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## CONSUMER SQUEEZE

Stunned by rising prices and slowing income, consumers despair about their financial situation and the state of the nation.

November 12, 2007

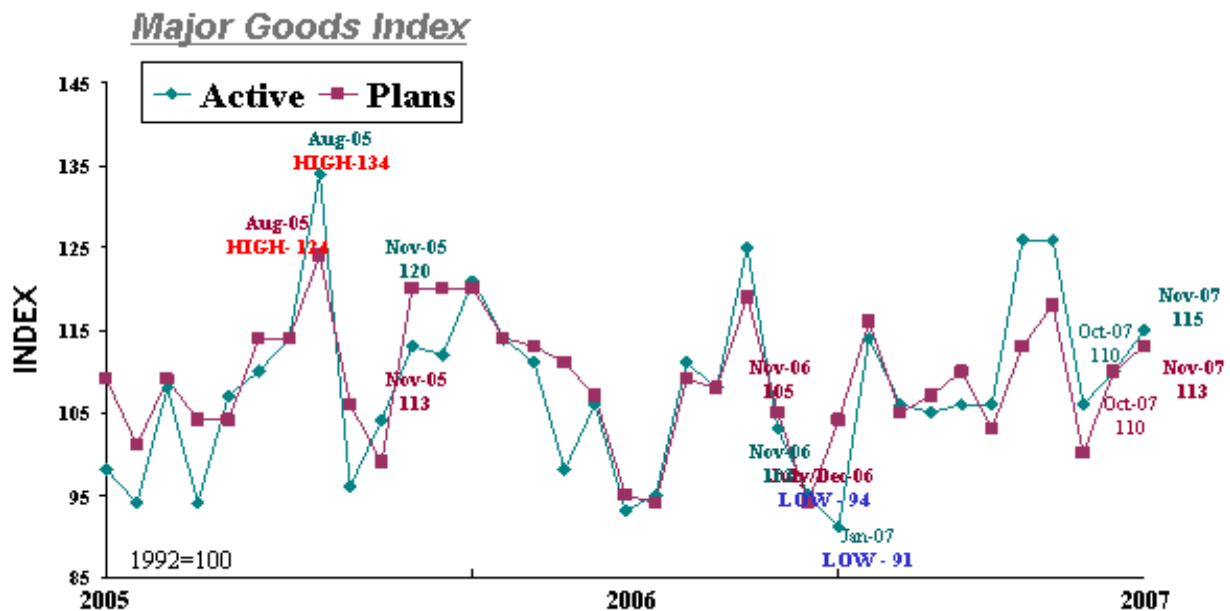
### SPENDING

#### *Consumables*

Led by more cautious spending for apparel, the consumable index, which measure how freely households are spending for day-to-day goods, edges a point lower to the lowest level in two years.

#### *Major Purchases*

Plans for major purchases, as well as active shopping for them improve. More plan to purchase new and used cars, personal computers and air travel. Active shopping for major purchases, which measures visits to stores and dealers and reading of ads, improves as well for personal computers, air travel, television, and used cars. Plans to purchase a home hold steady at 14% at the higher end of the range for the year (9-17%), but active shopping for homes edges down a point to 8% (yearly range: 6-12%). Consumers who expect home prices to drop in the coming six months hold steady at 29% the highest level in more than five years.



**SHOPPING FOR DAY-TO-DAY AND MAJOR PURCHASES**

	2006	2007	Nov	Change	
	<u>Nov</u>	<u>Oct</u>	<u>2007</u>	<u>Month-</u>	<u>Year-</u>
<u>SPENDING FREELY FOR:</u>				<u>To-Month</u>	<u>To-Year</u>
<i>(Not cutting back on)</i>					
Maintaining Standard of Living	65%	57%	<b>57%</b>	--	-8
Clothing	54	51	<b>45</b>	-6	-9
Food	59	53	<b>52</b>	-1	-7
Driving (Gasoline)	46	39	<b>39</b>	--	-7
Medical Care	76	70	<b>74</b>	+4	-2
 <u>PLANNING PURCHASE IN 12 MONTHS</u>					
<u>AND ACTIVELY SHOPPING FOR:</u>					
NEW CARS...					
Planning	12	12	<b>14</b>	+2	+2
Shopping	7	7	<b>6</b>	-1	-1
USED CARS...					
Planning	17	20	<b>24</b>	+4	+7
Shopping	7	7	<b>10</b>	+3	+3
HOUSE...					
Planning	17	14	<b>14</b>	--	-3
Shopping	11	9	<b>8</b>	-1	-3
FURNITURE...					
Planning	21	23	<b>25</b>	+2	+4
Shopping	10	9	<b>9</b>	--	-1
MAJOR APPLIANCE...					
Planning	17	19	<b>16</b>	-3	-1
Shopping	10	9	<b>9</b>	--	-1
CARPETING...					
Planning	9	10	<b>8</b>	-2	-1
Shopping	3	3	<b>3</b>	--	--
TELEVISION...					
Planning	14	19	<b>17</b>	-2	+3
Shopping	7	7	<b>10</b>	+3	+3
PERSONAL COMPUTERS...					
Planning	16	19	<b>24</b>	+5	+8
Shopping	9	11	<b>13</b>	+2	+4
AIR TRAVEL...					
Planning	36	34	<b>36</b>	+2	--
Shopping	17	18	<b>20</b>	+2	+3
MOTEL/HOTEL...					
Planning	51	52	<b>48</b>	-4	-3
Shopping	17	21	<b>20</b>	-1	+3

## PRICES

After increasing gradually over the past four months, price increases reported by consumers during the past 30 days surge nine points to 80%, nearly matching the 81% high in June of this year. The percentage who feel that inflation will accelerate in the coming months rises to 42%, sixteen points higher than last month.

