

U.S. consumers seen spending again

CREDIT: Experts say shoppers are turning again to plastic after the Great Recession prompted a focus on getting out of debt

By SETH FIEGERMAN
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The holiday season may be over, but shopping season has only just begun.

Consumer spending increased in each of the final three months of last year, due in part to retailers ramping up their end-of-year sales, but many economists expect shoppers to continue to splurge a bit more throughout 2011 and finally abandon some of the frugality they learned during the recession.

"The fall of 2010 marked a change in consumer spending habits," **said Bernard Baumohl**, chief global economist at the Economic Outlook Group and author of *The Secrets of Economic Indicators*. "Americans have been remarkably frugal in the last two years, and have made real progress in improving their household balance sheets. Now, this allows them to feel more comfortable about spending and borrowing again."

And spend they will. A recent survey from MasterCard found that the majority of consumers (61 percent) have no intention of cutting back spending in the new year even in the aftermath of their holiday shopping. Likewise, an American Express survey found that 54 percent of consumers plan to spend at least as much as they did last year, with 14 percent saying they will likely spend more. But perhaps the more startling statistic in the American Express study is that consumers have drastically reduced their annual savings goals for the year; they plan to put aside an average of \$2,600 in 2011 compared to \$14,000 the year before.

"We're really starting to see consumers curtail their savings goals," said Mona Hamouly, a spokeswoman for American Express. "Our hunch is that consumers

have been super focused on savings in the past, and have hopefully accomplished their goals and now have given themselves the leniency to spend a little more on the things that really matter to them."

Not only have many Americans worked to save more money in recent years, but they also have a larger amount of disposable income to start with these days, as the average salary in the U.S. after taxes increased by 0.3 percent in both October and November.

Moreover, even as the economy remains sluggish, there are an increasing number of signs telling average Americans to be hopeful. Specifically, the job market is seeing an improved employment rate, fewer people are collecting unemployment benefits for the first time, and more companies planning to hire in 2011.

Much of the reason we entered a recession in the first place is that many Americans were goaded into living beyond their means, most notably by signing up for huge mortgages on homes that were well above their pay grade, or by overspending and racking up an excess amount of credit card debt.

Once the economy began to take a nosedive in late 2007, consumers made a concerted effort to bring their spending back in line, slowing the increase in credit card debt in 2008 to just 1.5 percent after several consecutive years of 4 to 5 percent increases. Americans ultimately reduced that debt by 4.4 percent in 2009.

Many consumers recognized the need to shed their debts but were unable to pay it down properly, which left them with little choice but to simply default on paying it altogether. This is reflected by the steep increase in the number of charge-offs, which only occur when creditors determine the credit card debt is uncollectible.

"Consumers have much less debt in their wallets than they used to, but the reason they do is not because they paid it down, but rather because they charged it off," said Odysseas Papadimitriou, the CEO and founder of CardHub.com, which tracks credit card data.

The reality, according to Papadimitriou, is that consumer credit card debt today is "the same or more" than it was in the lead up to the recession.

However, this hasn't stopped consumers from reverting back to old habits. Credit card applications have climbed fairly consistently since the beginning of 2009, after dropping significantly in 2008, and the total credit card debt began to increase again in the fourth quarter of 2010 as consumers started to spend once

more.

As Papadimitriou notes, this increase in spending and borrowing is particularly problematic for those who defaulted on their credit debts already, as they will now be subject to higher interest rates from lenders for several years due to their poor credit.

The only group of people who may safely be able to open up their wallets again are those who never truly lived beyond their means in the first place.

These frugal families and small business owners, he says, make up about half the country, and are really the only group of Americans who should "expect their spending to gradually go up to pre-recession levels."