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SPENDING EASES AS INFLATION FEARS DIMINISH

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Consumers continue to maintain a tight grip on day-to-day purchases but return to the market for major purchases as they regain hope that runaway inflation will be checked.

SPENDING

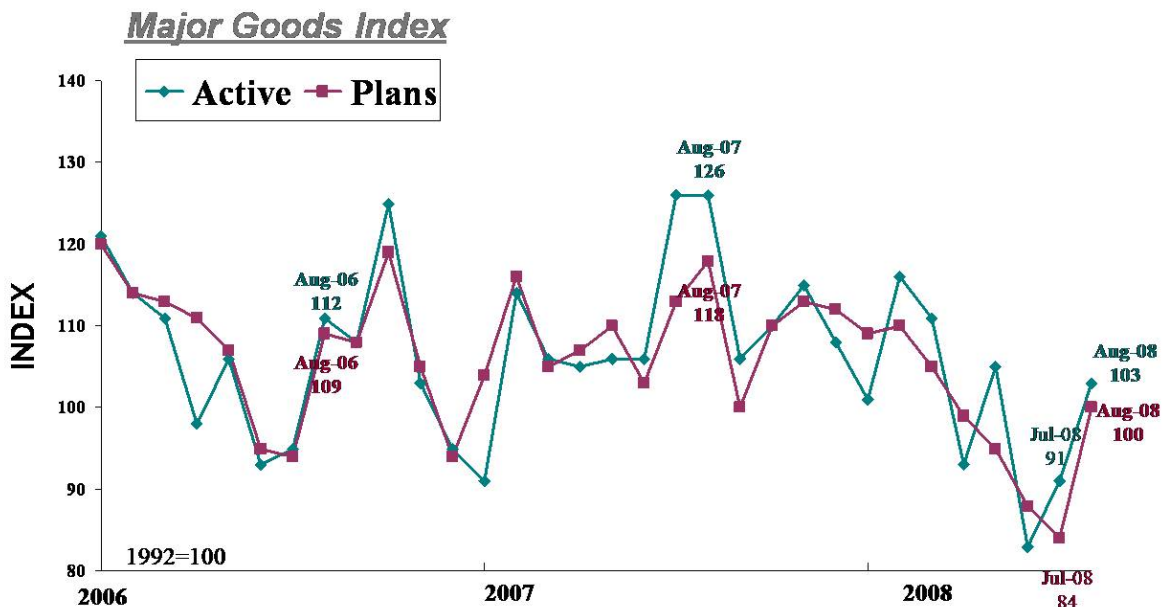
Consumables

Households continue to pull back on day-to-day purchases as restraints on food buying and purchases of gasoline reach new highs. Medical expense is the only area in which day-to-day spending eases. The Consumable Index remains within one point of its ten-year low.

Major Purchases

Both buying plans and active shopping for major purchases recover from their recent lows in June and July. Gains in purchase plans are seen for homes, used cars, major appliances, TVs, carpeting, personal computers, and air travel. Buying plans for all other categories of major goods remain stable. Increases in active shopping - visiting stores and dealers, reading ads - are seen most prominently for homes, used cars, and air travel.

The market for housing recovers from last month and stands at the best level since May, but actual purchases may continue to stall as consumers wait for lower prices. This month, 38% feel that home prices will be lower in six months, up two points from July.



SHOPPING FOR DAY-TO-DAY AND MAJOR PURCHASES

	2007 <u>Aug</u>	2008 <u>July</u>	2008 <u>Aug</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	64	42%	42%	--	-22
Clothing	48	39	39	--	-9
Food	55	42	35	-7	-20
Driving (Gasoline)	40	22	18	-4	-22
Medical Care	77	73	80	7	3
<u>PLANNING PURCHASE IN 12 MONTHS AND ACTIVELY SHOPPING FOR:</u>					
NEW CARS...					
Planning	14	10	10	--	-4
Shopping	7	6	5	-1	-2
USED CARS...					
Planning	22	15	20	5	-2
Shopping	11	7	10	3	-1
HOUSE...					
Planning	12	9	14	5	2
Shopping	10	5	10	5	--
FURNITURE...					
Planning	27	18	19	1	-8
Shopping	12	8	8	--	-4
MAJOR APPLIANCE...					
Planning	19	9	12	3	-7
Shopping	8	4	5	1	-3
CARPETING...					
Planning	11	6	9	3	-2
Shopping	4	2	2	--	-2
TELEVISION...					
Planning	14	16	20	4	6
Shopping	6	7	8	1	2
PERSONAL COMPUTERS...					
Planning	16	15	17	2	1
Shopping	11	10	9	-1	-2
AIR TRAVEL...					
Planning	41	27	36	9	-5
Shopping	24	17	19	2	-5
MOTEL/HOTEL...					
Planning	60	44	45	1	-15
Shopping	27	20	20	--	-7

PRICES

Households reporting increased prices during the past 30 days decline from 80%+ levels since March to 77% this month. A more dramatic decline is seen in the fear of accelerating inflation. For the past three months, over half of households have been expecting the pace of inflation to increase over the coming months. This expectation drops twenty points to 34% from July.

