of major highs, lows and trends in US equity benchmarks such as the S+P 500. Given the close ties between stock and overall commodity marketplace trends in recent years, commodity players should monitor the Confidence Index.

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The Conference Board's Consumer Confidence Index is released monthly. In the table below, the Consumer Confidence Index date is for the given month. For stocks, the high or low is for the day indicated. The S+P 500 and Dow Jones Industrial Average often achieve key pinnacles (lows) around the same day, but not always. Sometimes the timing of the DJIA's important high (trough) ties even more closely than the S+P 500 to the Confidence Index. Consequently the table includes a few references to the Dow. The S+P 500 and DJIA numbers are rounded.

High (time)		Low (time)	
Consumer Con. Ind.	**S+P 500**	**Consumer Con. Ind.**	**S+P 500**
142.3 (Oct 1968)	109 (12/2/68)	75.7 (Dec 1970)	69 (5/26/70)
		75.2 (Apr 1971)	
116.1 (Dec 1972)	122 (1/11/73)	43.2 (Dec 1974)	61 (10/4/74)
			[DJIA 570; 12/9/74]
		56.7 (June 1982	
		56.9 (Aug1982)	102 (8/9/82)
		47.3 (Feb 1992)	371 (12/2/91 take-off point)

		100.1 (notable rise from this June 1996 level)	606 (7/16/96)
144.7 (Jan+May 2000)	1553 (3/24/00) [DJIA 11910; 1/14/00]	61.4 (Mar 2003)	789 (3/12/03 final bottom)
111.9 (July 2007)	1556 (initial high 7/16/07) 1576 (major peak 10/11/07) (Final top 1440 on 5/19/08)	25.3 (Feb 2009)	667 (3/6/09)

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History is not destiny. Also, American equity marketplace supply/demand considerations vary to some extent from those affecting US consumer confidence. A dramatic equity marketplace move can occur without a similarly gigantic corresponding shift in confidence. Not long after equities peaked in late August 1987 came a fearsome equity price crash. But after climbing from 85.8 in October 1986 to its September (and October) 1987 height over 115, the Confidence Index fell only modestly to its 100.8 November 1987 level. It then resumed its advance alongside stocks.

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Stevie Ray Vaughn and his band Double Trouble penned a gloomy tune called "Crossfire". The music fits the outlook of many American and other consumers for the period from the acceleration of the worldwide economic crisis in mid-2008 up to and including the present. The singer laments:

Day by day, night after night
Blinded by the neon lights.
Hurry here, hustlin' there
No one's got the time to spare.
Money's tight, nothin' free,
Won't somebody come and rescue me
I am stranded, caught in the crossfire…"

The S+P 500 currently stands about double its 3/6/09 low of 667. April consumer confidence nevertheless is only 65.4, down from February 2011's 72.0 and thus neighboring the March 2003 low of 61.4. So despite the equity rally, current US consumer confidence levels are consistent with "Crossfire". Why isn't the American public happier (more confident)?

One can list numerous reasons that worry (and perhaps infuriate) many consumers, so here's a couple. Despite the joyful equity marketplace rally since March 2009, US consumer net worth has not yet recovered from the terrifying financial crisis and bloody recession. House prices remain weak. Unemployment remains high. Sustained high food and energy prices wound consumers. The EIA estimates that US finished motor gasoline demand for calendar 2011 through 5/13 is down .4 percent year-on-year. Gasoline consumption for the most recent four weeks has ebbed 2.3pc versus the comparable prior year span. So far in May 2011, US weekly retail gasoline prices (regular grade) have averaged nearly four dollars a gallon.
http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_home_page.html
Let's not forget America's current and long run fiscal problems.

Another sign that US consumers do not feel terribly confident: major league baseball attendance through 5/18/11 has slumped 1.8 percent from the year ago period.
http://www.baseball-reference.com/leagues/current_attendance.shtml

Equity bulls would not welcome a fall in the Consumer Confidence Index beneath March 2003's low. February 2011's 72.0 is about half the January 2000 high of 114.7; and 68.6 is about 50pc retracement of move from the July 2007 summit to the February 2009 valley. Keep in mind that an equity price rally does not prove that the world is (or will remain) wonderful for consumers (or business and sovereigns). Recall the demise of the Goldilocks economy. The S+P 500 made its major high in October 2007 and a final one in May 2008 at 1440. However, the Confidence Index remained on its overall downtrend from July 2007. In May 2008, the Index was only 58.1.