

Consumers in Focus Again in Coming Week

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NEW YORK (TheStreet) -- A key question weaving through market chatter next week will be when will consumers start opening their wallets again.

Reports from flagship brands like Wal-Mart, Macy's, J.C. Penney and Abercrombie and Fitch show a continuation of weak sales and revenue. And while some retailers issued bullish outlooks for the key shopping season ahead, a consumer confidence report on Friday portended the opposite.

Still, the market has continued to surge higher -- albeit in fits and starts -- for several months since the rally first launched last spring. Despite economic headwinds, the Dow Jones Industrial Average is up roughly 6% this quarter, 17% for the year and 55% since March's low. It has been increasingly difficult for skeptics who shorted the rally -- and lost significant money doing so -- to maintain their bleak facade.

"It's amazing how the equity market just continues to grind higher," says Benny Lorenzo, chairman and CEO of the New York-based investment bank Kaufman Bros. "There's continued skepticism about where it can go, but it continues to grind higher."

He notes that "it wasn't too long ago" that the market was worried about a dismal jobs report on Nov. 6 showing another 190,000 net job losses and the unemployment rate sailing past the 10% mark. Then, Wal-Mart missed Wall Street's revenue forecast on Thursday, with a decline in same-store sales, but its stock nonetheless gained 27 cents.

"People sort of shrugged that off, too," says Lorenzo.

Next week, a slew of other retailers will report last quarter's results and issue forecasts for the six weeks of intense competition ahead. Among them are Saks, Target, The TJX Companies, BJ's Wholesale Club, Gap, Sears and a few other shopping mall mainstays like Pacific Sunwear. The Census Department's overall retail sales report for October will also be released on Monday. The market expects an increase of 0.9%, according to Briefing.com.

Also on the roster of economic data are indicators of how fast the economy is gaining ground in its struggle to recover from the Great Recession. Business inventory released on Monday and industrial production data on Tuesday will give hints about demand and about how bullish corporate America is on the economic outlook. Housing starts on Wednesday will give clues about the housing market, which has been improving slowly, supported by government incentives.

"Housing is very dependent on income," says Daniel Penrod, senior industry analyst for the California Credit Union League. "And so, with a high level of unemployment, those people of course don't qualify for loans, and those that are still employed aren't confident enough to make such a big purchase."

However, Penrod believes that the extended tax credits for new homebuyers, and the Federal Reserve's intention to keep interest rates low, should help prop up the housing market as the recovery takes shape. The extension of government programs to cover so-called "jumbo" loans in more expensive areas of the country -- some of which, like Southern California, have seen extensive declines and economic stress -- will help those homeowners as well, he adds.

Fed Chairman Ben Bernanke on Monday also will address an economic club in Manhattan about the economy and monetary policy. He's expected to stick to the same lines the Fed has been toeing for some time: Rates will stay low for quite some time; and the economy's getting better, but consumers are still struggling. The producer price index on Tuesday and consumer price index on Wednesday will also give clues about inflation -- or lack thereof.

"In our view, the most cyclical areas of the economy, such as housing and manufacturing, are painting a picture of a robust recovery akin to those following the deep recessions of 1973 and 1981," Barclays economist Dean Maki said in a report Thursday, "although consumer spending and labor market indicators have yet to rebound decisively."

As for next week, Lorenzo believes the bulls will continue to charge ahead -- especially as M&A activity heats up. Hewlett-Packard's announcement last week that it would acquire 3Com at a rich premium was just the most recent kind surprise, following Berkshire Hathaway's deal to acquire Burlington Northern Santa, driving up value for that railroad's owners.

Lorenzo cautions, however, that investors ought to be careful in selecting new investment opportunities. The market was initially driven up by "low-quality" stocks, many of which were financial, and is now more selectively focused on blue-chips and hidden gems.

"In terms of equities, the easy money has been made," says Lorenzo. "Now you have to be much more careful."