Consumer confidence falls to lowest since February

ANNE D'INNOCENZIO - AP Retail Writer - Associated Press

Americans' confidence in the economy eroded further in July amid worries about a still-stagnant job market. The report raised concerns about the economic recovery and the back-to-school shopping season.

The Conference Board, a private research group, said Tuesday that its Consumer Confidence Index slipped to 50.4 in July, down from the revised 54.3 in June. Economists surveyed by Thomson Reuters expected a reading of 51.0. The decline follows last month's nearly 10-point drop, from 62.7 in May, which marked the biggest since February, when the measure also fell 10 points.

The survey was taken July 1-21, beginning just as the Standard & Poor's 500 index was falling to a nine-month low of 1,022.58 on July 2. It had risen 4.5 percent by July 21 and has since climbed an additional 4 percent as upbeat earnings reports from manufacturers like 3M Co. and Caterpillar Inc. have made investors more convinced that the economic recovery isn't stalling as much as they had originally thought.

However, stocks traded in a tight range Tuesday as investors again try to balance conflicting economic and upbeat earnings reports to figure out the pace of a global recovery. A slowdown in regional manufacturing activity from the Richmond Federal Reserve dampened the market's early gains, leaving indexes mixed in midmorning trading. The Dow Jones industrial average rose 3 points. Stocks rose moderately at the open because of strong earnings from chemical maker DuPont Co. and European banks UBS and Deutsche Bank.

Still, a sustainable recovery can't happen without the American consumer. And the second straight month of declining confidence following three months of increases is worriesome, economists say.

"Consumers have a much different view of the economy than the stock market does, and their views matter more to the economy," said Mark Vitner, an economist at Wells Fargo. The reading, he says, "tells me that the economy is heading for slower growth in the second half."

One component of the index, which measures how shoppers feel now about the economy, declined to 26.1, from 26.8. The other barometer, which measures shoppers' outlook over the next six months, declined to 66.6, from 72.7.

The index — which measures how shoppers feel about business conditions, the job market and the next six months — had been recovering fitfully since hitting an all-time low of 25.3 in February 2009. The index typically falls before the economy slows down, and on the way out of a recession, the expectations component, which

accounts for more than 60 percent of the reading, rises sharply, Franco said.

"It's all about jobs. That's still the primary source of income," said Lynn Franco, director of The Conference Board Consumer Research Center. "Until we see the pace of job growth pick up and consumers are confident that this is sustainable, we are not likely to see a significant pickup in confidence."

Economists say the expectations component correlates more closely with the stock market movements, but Vitner noted that the big plunge in May has made such an imprint on consumers that the recent rebound hasn't registered. On the other hand, confidence usually rises before an improvement in the gross domestic product, the broadest measure of economic activity, Vitner said.

Economists watch the number closely because consumer spending accounts for about 70 percent of U.S. economic activity and is critical to a strong recovery. A reading above 90 indicates the economy is on solid footing.

With unemployment stuck near 10 percent, Americans are skittish about spending. A continuing stream of sobering economic data — from disappointing job figures in May and June to weak housing numbers — is increasing worries that the economic recovery is stalling just as government stimulus programs are disappearing.

In particular, concerns are rising about the housing market. While the S&P/Case-Shiller 20-city home price index released Tuesday showed a 1.3 percent rise in May from April, the home buyer's tax credit, which expired April 30, had an impact on the reading. In fact, the report warned that the recent gains in home prices are not likely to last.

Economists will monitor Friday's first reading on second-quarter GDP. Only modest growth is expected. And on Aug. 6 the government is expected to report that employers eliminated 85,000 jobs in July, following a loss of 125,000 in June. Economists surveyed by Thomson Reuters on average expect the jobless rate to rise to 9.6 percent, from 9.5 percent.

Retailers had a surprisingly solid start to the year, but business has been slowing since April. Stores have had to deepen their discounts on summer clothing more than planned to make room for back-to-school merchandise. That raises concern about whether stores will have to mark down fall goods earlier than expected to get shoppers to buy.

The Conference Board survey, based on a random survey mailed to 5,000 households, showed that consumers' assessment of the job market was more negative than the month before. Those claiming that jobs are "hard to get" increased to 45.8 from 43.5 percent, while those saying jobs are "plentiful" remained unchanged at 4.3 percent.

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