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CONSUMER SQUEEZE EASES

December 10, 2007

For the first time in four months consumers feel more secure about their jobs and earning power. At the same time their fear of run away inflation is diminished as they see price rises being contained. Restraints on Christmas spending ease but plans for major purchases remain cautious.

SPENDING

Consumables

The consumables index, which measures how freely consumers are making day to day purchases, edges one point lower to stand at the lowest level since June. Consumers are spending less freely for food and medical expenses but more freely for apparel.

Major Purchases

Plans for major purchases remain steady. They decline for new cars and personal computers but surge for televisions. Active shopping, which measures visits to stores and dealers and the reading of ads declines, largely as a consequence of fewer consumers shopping for travel or lodging reservations. Plans to purchase a home remain relatively robust, but those purchases continue to be postponed in the face of declining home prices. This month 32% of consumers expect home prices to continue to decline, up from 29% last month.

CHRISTMAS

For the first time since August there has been an increase in households who are planning to boost their Christmas spending year to year. Now 22%, three points more than in November say they expect to spend more this Christmas. At the same time, plans for cut backs for Christmas remain high rising to 53% from 52% last month and 13 points higher than in December a year ago.

| | <u>2007</u> | | | | <u>Change</u> | <u>2006</u> | | <u>Change</u> |
|--|-------------|------------|------------|------------|-------------------|-------------|------------|-------------------|
| | <u>Sep</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> | <u>Nov/Dec 07</u> | <u>Nov</u> | <u>Dec</u> | <u>Nov/Dec 06</u> |
| THIS YEAR EXPECT TO SPEND FOR CHRISTMAS: | | | | | | | | |
| More | 19% | 19% | 19% | 22% | <i>+3</i> | 25% | 24% | <i>-1</i> |
| Less | 42 | 50 | 52 | 53 | <i>+1</i> | 42 | 42 | <i>None</i> |
| The Same | 39 | 31 | 29 | 25 | <i>-4</i> | 33 | 36 | <i>+3</i> |

SHOPPING FOR DAY-TO-DAY AND MAJOR PURCHASES

| | 2006 <u>Dec</u> | 2007 <u>Nov</u> | 2007 <u>Dec</u> | Change | |
|--|--------------------|--------------------|--------------------|----------------------------|--------------------------|
| | | | | <u>Month- To-Month</u> | <u>Year- To-Year</u> |
| SPENDING FREELY FOR: | | | | | |
| <i>(Not cutting back on)</i> | | | | | |
| Maintaining Standard of Living | 64% | 57% | 55% | -2 | -9 |
| Clothing | 55 | 45 | 47 | +2 | -8 |
| Food | 63 | 52 | 49 | -3 | -14 |
| Driving (Gasoline) | 50 | 39 | 39 | -- | -11 |
| Medical Care | 77 | 74 | 71 | -3 | -6 |
| PLANNING PURCHASE IN 12 MONTHS AND ACTIVELY SHOPPING FOR: | | | | | |
| NEW CARS... | | | | | |
| Planning | 12 | 14 | 12 | -2 | -- |
| Shopping | 6 | 6 | 7 | +1 | +1 |
| USED CARS... | | | | | |
| Planning | 13 | 24 | 23 | -1 | +10 |
| Shopping | 7 | 10 | 11 | +1 | +4 |
| HOUSE... | | | | | |
| Planning | 13 | 14 | 13 | -1 | -- |
| Shopping | 7 | 8 | 8 | -- | +1 |
| FURNITURE... | | | | | |
| Planning | 22 | 25 | 25 | -- | +3 |
| Shopping | 8 | 9 | 9 | -- | +1 |
| MAJOR APPLIANCE... | | | | | |
| Planning | 12 | 16 | 15 | -1 | +3 |
| Shopping | 6 | 9 | 9 | -- | +3 |
| CARPETING... | | | | | |
| Planning | 9 | 8 | 8 | -- | -1 |
| Shopping | 3 | 3 | 2 | -1 | -1 |
| TELEVISION... | | | | | |
| Planning | 14 | 17 | 21 | +4 | +7 |
| Shopping | 7 | 10 | 11 | +1 | +4 |
| PERSONAL COMPUTERS... | | | | | |
| Planning | 18 | 24 | 19 | -5 | +1 |
| Shopping | 12 | 13 | 13 | -- | +1 |
| AIR TRAVEL... | | | | | |
| Planning | 33 | 36 | 38 | +2 | +5 |
| Shopping | 17 | 20 | 16 | -4 | -1 |
| MOTEL/HOTEL... | | | | | |
| Planning | 44 | 48 | 50 | +2 | +6 |
| Shopping | 16 | 20 | 17 | -3 | +1 |

JOB SECURITY

For the first time since September job security improves; 39%, three points fewer than last month feel there is chance of a layoff or loss of earning power in their household during the coming months. At the same time, 33% report a job or earning power regained during the year, two points higher than last month.

