

Is Holiday Spending Here to Save the Global Markets?

Introduction

The recently conducted survey in global consumer confidence showed that it remains weak, with more than 60 percent of consumers saying it is not a good time to spend, and one-in-three North Americans saying they have no spare cash to spend. The global economic outlook, followed by job security, is the consumers' biggest concern today; overtaking worries about rising inflation, according to the quarterly survey by global analytics and information company Nielsen. The measure of Global Consumer Confidence Index dipped by 1 point in November from the second quarter to 88 points, although it was shored up by a surge in confidence in emerging economies like Brazil and Saudi Arabia, which masked weak confidence in major developed economies. The released assessment found out that confidence is highest in India for a seventh straight quarter but India's reading fell 5 points from the second quarter and Saudi Arabia was catching up.

In the Euro Zone, consumer morale remained specifically weak, notably in France, as the region's debt crisis deepens. Confidence in Greece, at the center of the crisis, is rising sharply but is still the fourth-weakest of markets surveyed, while confidence was lowest in Hungary. One-in-five Europeans said they have no extra cash to use, although it was better than one-in-three North Americans. Confidence in European powerhouse Germany was better than much of Europe and the United States, but like the US its reading dipped by 1 percent in the latest reading.

A recessionary mindset is growing among consumers as more than half say they are currently in a recession, up 4 percentage points from last quarter and 7 points from the start of the year. Hence, the result is continued spending restraint for discretionary expenses, which is expected to continue into next year. Confidence in China dipped a point, while in Europe, the Baltic states of Latvia and Lithuania saw a surge in confidence, though it was still relatively low. Global consumers are facing tighter budgets cutting back on clothing purchases, dining out and buying electronics and appliances before anything else. Global predicaments particularly the deepening Euro Zone debt crisis and apparent weakness in US economic data are holding back consumers to spend money.

However, as the holidays come closer and while the entire world obsesses about the European debt situation and speculates on how it will affect markets from Wall Street to Shanghai, there are signs of gradual pickup in consumer spending, as most consumers hit the malls for the holiday sale. This is an important time of year for consumer confidence. Many retail businesses make the majority of their profit in the fourth quarter of every year. The holiday season is when the markets can get to see whether consumers are feeling confident enough to spend money, and how that spending will ultimately work its way through the system. The early indications are in and it looks like holiday spending will come in well above previous expectations.

United States: Black Friday Record Sales

With the US economy expanding by lackluster rates of 0.4 percent, 1.3 percent, and 2.0 percent in the first, second, and third quarters, respectively, many analysts are turning toward the holiday season to save a rather dismal year for the world's largest economy. The Japanese disaster in March, the debt ceiling debacle that culminated with the S&P downgrade, and the still escalating European debt crisis took the headlines this year, all combining to dampen business and consumer confidence which resulted to high unemployment and weak spending. Along with encouraging signs that the US economy is ending the year on an upbeat note, preliminary figures suggest that the Christmas season is shaping up to be a robust one, much to the delight of American retailers.



<http://totallycoolpix.com/wp-content/uploads/2011/04/black-friday1.jpg>

With job prospects improving, as the Unemployment Rate fell to 8.6 percent in November and Jobless Claims registered its lowest level in 31 months last week, consumers have seemingly felt the Christmas spirit and hit the stores. Falling gasoline prices and more muted gains in food prices also seemed to have lifted sentiment among consumers who had long restrained their spending. The holiday shopping period kicked off positively as sales rose to a record amount last Black Friday, typically the busiest shopping day of the year, according to Chicago-based research firm ShopperTrak. Black Friday Sales jumped by 6.6 percent to a record \$11.4 Billion as retailers opened their doors earlier than expected. The

expanded hours also spurred foot traffic to increase by 5.1 percent on Black Friday. Indeed, the shopping spree seen during the Thanksgiving weekend augured well for December. Just last week, sales at retailers increased by 3.4 percent compared with the previous week; and compared to a year ago, spending rose 4.6 percent during the week.

United States: Back-to-Back Cyber Monday Spending Records

Online shopping is also proving to be a strong source of growth. According to International Business Machines Corp.'s Coremetrics, online sales advanced 39 percent on Thanksgiving and 24 percent on Black Friday, further suggesting that consumer confidence picked up just in time for the holidays. The Monday after Thanksgiving, which is commonly known as Cyber Monday, saw \$1.25 Billion in online spending, marking the largest online shopping day for the second consecutive year. In fact, research firm ComScore also said that online spending this holiday season is up 15 percent compared to the same period last year, with consumers shelling out a total of \$30.9 Billion.

