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## SPENDING STALLS

September 12, 2007

Slowing income growth and job insecurity trigger an abrupt pullback from spending.

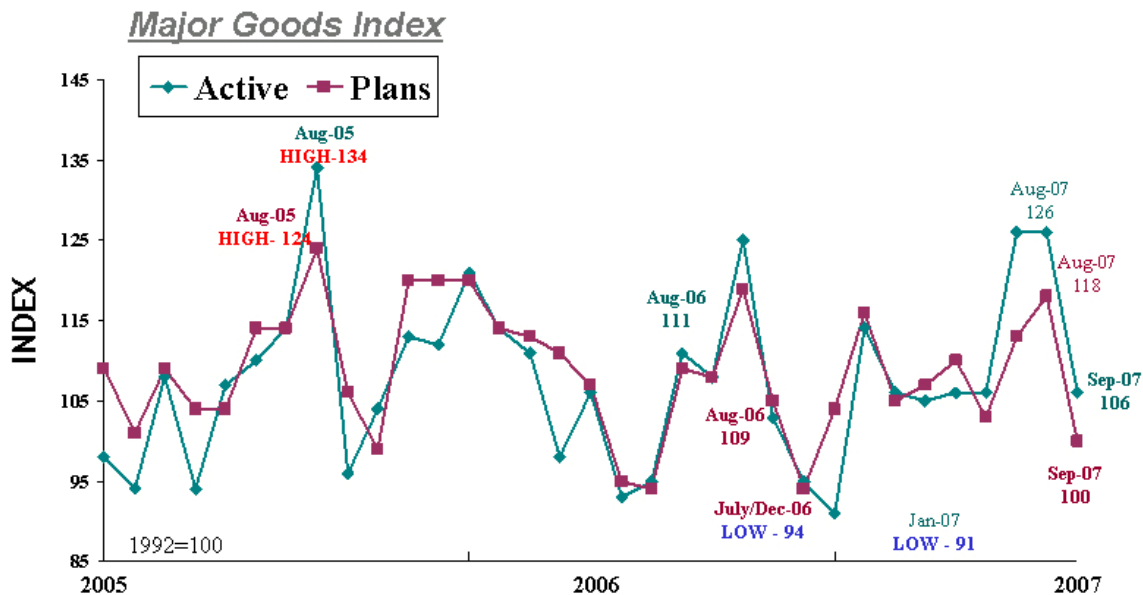
### SPENDING

#### *Consumables*

Day-to-day spending for consumables slows, as consumers spend less freely for food, apparel, and medical expenses. Cutbacks on driving continue as well. The Consumables Index drops to 88, the low of its one-year range.

#### *Major Purchases*

Plans for major purchases are postponed, and active shopping for major purchases - visits to stores, dealers, and readings of ads - declines. Plans to purchase homes and active shopping for homes drop to the lowest level in over a year. As well, the pullback from purchase plans and active shopping is led by reduced plans to buy and active shopping for new cars, furniture, major appliances, computers and travel. Expectation that housing prices will decline over the next six months rises four points to 29%, the highest level in over fifteen years.



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

	2006 <u>Sept</u>	2007 <u>Aug</u>	2007 <u>Sept</u>	Change	
				<u>Month- To-Month</u>	<u>Year- To-Year</u>
<b>SPENDING FREELY FOR:</b>					
<i>(Not cutting back on)</i>					
Maintaining Standard of Living	56%	64%	<b>56</b>	<b>-8</b>	NONE
Clothing	50	48	<b>44</b>	<b>-4</b>	-6
Food	55	55	<b>55</b>	<b>NONE</b>	NONE
Driving (Gasoline)	39	40	<b>39</b>	<b>-1</b>	NONE
Medical Care	78	77	<b>74</b>	<b>-3</b>	-4
<b>PLANNING PURCHASE IN 12 MONTHS AND ACTIVELY SHOPPING FOR:</b>					
NEW CARS...					
Planning	14	14	<b>10</b>	<b>-4</b>	-4
Shopping	9	7	<b>6</b>	<b>-1</b>	-3
USED CARS...					
Planning	21	22	<b>22</b>	<b>NONE</b>	+1
Shopping	11	11	<b>9</b>	<b>-2</b>	-2
HOUSE...					
Planning	15	12	<b>9</b>	<b>-3</b>	-6
Shopping	9	10	<b>6</b>	<b>-4</b>	-3
FURNITURE...					
Planning	25	27	<b>20</b>	<b>-7</b>	-5
Shopping	10	12	<b>10</b>	<b>-2</b>	NONE
MAJOR APPLIANCE...					
Planning	15	19	<b>15</b>	<b>-4</b>	NONE
Shopping	6	8	<b>7</b>	<b>-1</b>	+1
CARPETING...					
Planning	11	11	<b>10</b>	<b>-1</b>	-1
Shopping	3	4	<b>2</b>	<b>-2</b>	-1
TELEVISION...					
Planning	11	14	<b>15</b>	<b>+1</b>	+4
Shopping	5	6	<b>7</b>	<b>+1</b>	+2
PERSONAL COMPUTERS...					
Planning	15	16	<b>15</b>	<b>-1</b>	NONE
Shopping	8	11	<b>6</b>	<b>-5</b>	-2
AIR TRAVEL...					
Planning	42	41	<b>36</b>	<b>-5</b>	-6
Shopping	20	24	<b>21</b>	<b>-3</b>	+1
MOTEL/HOTEL...					
Planning	49	60	<b>48</b>	<b>-12</b>	-1
Shopping	21	27	<b>25</b>	<b>-2</b>	+4