| | 2007 | | | | | | | | | <i>Change Nov/Dec</i> |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------------------|
| | <u>Apr</u> | <u>May</u> | <u>Jun</u> | <u>Jul</u> | <u>Aug</u> | <u>Sep</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> | |
| HOUSEHOLDS REPORTING: | | | | | | | | | | |
| Chance of layoff or loss of earnings in coming months | 34% | 39% | 40% | 40% | 39% | 38% | 40% | 42% | 39% | -3 |
| Job or income regained in past year | 28 | 29 | 34 | 27 | 28 | 31 | 36 | 31 | 33 | +2 |

PRICES

Reports of higher prices drop thirteen points from last month to 67%. This reverses a steady increase in reports of rising prices since August and suggest that fear of high energy prices spreading through the economy is being contained. Consumers also relax concern about rising prices in the months ahead as 50%, six points fewer than last month, feel that the present pace of inflation will continue or increase.

| | 2007 | | | | | | | <i>Change Nov/Dec</i> |
|--|------------|------------|------------|------------|------------|------------|------------|---------------------------|
| | <u>Jun</u> | <u>Jul</u> | <u>Aug</u> | <u>Sep</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> | |
| Think prices have increased in past month | 81% | 69% | 67% | 70% | 71% | 80% | 67% | -13 |
| Prices will rise at the same or a steeper rate in the next few months. | 57 | 50 | 40 | 41 | 41 | 56 | 50 | -6 |

INCOME

Year to year income improves as 44% report increased income, three points more than last month. At the same time, one point fewer than last month, 23% report a year to year income decline. Looking ahead to next year, 43% expect their income to increase, a sizeable six point gain over last month, and the most optimistic outlook since August.

| | 2007 | | | | | | | | | <i>Change Nov/Dec</i> |
|-------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------------------|
| | <u>Apr</u> | <u>May</u> | <u>Jun</u> | <u>Jul</u> | <u>Aug</u> | <u>Sep</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> | |
| INCOME YEAR-TO-YEAR... | | | | | | | | | | |
| Increased | 50% | 48% | 42% | 47% | 50% | 43% | 49% | 41% | 44% | +3 |
| Decreased | 16 | 20 | 19 | 24 | 19 | 22 | 22 | 24 | 23 | -1 |
| EXPECT INCOME TO INCREASE NEXT YEAR | 41 | 39 | 39 | 45 | 44 | 41 | 39 | 37 | 43 | +6 |

OVERALL FINANCIAL SITUATION

Improved income this month has not brought consumers' overall financial situation into balance. Just 33% feel their overall financial situation is better than a year ago, a three point drop from last month and the lowest percentage in more than three years. However, there is some optimism for the year ahead as 54% expect their overall financial situation to be better, just one point below last month and above the recent low in June.

SAVING

Savings hold steady as 46% of households, the same as last month, report having money left over after meeting all their expenses. Expectations of increasing savings next year rise five points to 46%.

THE NATION

Outlook for the nation and US economy improves; consumers who feel that things are getting worse for the nation decline four points from last month to 69% while one point more, 18% feel that things are getting better for the nation. There is still more optimism for the economy as 30% feel that US economic picture is improving, eight points more than last month while ten points fewer than last month, 54% see it becoming worse.

SUBPRIME CRISIS

Households who foresee difficulty in making mortgage payments ease from 8% in November to 6% this month. Translated to mortgage holders and home equity loans this is a four point drop from 17% in November to 13% in December. There is also a small decline in the percentage of mortgage holders who say there is a good chance that they may lose their home, from 4% to 3%. It appears that stabilizing income combined with hope of rescue from federal programs is easing the fear of homeowners who foresee or already are having difficulty paying their loans.

THE PRESIDENT

President Bush's approval rating rises to 30%, a five point increase from last month's low. At the same time national confidence in the office of president improves. The percentage who feel that the problems of the nation can be solved by a U.S. president rises to 44%, the best level since August and five points higher than last month.

STOCK MARKET

Buying fever seen last month cools as the buyer-seller ratio in the event of a ten percent decline in the Dow drops to 1.8 from a peak of 3.0 last month. About half of U.S. households own stock directly or indirectly through mutual and retirement funds.

| | 2006/2007 | | | | | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|-------------|------------|------------|------------|------------|------------|
| | <u>Dec</u> | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> | <u>May</u> | <u>Jun</u> | <u>July</u> | <u>Aug</u> | <u>Sep</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> |
| Ratio of buyers to sellers if Dow dropped 10% | 1.7 | 1.0 | 1.1 | 1.9 | 1.5 | 1.0 | 1.8 | 3.1 | 1.6 | 1.6 | 1.8 | 3.0 | 1.8 |

COMMENT

As the year comes to a close, consumers' fears about their financial situation have not come to pass. They see improvement in their income, feel more secure about their jobs, and perhaps most important of all, their acute fear of inflation has eased. Unless this upbeat outlook between now and the end of the year is chilled by layoffs or disappointing year-end bonuses and job promotions we may well see a loosening of Christmas spending encouraged by low prices and retailers' intense efforts to achieve sales. This year, to an extent not yet seen, the Christmas season may continue beyond December 24th through the end of the year. At this point, the odds favor bigger sales for December than many retailers expected. Low prices, however, will mean that profits derived from those sales are likely to be thin.

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