In response, the National Retail Federation upgraded its holiday sales forecast from 2.8 percent it predicted in October to 3.8 percent this month for a record \$469.1 Billion. While this is still below the 5.2 percent growth recorded in 2010, it remains above average for the past decade, and retailers remain rather optimistic as the holiday shopping is still far from over. A survey conducted by the NRF revealed that consumers had only completed less than half of their holiday shopping as of the second week of December, boosting retailers' hopes. Likewise, credit card purchases are reported to be up by 7.4 percent from last year while debit card sales rose 3.4 percent. Increased shopping hours, extended free shipping offers and more shipping days contributed greatly to the strong rise in spending.



<http://jewel-staite.net/wp-content/uploads/2010/07/safe-online-shopping.jpg>

Analysts are optimistic that the observed solid Christmas buying season will likely provide added stability to the recovery by setting a positive tone for the economy heading into 2012. Hence, with consumers finally flocking to the stores, expect the US economic recovery to accelerate further in the coming months as consumer spending accounts for a hefty 70 percent of the overall economy.

Euro Zone: On a Reprieve from the Crisis

In the Euro Zone, the sovereign debt crisis has been dragging down the region's economic growth for more than a year now, with analysts even speculating that the region has already entered into a mild recession. Several companies are consistently eliminating jobs as investors continued to pull out their assets due to murky business conditions that have already pushed the region's Unemployment Rate to 10.3 percent.

Last month's report showed that consumer confidence in the Euro area has weakened for five straight months, the longest stretch since 2008 as households remained pessimistic of the shabby employment levels. About 16.29 Million people were unemployed in October, which inclined by 126,000 compared to the previous month, as global financial institutions, including the Citigroup Inc., France's BNP Paribas SA and Bank of America Corp. eliminated jobs to lower costs. Given this threat on the region's labor market, consumers persistently squeezed their budgets, affecting the overall demand in Europe.

Nevertheless, heading into the Christmas holiday season, consumers in some parts of the Euro region see some relief on a positive outlook on income. Scrutinizing the Europe's largest economy, Germany is once again more optimistic about the future despite the rising economic risks and the further escalation of the debt crisis. In December, economic expectations increased for the first time in five months. In line with the rising economic optimism, consumers are anticipating higher incomes in the remaining days of 2011 and in the upcoming year, with the indicator once again rising from an already high level. However, spending enthusiasm by households did not benefit from the improved mood, and even registered a severe decline; although, the value remains very strong.



<http://www.gettyimages.com/detail/photo/couple-shopping-for-christmas-decorations-royalty-free-image/114837729>

Such improved economic sentiment triggered the household sector to elevate their income outlook in December. The index has so far increased by 2.9 points and now stands at a score of 34.0, definitely maintaining its high level. Given the better outlook on its economy, Germans are also speculating more job opportunities this December and in the coming year. Indeed, recent data in Germany shows that the Unemployment Rate is at a two-decade low of 6.9 percent, supporting household spending and assisting to restrain the impact of the Euro-region turmoil. Jobless people dropped more than the median forecast by economists, with the number of people out of work abating a seasonally adjusted 20,000 to 2.91 Million. This is gaining a constructive impact on the development of income rates, which have recently increased more than in previous years. In light of the fact that the labor market is expected to continue its encouraging development in December, German households also have high hopes for greater growth in incomes.

Notwithstanding the better prospect on their economic status and household income, consumers' willingness to buy still dropped in December. The index registered a decline of 12.9 points, which more than repudiates the increase of just over 9 points from the previous month. Regardless, at present, consumers' enthusiasm to purchase more goods this holiday season has a value of 27.4 points, which is still at a comparatively high level.

In the face of such descent, German consumers' inclination to shop remains extremely marked. Against the backdrop of an escalating financial crisis and with interest levels at a historic low, consumers are still more likely to buy items of higher value than put their money into savings. Overall, the consumer spending in Germany remained unchanged to 5.6 points in December, similar to the previous months' reading.

Similarly, the consumer spending in other Euro-area economies also showed improvement for the past months which potentially provides an enhanced figure for December. The most recent data from national statistics office Istat shows that Italian consumer confidence notably climbed in November, defying an economic crisis that toppled one government and forced a new one to explore ways to implement unpopular austerity measures that possibly force the Euro Zone's third-richest country to reel in spending and cut debt. The sentiment index rose to 96.5 points in November, accelerating from the revised 93.3 points in October and resisting the market expectation of 92.4 points.

