Confident Investors, Wary Consumers

By FLOYD NORRIS-The New York Times

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RARELY have stock prices risen as rapidly as they have over the past year. And not in recent decades has such a rise been viewed with as much suspicion as this one.

The 66.6 percent gain in the Standard & Poor's 500-stock index over the 52 weeks that ended a week ago is greater than any similar move since the Great Depression, when share prices bounced wildly after hitting record lows.

Stock prices are one of the data series used in calculating the leading economic indicators in the United States, but this record run has not impressed many analysts or economists.

There is still widespread talk of a slow recovery, and some see a double-dip recession on the horizon. One economist, David Levy of the Jerome Levy Forecasting Center, warned this week that the United States was in a period of "contained depression," a transitional stage of debt reduction and asset deflation that will last "at least several years and perhaps a decade."

Consumer confidence figures, which have been around since the late 1960s, also show widespread skepticism. The consumer confidence index calculated by the Conference Board is now at 46, an extraordinarily low level. Last month, 6.2 percent of people surveyed by the board said business conditions were good. That is the lowest level ever recorded.

The widespread pessimism reflects the fact that unemployment remains high and that stock prices have not regained all they lost after peaking in late 2007. A year ago, when the stock market hit its lows, there was talk of a new depression.

Now it appears the recession has ended, and some economic statistics indicate a fairly normal recovery is under way. But few seem to think it possible that that is really happening. The accompanying graphic shows the eight previous cycles since 1968 when the S.& P. 500 rose at least 38 percent over a 52-week period. In some of them, there was more than one overlapping period, and the chart shows the best of the lot. It also shows the overall level of consumer confidence as that 52-week period was ending.

There does seem to be a pattern there, one that could provide reassurance for investors. When consumer confidence remains at moderate levels after stock prices leap, the market has generally not been in jeopardy of a major reversal. But problems can be on the horizon when consumers are cocky after stock prices soar.

There were three periods when the confidence level rose to well over 100 as prices rose. The first was in 1987, just before the October 1987 crash. The next was in 1998, shortly before the Russian debt default sent markets down across the world. The third was in September 1999, as the great technology stock bubble expanded. The peak in tech stocks was then six months away, but many other stocks were already weakening by then.

The other five, in 1971, 1975, 1983, 1995 and 2004, came when the confidence index was between 77 and 99. There were market pauses after some of them, but no major setbacks for investors.

It is a Wall Street adage that bull markets climb a wall of worry. That wall is very high right now.

Floyd Norris comments on finance and economics on his blog at nytimes.com/norris.

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