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FEAR OF UNEMPLOYMENT GRIPS CONSUMERS

December 11, 2008

Fear of losing a job or earnings chills spending for Christmas but does not discourage day to day spending or purchase plans for the home.

JOB SECURITY

Most American households now fear a job or earnings loss in the coming months. Between October and November, this fear surged from 46% to 56%, the highest level of job insecurity in more than three decades of measurement. Households affected by actual losses of jobs or earnings so far this year spike to 41%, up nine points from last month and also the highest level recorded in our measurements so far. Although hit by job and earning losses, households that are able to recover remain stable; 26%, two points more than last month, report having regained a job or earnings this year.

| | 2008 | | | | | | | | | <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 | 45% | 44% | 46% | 41% | 50% | 45% | 54% | 46% | 56% | +10 |
| Regained job or earnings in past year | 27 | 26 | 30 | 28 | 27 | 27 | 25 | 24 | 26% | +2 |
| Lost job or earnings in past year | 28 | 34 | 30 | 26 | 27 | 33 | 33 | 32 | 41% | +9 |

INCOME

Pressure on income has increased more modestly than growing fear of income loss. Currently, 32% report a year-to-year income decline for their household, a point higher than last month. Income decline in October, just before the election, stood at 35%. Between April and August, it ranged between 24% and 29% before breaking 30% in September.

Income growth, year to year, reported by households is 35%, down four points from last month, but still exceeding reported income decline (32%). Until August, upwards of 40% of households reported growing income. Since September, this proportion has slipped below 40% each month.

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| YEAR-TO-YEAR INCOME | | | | | | | | | | |
| Increased | 41% | 43% | 41% | 44% | 40% | 38% | 34% | 39% | 35% | -4 |
| Decreased | 27 | 28 | 26 | 24 | 29 | 31 | 35 | 31 | 32 | +1 |

SPENDING

Consumables

Consumers loosen up slightly on day-to-day spending for food, driving and clothing. The Consumables Index edges higher from its three-decade low of 68 in September to 72 in November and 74 this month, December.

Major Purchases

There is also an increase in active shopping for major purchases for the home including furniture, televisions, carpeting, and major appliances. The Active Shopping Index edges higher to 110, from 108 last month and 92 in October. Looking forward, plans for major purchases also edge higher, led mainly by purchases for the home. The Index of Major Purchase Plans edges five points higher from November to 107 and is up from 93 in September.

Purchase plans for new cars are unchanged from November, but active shopping for new cars declines. Purchase plans for homes, as well as active home shopping make modest gains.

Christmas

The already bleak outlook for Christmas seen since August worsens in December, as a record 69% expect to spend less than last year, offset by just 11% who expect to spend more. The percentage expecting to spend less has grown as Christmas approaches, from 56% in September to 67% in October, 65% in November, and now 69% in December. A year ago in December, 53% were cutting back and 22% were expecting to spend more for Christmas.

It is evident that consumers are realigning some of their savings from Christmas spending towards selected home purchases, likely motivated by buying opportunities from falling prices. Meanwhile, the pain of cutting Christmas spending is being managed by buying smaller gifts. About one in five households say they are dropping people from their gift list.

| | 2006 | | | 2007 | | | 2008 | | | <i>Dec. Year-to-Year Change</i> |
|--|------|-----|------------|------|-----|------------|------|-----|------------|---------------------------------|
| | Oct | Nov | Dec | Oct | Nov | Dec | Oct | Nov | Dec | |
| THIS YEAR EXPECT TO SPEND FOR CHRISTMAS: | | | | | | | | | | |
| More | 23% | 25% | 24% | 19% | 19% | 22% | 9% | 10% | 11% | +1 |
| Less | 38 | 42 | 42 | 50 | 52 | 53 | 67 | 65 | 69 | +4 |
| The Same | 39 | 33 | 36 | 31 | 29 | 25 | 24 | 25 | 20 | -5 |

PRICES

Fewer households continue to report price increases. Over the past 30 days, just 43% report price increases, down from 49% in November and 68% before the election in October. Looking ahead, 24% expect prices to *decrease* over the next few months, and 48% expect them to remain the same as now. This is the highest level of confidence about stable or declining prices that we have seen in seven years.

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| THINK PRICES HAVE... | | | | | | | | | | |
| Increased in past month | 81% | 88% | 88% | 88% | 77% | 71% | 68% | 49% | 43% | -6 |
| THINK PRICES WILL... | | | | | | | | | | |
| Decrease in next months | 8 | 4 | 5 | 5 | 10 | 11 | 17 | 24 | 24 | None |
| Stay the same | 24 | 18 | 19 | 20 | 36 | 43 | 38 | 43 | 48 | +5 |

SAVINGS

Households able to save money after meeting all expenditures remain stable at 40%, up one point from last month. Since January this year, the percent reporting savings has ranged narrowly between 37% and 44%.