The report further showed that all the components of the indicator contributed to the latest development in household spending. The sub-index that measures the general economic climate augmented to 83.4 points in November from a 76 grade in the previous month, while the measure of consumers' views of their personal economic situation moved up to 101.6 points from a score 98.6. At the same time, the indicator of households' perception of the current economic climate edged up to a 102.2 rating from 101.0 points in the same period. Equally, the future climate indicator boosted up to 89.1 points in November from 82.1 in the previous reading as households expect brighter financial conditions in December.

At least for the time being, the downward trend in economic expectations have come to an end in December. The index dropped five months in succession, but has now improved by more than 6.0 points to stand at a grade of -0.9. Consequently, it is drawing closer to its former average value of 0.0 points, which was maintained for many years. Therefore, this economic indicator is flouting the rising fears of recession and the most recent escalation of the debt crisis in the Euro Zone. Consumers are evidently more sensitive, at present than they have been in previous months, of the economic framework conditions, which are still tremendously favorable. With most German companies operating at above-average capacity, the labor market is very robust and unemployment figures continue to decline.



<http://www.gettyimages.com/detail/photo/hispanic-couple-shopping-at-christmas-royalty-free-image/98355326>

Provided these consumer sentiment projections from the major economies of Euro region, it is highly possible that the -20 points reading last November is likely to be calmed even for a brief respite due to the expected shopping activities of consumers this holiday season.

United Kingdom: A Time for Major Purchases

Nationwide's seasonally adjusted Consumer Confidence index, which measures the monthly mood swings of Britain's consumers and trails modifications in a majority of overall economic activity, came in at a grade of 40 in November from 36 points in October. However, this is still the second-lowest reading in the survey's seven-year history and is 7 points beneath its level in November last year. The confidence index, which commenced in May 2004, is now roughly forty points below its long run average of 78. There have been a number of factors holding back confidence in the latest months. A wield of dissatisfying economic news at home and enduring ambiguity enveloping the Euro disaster has dealt a serious blow to sentiment. Strains on household budgets have also strengthened, with underlying wage growth running at less than half the rate of inflation and the jobs market showing renewed marks of weakness.

The reading is still at about half its long-term average of 78 points, and any reading below 50 points to a negative sentiment. The latest figure proposes that households remain under financial pressure which is blamed on incrementing unemployment and prices. November's survey also depicted twice as many people judged it a bad time rather than a good time to make a major purchase. Nationwide also reported that people were anticipating house prices to ebb by an average of 1.1 percent over the next six months. Signs that inflation has passed its crest may have provided some comfort, but at 4.8 percent in November, the cost of living was still rising at more than twice the pace of underlying wage growth. Nationwide said the continuing problems in the Euro Zone were also weighing on people's mood. It said the public's reaction to the UK's decision to veto a recent EU Treaty would not show up in the index until its report for December is released in a month's time.

On the other hand, stocks exposed to UK consumer spending fell after the British government cut its economic growth forecasts and suggested tough austerity measures would extend beyond the next election due in 2015. In a further sign that market sentiment is far from solid, traditional cyclical equities such as those of banks and miners also retreated, with investors quick to take profit on recent gains. Lenders were the heaviest weight on the FTSE 100 after Moody's ratings agency warned it could downgrade the subordinated debt of 87 banks across 15 countries on concerns that governments would be too cash-strapped to bail them out.



<http://www.gettyimages.com/detail/photo/london-regent-street-union-jack-flags-royalty-free-image/129905054>

Given the existing crisis over the Euro Zone, and the pessimism in the media about the likelihood of the British economy sliding back into recession next year, the augment in the index in December was an inconsequential variation and did not indicate a noteworthy change. While it does turn around the decline last October, what matters is the long term trend, and at the moment that still appears very dismal. The one bright sign, which is deemed to certainly be welcomed on the high street, is the increase in the proportion of British consumers that think now is a good time for a major purchase. An improvement in Britons' expectations for the next 12 months lifted the index, though this may prove temporary as the survey fieldwork was completed before finance minister George Osborne unveiled further fiscal austerity plans and a sharp downgrade to 2012 growth forecasts on November 29. The economy is forecast to grow just 0.7 percent next year, according to the Office for Budget Responsibility that produces independent government forecasts. At the moment, consumers remain under pressure and are concerned about future prospects, both for the wider economy and their own financial positions.