	2007/2008									Change
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Jul/Aug
Think prices have increased in past month	67%	68%	66%	77%	81%	88%	88%	88%	77%	-11
Price rises will accelerate in the next few months.	39	37	33	45	49	55	56	54%	34%	-20

INCOME

Year-to-year income worsens; 29% of households report it is lower than a year ago, five points above last month. Income growth slows as well, with 40% reporting a year-to-year increase - down four points from last month. This is the poorest ratio of year-to-year income in more than a decade.

	2007/2008									Change
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Jul/Aug
INCOME YEAR-TO-YEAR...										
Increased	44%	50%	44%	47%	41%	43%	41%	44%	40%	-4
Decreased	23	20	27	24	27	28	26	24	29%	+5

Assessment by households of their overall financial situation shows continuing weakness: 47% say it has worsened year to year and 31% say it has improved. Last month this ratio was, respectively, 42% and 30%.

JOB SECURITY

Fear of a job or earnings loss in the coming months rises to 50%, a nine-point increase from last month. Households reporting a layoff or loss of earnings in the past 12 months edge one point higher to 27%, while jobs or earnings regained edges a point lower to 27%.

	2007/2008									Change
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Jul/Aug
HOUSEHOLDS REPORTING:										
Chance of layoff or loss of earnings in coming months	39%	43%	44%	43%	45%	44%	46%	41%	50%	+9
Lost job or earnings in past year	26	28	28	26	28	34	30	26	27%	+1
Regained job or earnings in past year	33	31	32	34	27	26	30	28	27	-1

CONSUMER RESOLVE

Households do not expect to regain their buying power next year. Nearly half (45%) say that their income will not keep up with rising prices. Yet, despite their expectation of doing with less, households feel it will not be as hard to get by next year as now; the percent who feel it will become harder to get by drops twelve points to 46%, while 26% say it will be easier, up five points from last month. Consumers are learning to live on less. Reflecting this confidence is a rise of two points to 55% who say that they could get along if the chief earner of the household became unemployed.

SAVING

Households reporting money left over as savings after meeting all expenses drop three points to 41%, but looking forward, expectation of increasing savings rises three points to 34%

THE NATION

As the Olympics begin and the Presidential nominating conventions draw closer, Americans are feeling a bit more upbeat about the nation. Fewer than in any month since January of this year say that things are getting worse for the nation - 73%, while 16% say that things are getting better. Last month, this ratio was 82% and 8%, respectively.

The economic outlook also brightens; 34% say the U.S. economic picture is getting better, a ten-point increase from last month, and only 48% feel it worsening. Not since March, 2007 have fewer than half of households seen the U.S. economy in a downturn.

THE PRESIDENT

The approval rating of President Bush rises four points to 28%, the best level since April. However, confidence in the office of President declines as the presidential campaign intensifies; 57% say that the nation's problems will not be solved no matter who is president, a five-point increase from last month and the highest level of doubt about the presidency since last November.

STOCK MARKET

The ratio of buyers to sellers in the event of a ten percent drop in the Dow rises to 1.8 after declining in both June and July. During the past 12 months, this ratio peaked in May and November at 3.0 while reaching its low point at 1.4 in July. About half of U.S. households are invested directly or indirectly in the stock market.

	2007/2008												
	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>
Ratio of buyers to sellers if Dow dropped 10%	1.6	1.6	1.8	3.0	1.8	1.2	1.3	2.0	1.9	3.0	1.5	1.4	1.8

COMMENT

The grip of inflation on how consumers live and what they hope for is seen dramatically this month. As fear of inflation eases, restraints on major purchases loosen and consumers become more hopeful for the economy and the nation. With slowing incomes, consumers are learning to do with less, but inflation is seen as a wild card. Households feel that they can control what they buy, but that inflation is outside their control. Even the threat of job loss or loss of earnings offers a hope of regaining employment. The specter of runaway inflation is chilling because it is relatively hopeless.

For retailers, the current spending mood for major purchases should arrest a serious downturn for the Back-to-School season. But much will depend on the magnitude of "sticker shock." Consumers now returning to the market for major goods can be expected to resist price increases and to shift to lower price points to control them. This means that retailers face consumers prepared for change in both what they buy and where they buy it.

Data are from interviews conducted in August. During the year, 5,400 consumers are interviewed at the rate of 450 per month.
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