



LEO J. SHAPIRO & ASSOCIATES LLC.

DOING WITHOUT AS INCOME AND ASSETS DECLINE

October 13, 2008

Consumers are now confronting a loss of income as they see their home values and retirement savings decline. More struggle to manage and are exerting the tightest grip on spending in years.

FINANCIAL SITUATION OF THE AMERICAN HOUSEHOLD

For the first time in over two decades, more households are reporting year-to-year income declines than gains in income; 35% report declining income, 34% improved income. As recently as August, rising income outmatched declines 40% to 29%.

Also, for the first time we see over half (51%) of households saying that their overall financial situation has worsened year to year.

	2008									<i>Change Sep/Oct</i>
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	
YEAR-TO-YEAR INCOME										
Increased	44%	47%	41%	43%	41%	44%	40%	38%	34%	-4
Decreased	27	24	27	28	26	24	29	31	35	+4
OVERALL FINANCIAL SITUATION										
YEAR TO YEAR IS...										
Better	35%	36%	30%	27%	32%	30%	31%	29%	29%	--
Worse	38	37	41	49	45	42	47	46	51	+5

SPENDING

Consumables

Day-to-day expenditures for food, clothing, driving, and medical expenses are being further curtailed. The Index of Consumables drops to a low of 68 from 76 last month.

Major Purchases

Across-the-board cuts in major purchase plans and active shopping for major purchases concede a rebound from early Summer lows. The Index of purchase plans declines to 93 from 104 in September; active shopping declines even further, from 107 to 92. The steepest declines in both purchase plans and active shopping are seen for personal computers, furniture, homes, and new cars.

The decline in home purchase plans cuts short growing demand for housing in August and September, as expectations of still lower home prices in the coming six months surge to 40%, from 31% last month.

Christmas

Massive cutbacks in Christmas spending are anticipated by consumers. A record 67% expect to spend less this Christmas than last year and just 9% more. This is the poorest outlook in October recorded so far and, respectively, 17 points higher in planned cutbacks and 10 points lower in expected increases than a year ago.

	2006			2007			2008			<i>Oct. Year-to-Year Change</i>
	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	
THIS YEAR EXPECT TO SPEND FOR CHRISTMAS:										
More	18%	20%	23%	18%	19%	19%	16%	15%	9%	-10
Less	43	42	38	44	42	50	53	56	67	+17
The Same	39	38	39	38	39	31	31	29	24	-7

JOB SECURITY

Growing fear of a job or earnings loss grips consumers. More than half of households (54%) see the possibility of a layoff or loss of earnings in the coming months. Surging from 45% last month, fear of unemployment stands at a new peak. Households reporting that a job or earnings were regained in the past year decline two points to 25%, the lowest level in more than three years. Actual job or earnings losses during the year hold at 33%, just below the recent peak of 34% in May.

	2008									<i>Change Sep/Oct</i>
	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	
HOUSEHOLDS REPORTING:										
Chance of layoff or loss of earnings in coming months	44%	43%	45%	44%	46%	41%	50%	45%	54%	+9
Regained job or earnings	32	34	27	26	30	28	27	27	25	-2
Lost job or earnings in past year	28	26	28	34	30	26	27	33	33	--

PRICES

Diminishing price increases are a bright spot. Just 68% of consumers think that prices have increased in the past month, the lowest level since February and down three points from September. Looking forward, a third of consumers feel that price increases will accelerate, but 17% - the highest level in over five years - feel that prices will decline over the next few months.

	2008									<i>Change Sep/Oct</i>
	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	
Think prices have increased in past month	66%	77%	81%	88%	88%	88%	77%	71%	68%	-3

SAVINGS

Squeezed by shrinking income, fewer households report money left over as savings after meeting all expenses; savings drop four points to 37%, the lowest level since May.

LOOKING AHEAD

The upbeat outlook for their own financial situation seen in August and September fades but does not dip below earlier levels of pessimism this year. Fewer than last month expect their household income to increase next year, 34% compared to 41%. As well, fewer see their overall financial situation improving next year, 48% compared to 56%, and more feel that it will be harder to get by -

47% compared to 39%. On each of these measurements, still weaker showings were seen earlier this year.