## INCOME

Income growth slows as just 43%, seven points less than a month ago, say their year-to-year income has increased and 22%, three points more than last month, say it has declined. Households' assessments of their overall financial situation weaken, as just 36% say their financial situation has improved, the second consecutive monthly decline and ten points down from a peak of 46% this year.

	2007									<i>Change Aug/Sep</i>
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	
INCOME YEAR-TO-YEAR...										
Increased	49%	51%	52%	50%	48%	42%	47%	50%	<b>43</b>	-7
Decreased	17	20	15	16	20	19	24	19	<b>22</b>	+3
OVERALL FINANCIAL SITUATION YEAR-TO-YEAR...										
Better	42	45	42	40	38	42	46	40	<b>36</b>	-4

## PRICES

Prices are on the rise, as 70% of consumers - three points more than last month - report price increases during the past month. Expectation of a steeper pace of inflation over the coming months increase to 29%, up two points from a month ago.

## SAVINGS

Households reporting money left over as savings after meeting all expenses decline nine points to 45%, the second lowest savings level in a year. Expectations of achieving increased savings a year from now stand at the lowest level of the year, declining six points to 41%.

## FINANCIAL OUTLOOK

Determination to control spending is helping consumers to feel confident about their overall financial situation next year; 57% expect it to be improved, two points higher than a month ago. Expectations of income, however, are more pessimistic, as only 41% expect to increase their income in the coming year, three points lower than last month.

	2007									<i>Change Aug/Sep</i>
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	
EXPECT TO BE IN A BETTER FINANCIAL SITUATION NEXT YEAR	64%	64%	59%	59%	54%	52%	59%	55%	<b>57%</b>	+2%
EXPECT INCOME TO INCREASE IN COMING YEAR	46	42	45	41	39	39	45	44	<b>41</b>	-3

## JOB SECURITY

Uneasiness about jobs persists for the fifth consecutive month, as 38% see the possibility of a layoff or income interruption affecting their household in the coming months.

	2007									<i>Change Aug/Sep</i>
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	
HOUSEHOLDS REPORTING: Chance of layoff or loss of earnings in coming months	40%	33%	38%	34%	39%	40%	40%	39%	<b>38%</b>	-1

## THE NATION

Gloom about the prospects for the nation continues, as 71% expect things to get worse and only 15% better. This is one of the most pessimistic views of the nation in the past year. Feelings about the economy improve, as 52% - five points fewer than last month - feel the U.S. economic picture is worsening.

## THE PRESIDENT

Approval of President Bush's job performance rises three points this month, but, at 32%, remains near the low of the range since he took office. Meanwhile, confidence in the office of the President dissipates as 57% of the nation, the highest level in six years, feel that no matter who is President, the problems of the nation won't be solved.

## STOCK MARKET

In the event of a 10% decline in the Dow, a prospect that is now nearer than usual, given recent market volatility, buyers outnumber sellers by a ratio of 1.6, the same as last month. About half of American households own stock directly or through mutual or retirement funds.

## CHRISTMAS

Christmas spending plans are virtually the same as a year ago, with 19% expecting to spend more for Christmas this year, and 42% expect to cut back their Christmas spending. Current plans are somewhat stronger than in August, when 18% had expected to spend more and 44% less.

	2005		2006		2007	
	Aug	Sep	Aug	Sep	Aug	Sep
THIS YEAR EXPECT TO SPEND FOR CHRISTMAS:						
More	22%	16%	18%	20%	18%	19%
Less	41	52	43	42	44	42
The Same	37	32	39	38	38	39

## COMMENT

This month we see consumers turning on a dime to control their household budgets in the face of slowing income and worry about their jobs. Putting the lid on discretionary spending for major purchases is the most powerful tool within their control to avert what they now see as a possible crisis facing the family budget. Continuing gloom about the nation - and little hope that a presidential election next year will solve the nation's problems - provides additional reason for spending restraint. This bodes particularly poorly for the housing market, as plans to purchase a home dip to the lowest point in the past year. Day-to-day spending edges somewhat lower but for now appears to be holding its own against the steep declines in buying plans and active shopping for major purchases.

Robust retail activity seen so far this year is likely to slow down, but given present plans, Christmas spending may be comparable to last year. An encouraging component we can see in the present picture is the consumer's ability to turn on a dime. A resumption of income growth and renewed job confidence could loosen restraints now in place and avert a disappointing Christmas season.

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