



After Fed Cut, Focus Turns To Consumers

Market Scan

Andrew Farrell, 01.30.08

The Federal Reserve delivered Wednesday with a 50-basis-point cut to interest rates. Now, it's consumers' turn. Their spending in the coming months will decide if the U.S. slips closer to recession and the Fed needs to cut rates further.

The Federal Reserve cut its federal funds target rate by 50 basis points to 3.0% on Wednesday. The cut follows a Jan.-22nd cut of 75 basis points.

The Fed made steep cuts in quick succession as turmoil in the financial and housing markets continues and economic growth slows. The Commerce Department announced Wednesday morning that the U.S. gross domestic product grew by a paltry 0.6% during the fourth quarter. It missed economist expectations for 1.2%.

Investors will now eagerly try to discern whether conditions are improving. The most important element to track will be the consumer, says Alan Lancz, director of investment research firm LanczGlobal.com. Consumers account for over two-thirds of the economic activity in the U.S. Further declines in their confidence would hamper spending and throttle economic growth.

Their importance thrusts the economic data that tracks them into the spotlight. First up is the University of Michigan's Consumer Sentiment Index. A revised reading for January will come on Friday. On Feb. 13th, the Department of Commerce will announce its retail sales report and offer evidence of how much shoppers are hitting stores.

Weakness from consumers could prompt more cuts by the Fed. Central bankers left room open for more easing. "The Committee will continue to assess the effects of financial and other developments on economic prospects and will act in a timely manner as needed to address those risks," said members of the Federal Open Market Committee in a statement.

Retailers traded mostly higher in Wednesday trading. Shares of Wal-Mart gained 75 cents, or 1.5%, to \$49.76; shares of Costco gained 22 cents, or 0.3%, to \$66.90; and shares of Target gained 46 cents, or 0.9%, to \$53.26.