Popular Economics Weekly
Week of April 2, 2007

TOO MUCH CONSUMER DEBT?

Economists have been pointing to a worrisome sign this week—the climb in consumer debt coupled with the decline in capital expenditures by businesses. This last happened in 2001, and directly led to that recession. But then it was the collapse the dot-com bubble that caused a rapid decline in the stock market, which in turn caused massive job layoffs that didn't begin to recover until 2004.

Today no such collapse has yet materialized, although a 30 percent plunge in building permits and decelerating new-home prices are an "ill omen for future investment and job growth," according to the Dallas Federal Reserve Bank. Residential construction and associated specialty-trade jobs account for about 15 percent of employment in the goods-producing sector (i.e., manufacturing).

But while the manufacturing sector has lost an average 17,000 jobs over the past 3 months, the service sector has added 173,000 jobs, as it continues its robust growth. Nor has overall (GDP) economic growth slowed as much as in 2001. GDP growth slowed 4 percent in 2001, vs. just 2 percent 2005-06.

The reason for the steadier economic growth is that consumers have continued to spend, regardless of the high debt loads. Consumers added a whopping $6.4 billion in additional credit card debt in February, in part because home equity is shrinking. Home equity mortgage extraction has shrunk to just 2 percent of after tax income in a year, according to Business Week, from more than 8 percent. The higher debt loads are making consumers more cautious, however. Both the Conference Board and University of Michigan reported lower consumer confidence in March. "Apprehension about the short-term future has suddenly cast a cloud over consumers' confidence," said the Conference Board's Director of Consumer Research. The U. of Michigan attributed its sentiment decline to rising gas prices.

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