Consumer News & Views

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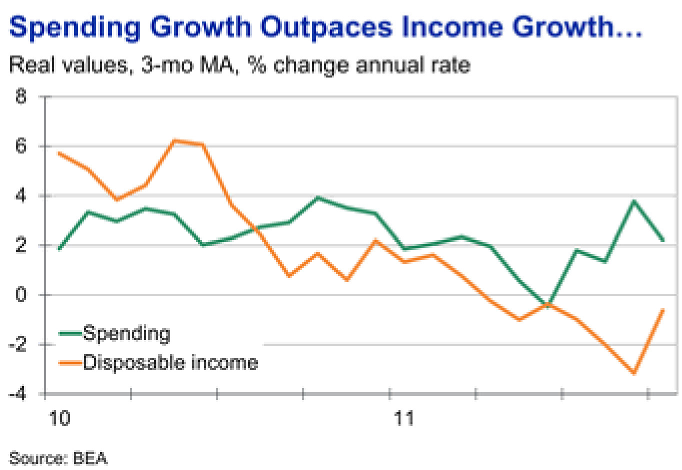
Will 2012 Bring a Brighter Tomorrow? That All Depends On…

As we reported last month, the American Consumer Council's recent survey of consumer-members indicates a cautious attitude among 62% of respondents as consumers look ahead to 2012. According to Thomas Hinton, President of ACC, "the three biggest worries for consumers as we move into 2012 are a lack of meaningful full-time job opportunities, the falling prices of homes combined with continued mortgage-foreclosure worries and an overall lack of confidence in government (both federal and state) to solve America's economic challenges." According to the American Consumer Council, this number (62%) has remained steady –within 4 percentage points – since a similar survey a year ago.

Hinton believes that Scott Hoyt, the senior director of consumer economics for Moody's Analytics, is on the mark in his economic forecast for 2012. Scott is responsible for the firm's consumer forecasts and analysis. Below is Mr. Hoyt's summary of where the American economy is going in 2012 and how consumers will fair in the coming months.

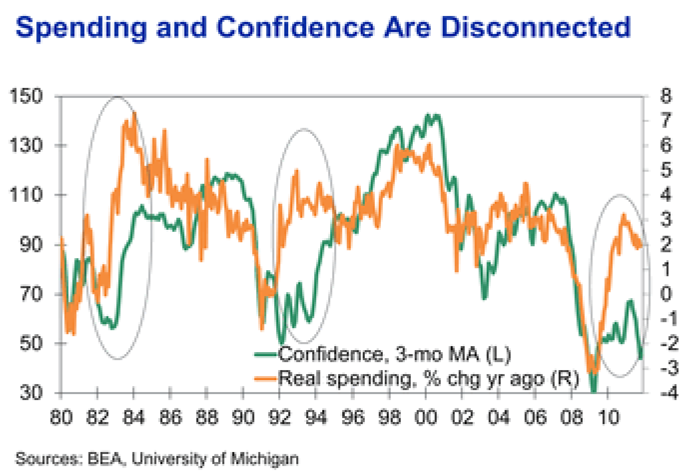
***Hoyt*:** The economic data have looked brighter in recent weeks. After decelerating sharply this past spring and summer, U.S. growth appears to have sped up again. Real GDP appears likely to finish the second half of 2011 at a growth pace of 2.5%, near the economy's potential rate. This is both a relief, as recession risks have receded, and a frustration, as it is not enough to reduce the nation's painfully high unemployment rate.

Consumer spending has lagged overall economic growth, but the surprise has not been spending's relative weakness, but its strength. Real spending has been growing at a rate above 2% in recent months while real income has been trending lower, ending October 0.6% below its March level.



As spending growth has exceeded income growth, the saving rate has fallen dramatically, from 5% as recently as June to 3.5% in October. With growth in auto sales and weak wage data, there is little reason to believe the rate rose much in November, moreover.

