
Deloitte Consumer Spending Index ends 2011 on "low note"; contraction predicted in 2012

By Editor Test *Wed, Feb 1, 2012*

Job losses in higher-income industries like government and financial services have apparently added to the weakness in household earnings and hurt overall spending.

Despite small improvements in three out of four components, the Deloitte Consumer Spending Index (Index) dipped slightly in December due to a decline in housing prices.

The Index tracks consumer cash flow as an indicator of future consumer spending.

"Initial unemployment claims continued to decline in December, while real wages benefited from a decrease in energy prices," said Carl Steidtmann, Deloitte's chief economist. "This positive movement was not substantial enough to offset the continued pressure from the housing market."

The Index, which comprises tax burden, initial unemployment claims, real wages, and real home prices, fell to 1.86 in December from 1.93 the previous month.

Highlights of the Index include:

Tax Burden: The tax burden rose slightly to 11.09% as state and local governments increased taxes to cover budgetary shortfalls.

Initial Unemployment Claims: Claims moved lower in the most recent month to 396,250, falling below the 400,000 mark for the first time in seven months.

Real Wages: While down 2.1% from a year ago, real wages posted a small gain to \$8.75 on falling energy prices.

Real Home Prices: Prices fell 5.72% from a year ago. Real home prices are back to 2000 levels.

Consumer spending in 2011: The year in review

Three factors significantly boosted consumer spending in 2011, according to Deloitte interpretation of U.S. Commerce Department data:

- Gasoline prices are down 60 cents a gallon since May peak, adding \$80 billion to household purchasing power.
- A sharp drop in the savings rate from 5% to 3.5% has added \$150 billion to consumer purchases.
- The 2% cut in Social Security tax withholding last January added another \$90 billion.

Together these developments represent a gain of \$320 billion, yet real consumer spending during that

period increased just half that amount, by \$160 billion.

Additionally, real disposable incomes have declined on a year-over-year basis for the past four months. Job growth has been in lower-income industries, while the job loss has been in higher-income industries like government and financial services, adding to the weakness in household earnings.

Outlook for 2012

The ability for consumers to continue to spend at the rates seen in 2011 may be in question.

"Going forward, it is unlikely there will be another tax cut, and Social Security tax withholding may rise back to its previous level by March," said Steidtmann. "Another 150 basis point drop in savings is not likely, and while gas prices can always fall, the rising tensions in the Middle East would argue against such a drop."

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