

Consumers too afraid to spend

By JOHN CRUDELE

Consumers are talking tough and optimistic, but acting weak and glum.

That's the big problem in the American economy right now. And things like yesterday's plane crash -- whether caused by terrorism or not -- are likely to aggravate that situation.

The dual personality being exhibited by Americans is bothering the Federal Reserve, whose interest-rate cuts won't be nearly as effective if consumers are too scared to borrow money. I spoke with a source of mine who is familiar with the Fed's thinking and he tells me that monetary authorities are concerned, as well as perplexed, by consumers' unwillingness to part with a dollar even as they are feigning confidence.

In particular, Alan Greenspan's outfit is troubled by a research report dated Oct. 18 that was conducted by an independent Washington outfit called G7 Group. The group had the Princeton Survey Research Associates interview 1,045 adults between Oct. 8 and 10.

This poll was given to me by someone close to the Fed.

The survey found that post-Sept. 11, Americans were putting on a good front. For instance, 66 percent of the people polled said that now is a "good time" to purchase a car or a house, but 63 percent said that they "did not feel like" making a major purchase.

Only 41 percent of the respondents felt like shopping for clothes and 75 percent felt comfortable buying only necessities like groceries.

Consumer confidence has been dropping since before the Sept. 11 terrorist attacks. But the current level of confidence could be greatly overstated because it measures what people are saying and not what they are doing.

Ad the Princeton Survey shows that consumers are talking a good game but buckling when it comes to taking an economic turn at the plate.

Not surprisingly, job security is the chief concern, although Americans refuse to admit it. Even though the U.S. lost 415,000 jobs last month and our unemployment rate jumped sharply to 5.4 percent, more than 70 percent of those surveyed said they felt the same or more optimistic than they did a few months ago.

The Fed cut interest rates for the tenth time last week. Another rate cut is expected in December. The Fed made an even bolder move two weeks ago when it announced that it was going to stop selling 30-year government bonds.

The result was that interest rates on long bonds came down sharply, putting them more in proportion with recent rate reductions. As I've said in previous columns, the long bond has been a nuisance for the Central Bank because it hasn't declined as much as expected. This has caused things like mortgage rates to remain higher than they could have been.

The G7/Princeton survey explains to the Fed why its interest rate strategy hasn't been working.

But it doesn't necessarily explain why -- as the surveyors concluded -- "the Sept. 11 attacks opened a chasm between what Americans are thinking rationally about the economy and what Americans are feeling as they now confront economic decisions."

What will yesterday's incident do to confidence?

That's anyone's guess. But unless the government quickly explains what happened to the public -- and that's unlikely in a crash investigation like this -- then Americans are likely to keep up their tough facade while being weak in the knees.

Over the last decade America's mood has depended a lot on how Wall Street was feeling. The stock market dipped sharply right after yesterday's plane crash, but snapped back.

The Federal Reserve figures, I'm told, that if interest rates stay down and the stock market remains stable, then Americans will eventually regain their confidence.

Let's hope so. But if you are investing in a stock market that is this overpriced, you should understand that the risks are great. And they are getting greater.