Shifts in consumer spending and saving will usher in a new economic era

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(PhysOrg.com) -- Consumer spending will lag rather than lead the recovery from the current recession, according to University of Michigan economist Richard Curtin

"In the coming years, U.S. consumers will save more and spend less," said Curtin, director of the Reuters/University of Michigan Surveys of Consumers. "The recovery will be slow and uneven, and it could take a decade or more for consumers to restore their sense of financial security to pre-recession levels."

Although the preliminary, mid-month consumer sentiment index of 70.2 for September signals that consumers think the worst is over, the fundamental changes in how consumers view their economic situation and its impact on their spending will persist for some time.

Curtin presented the findings today (Sept. 16) at a breakfast on Capitol Hill marking the 60th Anniversary of the U-M Institute for Social Research (ISR), the largest academic social research and survey organization in the world.

Conducted by ISR since 1946, the Surveys of Consumers play a unique role in shaping public policies and business decisions, based on its demonstrated ability to provide an accurate gauge of consumer reactions to the changing economic environment.

"Consumer confidence fell to a greater extent in 2008 than in any other year during the past half-century, with only minor gains recorded so far in 2009," said Curtin, who has directed the Surveys of Consumers since 1976. "The record declines extend across a wide range of economic expectations as well as among all population subgroups. The losses are due to rising unemployment, declines in home and stock values, shorter work hours, and lower incomes."

Based on changes in the Consumer Sentiment Index, Curtin expects that the economy has begun to slowly recover, from a decline in real GDP of about -2.5 percent in 2009 to a gain of about 2.4 percent in 2010. Personal consumption expenditures, however, are expected to grow by just 1.6 percent in 2010.

A surge in housing and vehicle sales—the traditional drivers of an initial economic recovery—will not materialize this time around, according to Curtin. "Record levels of job and income uncertainty continue to cause consumers to postpone purchases of homes, vehicles, and durable goods," he said. Moreover, changes in the terms and availability of credit will continue to have a negative impact on these purchases.

Spending cuts and relative price changes are also serving to shift consumer preferences, reflecting rising prices for commodities and lower prices for manufactured goods, and causing significant changes in prospects for a wide range of industries.

Instead of spending their way out of this recession, the top priority of consumers is to replenish their savings. "Most saving and spending is done by people ages 45 to 64 and in the top fifth of the income distribution," Curtin said. "Consumers, especially the aging baby boomers, have expressed heightened concerns about their retirement savings. Most fear that if they do not save and restore some lost savings, a comfortable retirement will be threatened."

In August, 61 percent of consumers said the probability of having a comfortable retirement was lower, well above the 29 percent recorded at the start of the recession.

Consumers now believe that they need to be able to cope with large variations in gas prices, as well as higher gas prices over the long-term. "This change never emerged after the 1970s gas crisis," Curtin said, "and it points toward a more 'green' orientation toward purchases across a wide range of products."

Job and income prospects are critical to the outlook for consumer spending, Curtin said. High unemployment and income uncertainty will likely persist, with a return to an unemployment rate of 4 percent to 5 percent likely to take a decade or more.

"Unemployment expectations are a proxy for a broad range of job and income concerns. The data indicate that real total personal consumption expenditures will decline by about -0.9 percent in 2009—the largest decline since the end of World War II. In 2010, the current data suggest that personal consumption expenditures will rebound by a modest 1.6 percent," he said.

Provided by University of Michigan (news : web)

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