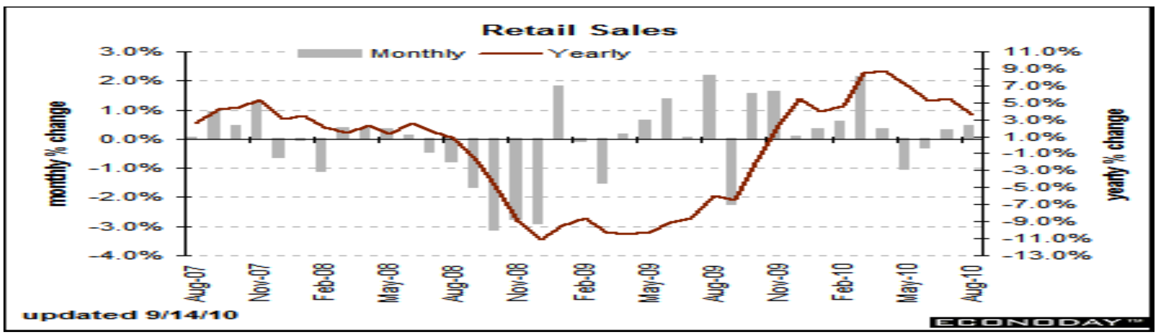
Popular Economics Weekly

Consumers Coming Alive

Are consumers finally waking up out of their long debt-laden slumber? There is a quickening of the economic pulse from several indicators that indicate the long drought may be over—for jobs, as well as the pervading pessimism characterized by economist Robert Shiller and others.

For starters, retail sales jumped 0.4 percent and are up more than 3 percent in a year. The rebound in July was led by a 1.9 percent gain in gasoline station sales with food & beverages up 1.3 percent and clothing up 1.2 percent. Also showing increases were health & personal care, sporting goods & hobby stores, general merchandise, nonstore retailers, and food services & drinking places.

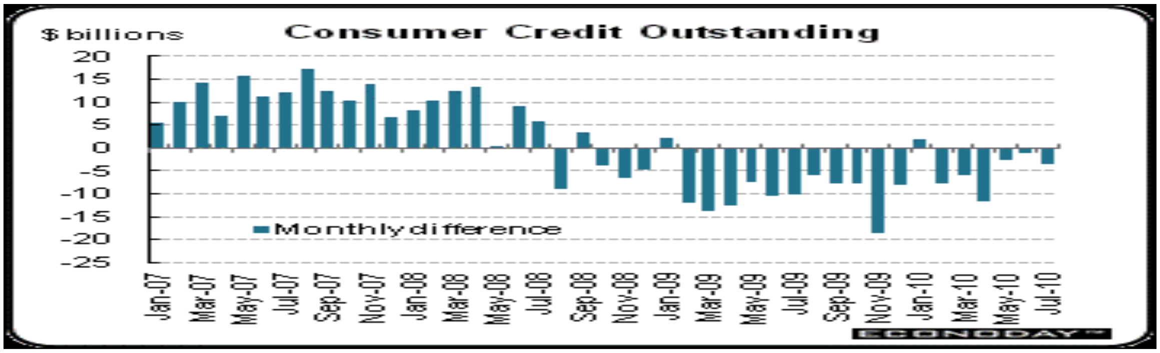


Weakness was led by a 1.1 percent fall in electronics & appliances and a 0.9 percent decline in miscellaneous stores. Motor vehicle & parts dealers decreased 0.7 percent while furniture & home furnishings slipped 0.5 percent. Building materials and garden equipment sales were flat.

Today's report adds ammunition to the argument that there will be no double dip, says Econoday. A consumer sector that is posting moderate gains in spending will likely support continued modest growth in the recovery. It's certainly not gangbusters, but the news is welcome relief for those worried about the economy becoming too sluggish or turning negative again.

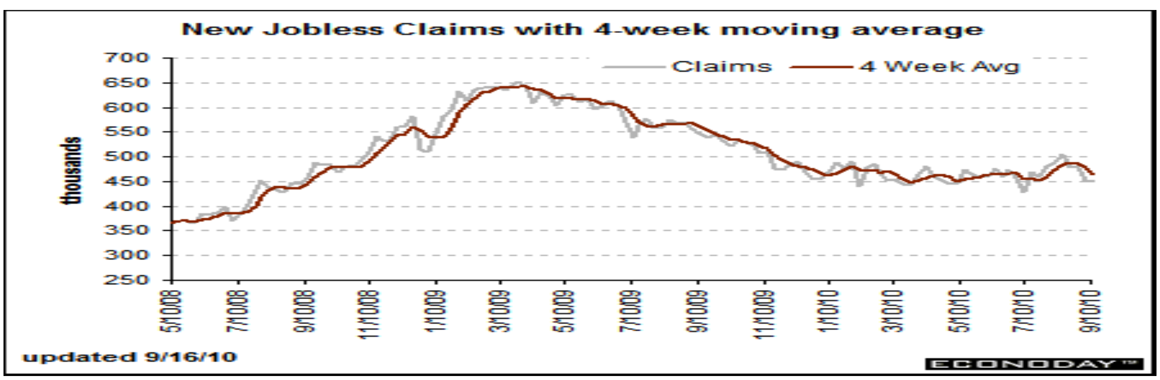
And consumer debt may be plummeting to a level that makes them comfortable to spend again. Consumer credit contracted for the sixth month, down $3.6 billion in July. Revolving credit fell $4.4 billion, offset in part by a $0.8 billion rise in nonrevolving credit that got a boost from July's strength in car sales. Yet the secular decline in revolving credit is what's most important, reflecting the fundamental shift in the consumer who, hit by a weak labor market and lack of confidence in the economy, is less able and less inclined to fund discretionary purchases with a credit card.

The key is total debt to household income ratios that the Fed publishes. It is now 15.93 percent of household income, back to Q3 of 2002 level, from 17.64 percent in Q1 of 2008. And in fact absolute household debt has contracted even faster, as household incomes (the denominator of equation) have been declining as well.



Much of consumer behavior is controlled by their feelings—consumer confidence, in a world where the future is becoming harder to predict. And that the outlook for jobs prospects.

Initial claims for unemployment insurance came in at 450,000 for the September 11 week for the lowest total since July (prior week revised to 453,000). The four-week average posted its sharpest decrease of the year, down 13,500 to a 464,750 level that is about 20,000 lower than mid-month August. This comparison points to strength for monthly payrolls.



That, and other indicators show a tremendous pent-up demand for skilled workers is developing. For example, the international accounting firm Deloitte-Touche just announced they will be hiring 50,000 new employees per year over the next five years. With 169,000 people in over 140 countries, Deloitte member firms already serve more than 80 percent of the world's largest companies as well as large national enterprises, public institutions and successful fast-growing companies, says its website. So this announcement is definitely a bullish indicator for both consumer attitudes and future economic growth.

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