

The Hickory Group

OUTLOOK & COMMENTARY

AUGUST 13, 2009

SECTOR:

U.S. AND GLOBAL COMMERCE TRENDS

THE HICKORY GROUP, LLC

NICHOLAS KIRK

MANAGING DIRECTOR

E: RESEARCH@HICKORYGP.COM

Terrible Trifecta: Retail Sales, Job Losses and Foreclosures

- Recent U.S. economic data, which points to the miserable state of the U.S. consumers' balance sheet and declining level of disposable income, justifies our near- to medium-term negative outlook for the U.S. consumer. In sum, we believe a steadily increasing U.S. unemployment rate, unaccounted for financial and social costs of current and future foreclosures, lack of meaningful consumer liquidity, increasing U.S. consumer savings rate and future U.S. individual tax increases all point to a continuing decline in U.S. consumer spending.
- Recent data discussed herein illuminates the underlying weakness of the U.S. economy, the true nature of which has been masked by improving public equity markets.
- Recent data reinforces our forecast: (i) U.S. unemployment exceeding 10% at its height, (ii) no meaningful growth in consumer spending until April/May 2010, (iii) a growing need for the U.S. government to provide further stimulus/liquidity to the U.S. consumer.
- As discussed in a prior report, the U.S. consumer is suffering from a liquidity crisis as much as they are suffering from a debt crisis, as conventionally creditworthy businesses and consumers are finding little capital available for projects and purchases, respectively.
- The U.S. consumers' recapitalization of their personal balance sheet will negatively affect a broad base of entities who grew accustomed to a profligate U.S. consumer:
 - U.S. local, state and federal governments will continue to receive lower tax receipts, hampering social services at a critical point
 - Chinese exporters will continue to need stimulus from the Chinese government to replace lost revenue from U.S. consumers
 - All U.S. enterprises, both consumer and business focused, will be negatively affected by the downdraft of decreased consumer spending
- We believe Marx was wrong, that **credit is the true opiate of the masses**. Thus, once U.S. consumers' balance sheets have been recapitalized, the U.S. culture of consumption and immediate gratification will return to the relief of governments and businesses around the world.

I. Report Highlights

- **Recent retail sales, job losses and foreclosure data reconfirms our thesis regarding the U.S. consumer:** The U.S. consumer will be worse off by January 1, 2010 and is in need of liquidity from the lender of last resort, the U.S. government, in the form of either a second stimulus plan and/or tax credits to assist in the U.S. consumers' deleveraging.
- **U.S. Q2 GDP data**, stating that real personal consumption expenditures decreased 1.2% in the second quarter, was a significant foreshadowing of recent consumer data discussed below.
- **Troubling Data Point #1:** For Q2 2009, Wal-Mart sales at U.S. stores open at least a year fell 1.2%. Consensus was for sales to remain flat to an increase as much as 3%. Negative U.S. sales growth at Wal-Mart is indicative of a severely cash-constrained U.S. consumer.
- **Troubling Data Point #2:** As reported by RealtyTrac Inc., 360,149 properties received a default or auction notice or were seized in July 2009. This result produced a U.S. record for foreclosures for the third time in five months, an incredibly troubling trajectory.
- **Troubling Data Point #3:** The number of Americans filing first-time claims for jobless benefits unexpectedly rose last week to 558,000 for the week ended August 8 according to government data. The related risk is that rising unemployment is tied to growing credit card charge-offs and rising rates of foreclosures.
- **Troubling Data Point #4:** Sales at U.S. retailers fell unexpectedly for the first time in three months, slipping by 0.1%, according to government data. Economists expected the July U.S. retail sales to be positive due to: (i) a boost from the cash-for-clunkers automobile incentive program, and (ii) a previous rise in June retail sales. Most relevantly, purchases excluding automobiles fell 0.6%, which was significantly more than anticipated.

II. Near Term Policy Considerations

- The economic recovery of the U.S. will be driven largely by rising employment.
- The U.S. consumer will be worse off by January 1, 2010 and remains in need of a second stimulus, tax credits, health care subsidies and unemployment benefits extension.
- Businesses need to reorient customer relationship efforts. Greater focus on 'motivating' customers.
- Credit is the opiate of the masses. The U.S. consumer has repeatedly responded to discounts for luxury goods, demonstrating an appetite for upscale goods when funds are available.

DISCLOSURES: This document is for information purposes only and it should not be regarded as an offer to sell or as a solicitation to buy securities. No part of this document may be reproduced in any manner without the written permission of The Hickory Group, LLC ("THG"). This research report is based on current public information that THG considers reliable, but THG makes no representation that it is accurate or complete, and it should not be relied on as such. Opinions expressed herein reflect the opinion of THG and are subject to change without notice. © 2009 The Hickory Group, LLC. All rights reserved. Additional information is available on request: The Hickory Group, LLC | 300 Park Avenue 17th Floor | NY, NY | 10022