

Cheery Shoppers Mask Perils

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By BEN CASSELMAN

American shoppers are keeping the U.S. economic recovery afloat. The question is how long they can continue to do so amid high unemployment, stagnant wage growth and a depressed housing market.

Consumer spending, a major driver of the U.S. economy, is especially critical now. A likely recession in Europe is hurting American exports, budget cuts are driving down government spending, and market turmoil is making companies reluctant to invest. That leaves personal consumption, which accounted for the vast majority of the U.S.'s 2% growth rate in the third quarter.

So far, consumers appear to be shrugging off the economic uncertainty. Black Friday sales set records. Consumer confidence has begun to recover. Spending, adjusted for inflation and seasonal trends, has risen in three of the past four months, and most economists expect the trend to continue through the end of the year.

But consumers may be spending their way to a New Year's hangover. After adjusting for inflation, Americans' disposable income has declined slightly in the past year, and average wages fell in November after two months of small gains.

The savings rate, which rose sharply in the wake of the recession, has fallen in the past year, according to the Commerce Department, hitting 3.5% in October, down from 5.3% a year earlier. Revolving credit—which means mostly credit cards—has been trending up.

"It's unsustainable," said **Bernard Baumohl, chief economist of Economic Outlook Group.** "At some point when the bills come due, I expect that we will see a very sharp retrenchment in consumer spending, and that could put the recovery in jeopardy again."

Some economists say consumers may be in better shape than the Commerce Department statistics indicate. The Federal Reserve, using a different set of data, said last week that the household-savings rate actually rose markedly in the third quarter, to 7.4%. Pierpont Securities economist Stephen Stanley said the Fed data suggest income may be rising faster than preliminary reports from Commerce indicate.

Still, no one suggests households are doing well. The same Fed report showed household net worth declined by \$2.4 trillion to \$57.4 trillion in the third quarter. Home values continue to slide, and Americans are still working off debts from the boom years.

Clark Hodges, an investment adviser in Dallas, said consumers may be splurging just for Christmas. "They're not going to sacrifice opening those gifts under the tree Christmas morning," Mr. Hodges said.

Nancy Canales, a 44-year-old human-resources worker in Plano, Texas, said she is normally a "lavish gift giver" but is sticking to a budget this year. And while she plans to have a festive holiday season, she said she'll clamp down on spending in the new year. "After all the togetherness and the parties, here comes January back to reality," she said.

There are signs that even holiday spending may not be as robust as it looks. Chain-store sales have fallen for two straight months, which may mean shoppers are only buying when they can find bargains. Luxury spending has been strong, but department stores and other retailers that target the middle class have lagged behind.

Charles Schwerd, chef and owner of Arrowhead Grill in Glendale, Ariz., said sales are up this year, but his restaurant's clientele has changed. Most of his customers these days are business owners or executives. "A lot of our regulars aren't regulars anymore," Mr. Schwerd said.

In the long term, economists say, consumers can't keep spending unless they make more money, which won't happen until the job market improves. Some companies stepped up hiring in recent months, and the unemployment rate fell to 8.6% in November. But it will take a lot more new jobs to keep the Christmas cheer going after the wreaths come down.