	2008							Change
	Apr	May	Jun	Jul	Aug	Sep	Oct	Sep/Oct
IN COMING YEAR EXPECT...								
Income to increase	35%	33%	34%	31%	37%	41%	34%	-7
Overall financial situation to improve	28	24	27	21	26	34	28	-6
It will be harder to get by	49	53	54	58	46	39	47	+12

THE NATION

The outlook for the nation plummets to new lows as the economic crisis escalates. There is near unanimous agreement that things are getting worse for the nation - 89%. The U.S. economic picture is also seen as worsening, but is not seen as dire as in the Spring and Summer months of this year. Approval of President Bush's job performance sinks to 22%, the lowest level since he became President.

	2008							Change
	Apr	May	Jun	Jul	Aug	Sep	Oct	Sep/Oct
NATION...Things getting:								
Better	9%	10%	12%	8%	16%	19%	4%	-15
Worse	81	82	80	82	73	69	89	+20
U.S. ECONOMIC PICTURE...Getting:								
Better	32%	30%	32%	24%	34%	49%	38%	-9
Worse	57	58	54	62	48	32	50	+18

STOCK MARKET

Among the one in two Americans who are invested in the stock market directly or through retirement and pension funds, a further decline of 10% in the Dow would result in more sellers than buyers. It dips to 0.67, the lowest buy-to-sell ratio in over three years; 77% - the highest percentage of stockowners since February - say they would stand pat.

COMMENT

So far, consumers are not panicking in the face of the economic collapse of Wall Street. They recognize that they are poorer and feel unlikely to recover their losses in the year ahead. Still, most are managing to hold their incomes at least even with last year. Growing fears of a job or earnings loss in the months ahead have so far not come to pass. Confidence of households that they could manage if the chief earner were unemployed, while declining, is not below levels recorded earlier this year. Consumers are hoping to ride out the storm and are rigorously tightening their belts to do with less. Plans for Christmas buying, the largest discretionary spending of the year, are sharply curtailed.

For retailers, the absence of consumer panic is encouraging but at the same time, growing determination to spend less, especially for Christmas, will make this one of the toughest and most competitive Holiday seasons in memory. Still, once again, we can see the consumer as stalwart, not infected by the hysteria that has paralyzed the financial markets, and prepared to tough it out.

SHOPPING FOR DAY-TO-DAY AND MAJOR PURCHASES

	2007 <u>Oct</u>	2008 <u>Sep</u>	2008 <u>Oct</u>	Change	
				<u>Month- To-Month</u>	<u>Year- To-Year</u>
<u>SPENDING FREELY FOR:</u>					
<i>(Not cutting back on)</i>					
Maintaining Standard of Living	57%	48%	43%	-5	-14
Clothing	51	40	33	-7	-18
Food	53	42	36	-6	-17
Driving (Gasoline)	39	28	23	-5	-16
Medical Care	70	73	70	-3	--
<u>PLANNING PURCHASE IN 12 MONTHS AND ACTIVELY SHOPPING FOR:</u>					
NEW CARS...					
Planning	12	12	10	-2	-2
Shopping	7	6	4	-2	-3
USED CARS...					
Planning	20	20	21	1	1
Shopping	7	10	9	-1	2
HOUSE...					
Planning	14	16	12	-4	-2
Shopping	9	11	8	-3	-1
FURNITURE...					
Planning	23	23	20	-3	-3
Shopping	9	12	9	-3	--
MAJOR APPLIANCE...					
Planning	19	15	12	-3	-7
Shopping	9	6	7	1	-2
CARPETING...					
Planning	10	8	7	-1	-3
Shopping	3	2	2	--	-1
TELEVISION...					
Planning	19	19	18	-1	-1
Shopping	7	9	9	--	2
PERSONAL COMPUTERS...					
Planning	19	18	12	-6	-7
Shopping	11	9	6	-3	-5
AIR TRAVEL...					
Planning	34	28	28	--	-6
Shopping	18	15	12	-3	-6
MOTEL/HOTEL...					
Planning	52	48	45	-3	-7
Shopping	21	21	21	--	--