OVERALL FINANCIAL SITUATION

Assessment by households of their overall financial situation improves this month, but remains far below levels of wealth and well-being a year ago. Over half of households (56%) say that their year-to-year financial situation has declined; 22% improved. In December last year, these percents were, respectively, 36% and 33%. The current assessment is somewhat improved from November, when a peak of 61% reported deterioration in their financial situation and 20% improvement.

| | <u>2007</u> | <u>2008</u> | | | | | | | | | <i>Change Nov/Dec</i> |
|---|-------------|-------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------------------|
| | <u>Dec</u> | <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> | |
| OVERALL FINANCIAL SITUATION YEAR TO YEAR IS... | | | | | | | | | | | |
| Better | 33% | 30% | 27% | 32% | 30% | 31% | 29% | 29% | 20% | 22% | +2 |
| Worse | 36 | 41 | 49 | 45 | 42 | 47 | 46 | 51 | 61 | 56 | -5 |

THE NATION

Americans' improved outlook for the nation following the election in November eases somewhat, as 73% see things getting worse and 19% better. This compares with 66% seeing things worse in November following the election and 18% better. The poorest outlook that we have recorded was in October just prior to the election, when 89% saw things getting worse and just 4% better.

The outlook for the economy has worsened, with 46% saying the US economic picture is getting worse, up six points from last month, and 47% say it is getting better, a five-point drop from last month.

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| NATION...Things getting: | | | | | | | | | | |
| Better | 9% | 10% | 12% | 8% | 16% | 19% | 4% | 18% | 19% | +1 |
| Worse | 81 | 82 | 80 | 82 | 73 | 69 | 89 | 66 | 73 | +7 |
| U.S. ECONOMIC PICTURE...Getting: | | | | | | | | | | |
| Better | 32% | 30% | 32% | 24% | 34% | 49% | 38% | 52% | 47% | -5 |
| Worse | 57 | 58 | 54 | 62 | 48 | 32 | 50 | 40 | 46 | +6 |

COMMENT

While most Americans have been managing their weakening financial situation, there is now palpable fear that downsizing and thrift may not avoid a collapse of living standard in the face of job loss or reduced earnings. Christmas is a casualty of this fear, but households are taking some cash in hand to make major purchases for the home and also to sustain day-to-day spending. This reflects both the continuation of income - albeit flat or lower - as well as discipline on spending that households have exacted for a number of months. It also reflects steadily diminished inflation and extraordinary buying opportunities that retailers are offering.

Much of the spending since Black Friday and through the balance of the year will be personal, rather than for gifts. This means that shoppers arriving at stores set for Christmas are buying for themselves in a ratio that may be unprecedented. This stands to benefit retailers whose inventories translate to home and personal needs.

In effect, heavy markdowns are not triggering Christmas spending but spending for shoppers' own needs. This usually occurs in January sales after the Christmas season. This year, it is defining the Christmas season, as prices trigger an indulgent shopper who, given fear of unemployment, may see this as a last opportunity to indulge.

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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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SHOPPING FOR DAY-TO-DAY AND MAJOR PURCHASES

| | 2007 <u>Dec</u> | 2008 <u>Nov</u> | 2008 <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 | 55% | 40% | 41% | 1 | -14 |
| Clothing | 47 | 33 | 34 | 1 | -13 |
| Food | 49 | 35 | 36 | 1 | -13 |
| Driving (Gasoline) | 39 | 34 | 38 | 4 | -1 |
| Medical Care | 71 | 72 | 70 | -2 | -1 |
| PLANNING PURCHASE IN 12 MONTHS AND ACTIVELY SHOPPING FOR: | | | | | |
| NEW CARS... | | | | | |
| Planning | 12 | 11 | 11 | -- | -1 |
| Shopping | 7 | 7 | 5 | -2 | -2 |
| USED CARS... | | | | | |
| Planning | 23 | 17 | 19 | 2 | -4 |
| Shopping | 11 | 6 | 7 | 1 | -4 |
| HOUSE... | | | | | |
| Planning | 13 | 12 | 14 | 2 | 1 |
| Shopping | 8 | 6 | 8 | 2 | -- |
| FURNITURE... | | | | | |
| Planning | 25 | 19 | 24 | 5 | -1 |
| Shopping | 9 | 10 | 12 | 2 | 3 |
| MAJOR APPLIANCE... | | | | | |
| Planning | 15 | 13 | 16 | 3 | 1 |
| Shopping | 9 | 7 | 9 | 2 | -- |
| CARPETING... | | | | | |
| Planning | 8 | 9 | 8 | -1 | -- |
| Shopping | 2 | 3 | 5 | 2 | 3 |
| TELEVISION... | | | | | |
| Planning | 21 | 18 | 21 | 3 | -- |
| Shopping | 11 | 9 | 11 | 2 | -- |
| PERSONAL COMPUTERS... | | | | | |
| Planning | 19 | 19 | 16 | -3 | -3 |
| Shopping | 13 | 11 | 10 | -1 | -3 |
| AIR TRAVEL... | | | | | |
| Planning | 38 | 39 | 35 | -4 | -3 |
| Shopping | 16 | 23 | 19 | -4 | 3 |
| MOTEL/HOTEL... | | | | | |
| Planning | 50 | 46 | 48 | 2 | -2 |
| Shopping | 17 | 20 | 17 | -3 | -- |