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A Black Friday To Be Thankful For?

Early signs are promising.

by Irwin M. Stelzer

Yesterday, an estimated 134 million Americans descended on the malls and shops in search of bargains on the second biggest shopping day of the year (the Saturday before Christmas ranks first). Given the number of stores that for the first time opened for business on Thanksgiving day (including Wal-Mart's 3,500); the rise of Internet shopping; and the increased use of gift cards that are not included in sales data until actually used, it will be a while before we will know whether consumers--90 percent of whom do have jobs--have decided to loosen the purse strings.

But early signs are promising. The crowds are clearly larger than they were last year. As Terry Ludgren, CEO of Macy's put it, "Last year we were falling off a cliff, grabbing for branches on the way down." No longer.

My guess is that traditionally pessimistic retailers will find reason to cheer when the final results of the shopping season are tallied. Consumers are showing signs of loosening the purse strings, and lower inventories will limit profit-busting discounting to headline-grabbing items, despite the extension of the price war between Amazon and Wal-Mart from DVDs and books to appliances. Brian Dunn, CEO of appliance-seller Best Buy, says he is offering great prices but has avoided "irrational pricing." "Our mission, and our dream, is no promotions," Millard Drexler, CEO of apparel-seller J. Crew, told the press. He can dream, but for now will have to settle for the doubling of his profits in the third quarter. **"This year will be a profitable Christmas rather than a markdown Christmas," concludes Dana Telsey the very well informed head of the eponymous consulting group.**

Tomorrow it is back to work and to contemplation of the future. Americans are increasingly aware that it is going to be a long road to prosperity and full employment: the Federal Reserve Board is guessing that we will not recover lost ground for another five or six years. And polls show that Americans are acutely aware that the policies adopted to prevent a more serious downturn have left a mountain of public debt, mortgaging the futures of our children and grandchildren. That's one of the reasons the vast majority oppose the president's \$2.5 trillion takeover of the nation's health care system.

There are other reasons to worry.

* One in four American households (10.7 million) are in negative equity--they owe more on their mortgages than their houses are now worth.

* Credit remains tight: lending by U.S. banks to potential home buyers and businesses dropped 2.8 percent in the last quarter, the fifth consecutive quarter in which the banks have tightened, and the largest drop since records were first kept in 1984. Big banks that have been bailed out by the taxpayer led the tightening.

* Unemployment is in double digits, and the Fed is expecting that it will decline only to somewhere between 9.3 percent and 9.7 percent next year. Worse still, 20 percent of those out of work have been unemployed for a year or more, compared with 10 percent when the downturn started in 2007.

* The Federal Deposit Insurance Corporation reports that 552 financial institutions, roughly 7 percent of all U.S. banks, are on its problem list and are likely to fail. These are mostly small, regional banks, over-exposed to the commercial property market.

* The fiscal deficit is ballooning to somewhere between 12.5 percent and 15 percent, the Fed is printing money with which to buy all the IOUs the government is issuing, and the dollar is in free-fall as a result--or at least was until the financial difficulties of Dubai World produced a flight to safety--the greenback. Worse still, the president and Congress want to spend still more on health care and energy, and a second \$200 billion stimulus is more rather than less likely.

Still, Americans are natural optimists: where foreign businessmen talk of "problems," their U.S. counterparts, surveying the same economic landscape, speak of "challenges." And we know we have much to be thankful for. Not only the traditional blessings of the rule of law and freedom. Or the mixed blessing of families united by the return to the nest of unemployed sons and daughters, no longer able to pay their own way (the teenage unemployment rate is crowding 28 percent). Or steady increases in longevity as more and more diseases are conquered by the health care system our president is convinced is in need of radical reform. In three unrelated events this week my wife and I met with a 90-year old publisher, a 90-year old social scientist, and a 90-year old historian, all active, all sharp. Ninety is the new 60.

Share prices are up, and--more important to more people--the housing market seems to be stabilizing. Most indexes of home prices have either turned up or stabilized modestly this year, and inventories of unsold homes are down. And sales of new and existing homes rose in October, the former by 5.1 percent over last year, the latter by 23.5 percent to a level not seen since before the housing market collapsed.

We are in a world in which some see a glass half-full, others one that is half-empty. Economists are expecting growth of 3.2 percent in 2010, which is a major improvement over this year's miserable performance. But it is only about half the rate at which the economy grew when past recessions ended. Profits are up, and economists are predicting a further gain of 12.4 percent next year, but much of the gain comes from cost cutting rather than rising sales: that can't go on forever. The housing sector is recovering--good news--but, here is the inevitable bad news, the rise is due in large part to subsidies to new home buyers, recently extended but due to expire in May, and to low mortgage rates, a function of the fact that the Fed is printing money and the government is buying up some 80 percent of all mortgages.

Confusing, certainly. Americans are thankful that the financial system has not collapsed, as we feared at this time last year. And remain worried. Warren Buffett puts it this way, "The financial panic is behind us, the economic spill-off is still with us." Now, attention is turning to longer-term reform of the economic system (the good news) by hysterical populist politicians (the bad news) who just might destroy the system in their effort to save it.

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