Japan: Consumer Activity Weakened by Crisis Upon Crisis

Lastly, from the South Pacific region, Japanese exports reported another drop for a second straight month last December 21, and the central bank was set to another lowering of its assessment of the economy, seeing that demand in Europe and Asia weighed on global growth. As a result, the Business Survey Index is deemed to another decrease from a -6.1 point record in Q4. The more-than-expected drop in the number of shipments to 4.5 percent in November from a year earlier estimates that the Bank of Japan is more likely to keep interest rates on hold, along with its asset-buying fund and credit-lending program, in spite of the prior statement of a pick-up in activity that had paused. Further, domestic economic conditions had revealed a plunge to -189.1 points in Q4 from 119 points the quarter before. However, an alleviation is likely to occur in the next year as economists deem optimistic, forecasting a -130.5 point ease in Q1, and a -41-point furtherance from the negative reading.

Although, as Japanese manufacturers are currently cutting profits and spending forecasts caused by the postwar record of the Yen against the Dollar, the eroded confidence in the recovery from a March 11 earthquake and tsunami is more likely to endure this Christmas season. Additionally, the estimated debilitation of the nation's manufacturing activities is likely to have been caused by the decrease in the number of employed workers in the industry. Generally, domestic employment gained by 11.7 percent to 38.9 percent in Q4 from the 27.2 percent record in Q3. However, a mere surge to 18.6 percent is expected in the number of workers in Q1 of 2012, causing another likely increase in the Jobless Rate to 4.6 percent, which leads consumption to continue to decline as households' sentiments are likely to plummet.

Notwithstanding, Bank of Japan's Governor Masaaki Shirakawa signaled last month that the bank is set to do more to counter fallout from Europe's deepening sovereign-debt crisis. Added pressure is well on its way on the BOJ to consider a furthered easing to prevent exports from losing steam. Looking back, the central bank kept its asset-buying fund at 20 Trillion Yen, while the credit-lending program was seen at 35 Trillion Yen, and the benchmark interest rate stayed at a range of zero to 0.1 percent. Yet, the trade deficit of Japan widened to 684.7 Billion Yen in November from a revised 280.2 Billion Yen in October. The composition of the report revealed that exports in Asia fell to 8 percent as shipments to China declined to 7.9 percent, while conversely overseas sales to the US rose to 2 percent in November.



<http://www.allvoices.com/news/6901604-chinese-manufacturing-growth-speeds-up>

Thus, the past growth of the Japanese economy's trade and industry, more so, its manufacturing and production activities had failed to follow through the "moderate pace of growth", seeing now that the figures reflect the weak fundamentals of the Asian economy, especially in China. Further, revealing that the momentum of growth in Asia is still downward, while the US economy seems to have accelerated in Q4. The starts of the Yen that had increased by 9.3 percent to a 685,000 in an annual rate, which exceeded the highest estimate, was believed to make the Japanese currency pursue the path of a safe-haven from the turmoil in Europe. Although, as the Euro region is Japan's third-biggest export market, the crisis in the area that had persisted to escalate had led to Europe's inability to find a comprehensive solution to its debt crisis.

The Japanese currency also sky-rocketed to postwar highs versus the dollar, which had led exporters to call upon the government to intervene in the currency markets once more. However, with a negative contagion circling around the domestic and global economy, seeing that gradual shifts in production overseas become common as capitalists were seen to have made difficult investments in a country with less to no return, the Japanese currency continued to become a handicap for exporters. Thereby, results the central bank to report last week that Japan's largest manufacturers are to brace for a slowdown for this month, as consumer sentiment had fallen from three months ago and companies pared their profit and capital spending forecasts. Additionally, the weakening expects an overall slump of Japanese industries this holiday season, not unless a miracle crops up to save the South Pacific region, more so, Japan from the wretchedness of the quandaries of the global market.

Consumer Confidence: Borne of the Capability to Bring Home the Bacon

All of the expositions above magnify the interconnectivity of the various segments of a certain economy. Other than the necessity, the likelihood of making purchases, may it be an apparel, an automobile, gadgets, or mortgage, is chiefly attached to the consumers' financial confidence and capacity. In fact, even if it is necessary, the lack of capacity to make purchases likely results into the postponement or even cancellation of the purchase. On the other end, even if it is not necessary, but because one is financially willing and able, a purchase is made.

An assurance of one's personal financial worth is believed to have been drawn from what a person is doing and what is being brought home as a result of what that person has done. Being currently employed or having found a new job raises the confidence one is exuding, as a monthly paycheck is surely being or would be brought home. This indeed solidifies a consumer's assurance and capability of his or her finances.

The certainty of being employed lies on the availability and need of jobs in the labor market. Fed by the other sectors of the economy, such as manufacturing and professional services, is highly dependent on the strength of the economy. Expansion in these industries requires manpower, increasing the number of available jobs in the labor market. Such growth is supposed to come from the aggregate demand of the consumers, which is measured through their personal expenditures.

