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Retail Recovery: A Blip Followed By A Dip?



John Mariotti, Contributor

The investment markets hailed the recent month's positive improvements in retail comp sales as the start of a retail recovery. I hope it is, but I have this strange sense of déjà vu. Was this really mostly the result of Back To School sales and a rebound from two abysmal preceding months?

[Retail](#) sales were down 0.1% and 0.7% in the prior two months, thus the gain of 0.8% simply brought the retail sales level back up to where it was—which was not so good. True, most major retailers showed gains as well, but that would be in line with the overall gain for the month of July. Can the recovery continue, or is it a “blip.”

Will retail sales, and consumer spending hold up in August, September and October (absent even earlier pre-holiday deep discount sales)? Consumer confidence is still low, although modestly up from even worse levels of prior months. That doesn't bode well for continued spending.

<http://www.biginsight.com/news/EBAug12.htm>

The problem is that consumer income is not up, and prices of many essentials like food and gas are up, and these eat into the consumers' discretionary spending. Perhaps gas prices will moderate a bit now that hurricane Isaac is gone, oil is flowing again, and vacation travel is largely over. Unemployment seems destined to be stuck at over 8%, with true unemployment/underemployment at almost twice that level—15%+!

<http://www.bls.gov/news.release/empsit.t15.htm>

The worse effect is that the upcoming elections are not doing anything to

bolster consumers' confidence. Quite the opposite is happening. As the two candidates point out the flaws in the opponents' plans, consumers wonder whether anyone has an answer.

[Barack Obama](#)'s past 3-1/2+ years have been disappointing to say the least, dismal to be honest. Granted, his first year, marked by the largest (misspent) stimulus in the country's history did keep the US economy from going into free fall any further. Whether this was due to Obama or the Fed's policies could be hotly debated—but that doesn't matter now. What happens next is what matters.

Obama's aggressive attacks on the Romney/Ryan policy plans are bound to raise fears in the minds of his loyal followers—and the uninformed/misinformed masses. Obama wants to do all he can to distract voters from considering his abysmal record of the past few years—promise improvement; improvement doesn't happen; make excuses, blame someone else (GOP House? Congress?); promise again, miss again, promise, miss, etc., etc.

[Next](#), "Tax-maggedon" cometh in January 2013 and brings with it the expiration of the 2% payroll tax credit, the expiration of the Bush (lower) tax rates, and the start of the new Obamacare "hidden taxes" and AMTs without any adjustments, etc., etc. Together, these events would dump the economy below its meager 1.5-2% growth rate into another recession. Neither political party intends to let all of that happen, the Bush tax rates being the most likely survivor—either with or without increases on the "wealthy" (\$250,000+) wage earners. But the payroll tax "holiday" needs to come to an end, and the spending on endless (99 weeks or more) unemployment only reinforces long-term unemployment more—and it is already a problem of epidemic proportions.

The overall problem is that most of this doesn't get decided until very, very late in 2012, if then. None of this squabbling will encourage consumer spending in August, September and October. I have often cited the FUD Syndrome: Fear, Uncertainty and Doubt...and until there are winners in the November election—not only the presidency, but also both houses of Congress—this FUD Syndrome will linger on.

Thus, I am hoping, like many readers, that the recent one-month uptick was the start of a "retail recovery." However, I am equally concerned that it is just another "blip" to be followed by a "dip" before serious holiday spending kicks in in November. History tells us that this is more likely than not the scenario, and wise businesses will aim for increases, but protect the downside—and that means hiring as few people as possible.

I'm betting on a the Blip, then Dip, lukewarm jobs numbers and then an [Uptick](#) in spending for the holiday season. Time will tell what happens.

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