	2007							<i>Change Oct/Nov</i>
	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	
Think prices have increased in past month	78%	81%	69%	67%	70%	71%	<b>80%</b>	+9
Prices will rise at a steeper rate in next few months.	43	41	36	27	29	26	<b>42</b>	+16

## INCOME

Households that report a year-to-year decline in income increase two points to 24%. At the same time, there is an eight point decline to 41% in year-to-year income growth. This is the lowest level of income growth in over two years. Slowing income is putting pressure on consumers. More than at any time in two years - 57%, up four points - say it is now harder for them to get by than a year ago.

## OVERALL FINANCIAL SITUATION

Households' appraisal of their overall financial situation is grim. The percentage that feel their financial situation has improved year-to-year declines by nine points to 36% from last month, while 37% -- five points more than last month - say it has worsened. Looking forward, consumers hope to surmount the present squeeze as 55%, just one point lower than last month, expect their financial situation to improve next year.

	2007									<i>Change Oct/Nov</i>
	<u>Mar</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>	
OVERALL FINANCIAL SITUATION YEAR TO YEAR IS...										
Better	42	40	38	42	46	40	36	45	<b>36</b>	-9
Worse	27	29	29	26	30	29	33	32	<b>37</b>	+5
OVERALL SITUATION NEXT YEAR WILL BE BETTER	59	59	54	52	59	55	57	56	<b>55</b>	-1

## JOB SECURITY

Persistent worry about the possibility of layoffs or income interruption seen over the past five months is unrelieved, as 42% - two points more than last month - feel that they are vulnerable to a loss of job or earning power.

## SAVINGS

Fewer than half of households - 46% this month, down four points from last month - report money left over as savings after meeting all their expenses. Looking toward next year, 41% expect to increase their savings, a five-point drop from last month.

## THE PRESIDENT

Approval of President Bush drops to the lowest point since he was elected to office - 25%, a seven point decline from last month. More Americans than at any time in three years feel that the problems of the nation will not be solved no matter who is President - 58%, up four points from last month.

## THE NATION

Gloom about how things are going for the nation thickens, as 73% feel that things are getting worse and just 17% better. Last month, this ratio was respectively, 68% and 21%. There is a steep month-to-month decline in how consumers feel about the U.S. economic picture; 64% say it is getting worse, eleven points higher than last month, and just 22% better, also an eleven point deterioration. This is the weakest outlook for the U.S. economy since August 2006 when these percentages stood at 65% and 24%, respectively.

## STOCK MARKET

If the Dow were to decline by 10%, three times as many stockholders would buy than sell, a ratio that shows a surge of enthusiasm for purchasing stocks on a market decline. The comparable ratio was 1.8 in December. About half of U.S. household own stock directly or through retirement and mutual funds.

## CHRISTMAS

Spending plans for Christmas weaken and now stand at the lowest level for November since the beginning of the Millennium. The percentage of households cutting back this Christmas stands at 52%, while just 19% expect to spend more this Christmas. A year ago, the comparable percentages were, respectively, 42% and 25%.

	2007			2006			Change
	Sep	Oct	Nov	Sep	Oct	Nov	Nov'06/'07
THIS YEAR EXPECT TO SPEND FOR CHRISTMAS:							
More	19%	19%	<b>19%</b>	20%	23%	<b>25%</b>	-11
Less	42	50	<b>52</b>	42	38	<b>42</b>	+9
The Same	39	31	<b>29</b>	38	39	<b>33</b>	+2

## COMMENT

Stunned by rising prices and slowing income growth, Americans are feeling squeezed and worried about their financial situation. Uneasiness about their jobs contributes to a feeling that they may not be able to avert a decline in their standard of living. So far, day-to-day spending continues at recent low levels, and plans for major purchasing improve from their recent low in September. But spending plans for Christmas are the lowest for November so far this decade. The present gloom could lift before the end of the year, if income growth recovers, fear of inflation diminishes, and job security improves. That's a tall order, but as December approaches, consumers may find that they may have been overreacting to fears about their financial situation. For retailers, the energy that it will take to animate the consumer this holiday season will be more substantial than they had planned. Translate "energy" to holding prices or lowering them, while increasing promotion that ignites the consumer's generosity. For most retailers, this will be a defensive Christmas that endeavors to hold position and not a Christmas in which they can enjoy growth.

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