This model is a simple approximation of the cycle that permeates the national and global markets. A disruption in any part of the cycle affects the entire process. That is what is happening in the present.

Take the Euro Zone for instance. The abounding joblessness in the region resulted from the worsening business conditions and contraction of the various sectors of the economy. And because employment conditions in a certain economy are highly correlated to the personal spending activity of its consumers, financial confidence and capacity also dwindled. As such, the retail sales activity keeps on plummeting because the self-assurance of financial worth is falling. For one, Germany is an exception in the region because of its sheer size. But despite its bright labor and business climate, consumers are still tight and holding back on their expenses because of the perceived murky economic conditions outside the country – which brings us to the next point.

Not only are the different segments of one economy related to each other, but that economy is explicitly and implicitly connected to other economies. The United Kingdom is a prime example. Its physical proximity and trade ties to the Euro Zone have cost its economic demise. The credit tension from its neighbors has caused British businesses to slow down, effectively cutting everything just to survive through the crisis. Stagnating workers' wages and the stubborn unemployment rate, plus the rising prices of consumer goods and services, have sapped all the vigor the British public had – resisting to make purchases, slashing retail sales, and crimping demand further decelerating the nation's businesses.

It worthy to mention that the much-anxiously anticipated imposition of austerity measures, a euphemism for raising taxes to increase government revenue, cutting spending programs such as social and health benefits, education, infrastructure, or even labor, is considered by many analysts as the prime suspect for killing the economic growth of the country. While there is not enough space to argue the intersection of morality, debt, and austerity, the impact of trimming costs and forcing savings on the economy that has not grown to the pace that a developed nation should must not be underestimated; the confidence of its consumers is at stake.

Another point for the strong relationships among economies is the believed concept of relative safety by the outside stoking danger in the inside. The swift appreciation of the currency of Japan because of the safe haven status ascribed to it led to the collapse of the country's manufacturing activity. Continuous declivity in the industrial output resulted into the decreased job availability, as the firm either was sent offshore or the firm cut head count or entirely closed down, which then translated into pessimism and weak consumer spending activity.



<http://www.nowpublic.com/world/economic-cycle-photo-04>



<http://blogs.reuters.com/shop-talk/2010/08/05/check-out-line-frugality-part-two/>

While the rest of the world is less likely to splurge on Christmas, the world's richest country is looking forward to it. American consumers have defied the near 9 percent unemployment rate and falling home prices and leveraged on the expansion of its manufacturing and services sector as a basis for their bright outlook for the nation's economy.

In the end, it can be proven that a prosperous consumer spending is benefiting from and results into a thriving economic cycle while a wretched economic cycle causes and becomes a consequence of the suffering consumer expenditure.

References

1. <http://www.investopedia.com/articles/economics/09/financial-crisis-review.asp#axzz1RObYSjM8>. Investopedia. 14 January 2009. Retrieved 7 July 2011.
2. <http://abcnews.go.com/Business/holiday-shopping-boost-economy/story?id=15184370>
3. http://latimesblogs.latimes.com/money_co/2011/12/online-holiday-shopping.html
4. http://www.washingtontimes.com/news/2011/dec/20/shoppers-help-deliver-holiday-gift-to-markets/?utm_source=RSS_Feed&utm_medium=RSS
5. http://www.huffingtonpost.com/everett-sizemore/holiday-shopping-events-s_b_1152747.html
6. <http://feeds.bignewsnetwork.com/?sid=201337339>
7. http://www.nasdaq.com/asp/stock-market-news-story.aspx?storyid=201111240424rttraderusequity_0158&title=italian-consumer-sentiment-improves-unexpectedly-in-november
8. http://www.gfk.com/group/press_information/press_releases/009168/index.en.html
9. <http://www.moneyweek.com/news-and-charts/economic-indicators/uk-house-prices/06-gfk-consumer-confidence-index-uk-house-price-indicator-00004>
10. <http://www.reuters.com/article/2011/11/29/markets-britain-stocks-idUSL5E7MT60R20111129>
11. <http://uk.reuters.com/article/2011/12/20/uk-britain-consumer-idUKTRE7BJ00M20111220>
12. <http://www.bbc.co.uk/news/business-16259266>
13. <http://www.mof.go.jp/english/pri/reference/bos/e1c2303.htm>
14. <http://www.bloomberg.com/news/2011-12-20/japan-exports-fall-as-yen-european-woes-slow-recovery-1-.html>
15. <http://www.markit.com/assets/en/docs/commentary/markit-economics/Japan%20PMI%20090202.pdf>
16. <http://www.reuters.com/article/2008/06/29/japan-economy-pmi-idUSTKG00315020080629>