Consumers are unlikely to keep saving at such a low rate. The Great Recession made clear the danger of relying on household assets to support spending. Confidence, moreover, remains at levels consistent with a deep recession, not modest growth. Such a disconnect is not unprecedented but makes it unlikely that consumers are consciously spending faster than their incomes are growing.



The loss during the Great Recession of 8.75 million jobs and an extended period of nearly double-digit unemployment left the collective U.S. psyche very fragile. Businesses also struggled with policy changes from Washington, led by healthcare and financial regulatory reform. Debates over issues such as immigration, energy and unionization produced no legislation but still left business people nervous.

Pressure on spending

As a result, spending is likely to weaken substantially, at least relative to income, in the next one to two years as consumers put their budgets back on track. We see reasons to believe the imbalance is not as large as it seems, so this adjustment can happen without undermining the outlook, although it is an important reason we expect only modest spending growth in the first half of 2012.

Data questions cloud any analysis of the large drop in saving. Income could be understated, for any of several reasons. First, employment data have tended to be upwardly revised recently, possibly because of growth at smaller firms that do not respond as quickly to government surveys. Supporting this idea, tax withholding data suggest wage income is growing faster than shown by the BEA.

econd, some recent strength in consumer spending may be temporary. Auto spending has contributed an outsize portion of the growth in recent months, as vehicles became more available and incentives after the disasters in Japan cut supply and drove up prices in spring and summer. Nonauto spending has grown nearly

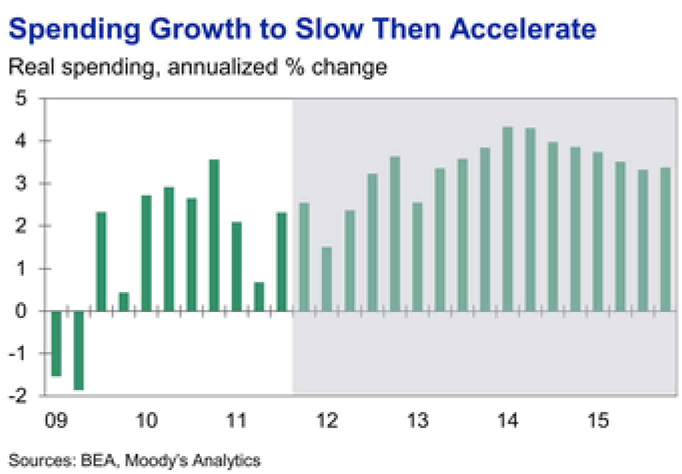
2% all year and has shown no acceleration in recent months. If growth in auto sales slows, the gap with saving could narrow.

Hospital Spending Surges:

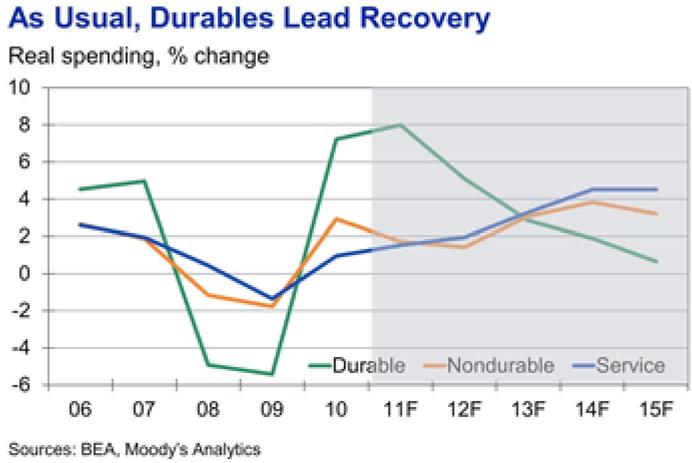
In addition, medical spending has recently been an outsize contributor to consumer spending. Real spending on hospital and nursing home services grew in the third quarter of 2011 at a 10.1% annualized rate, the fastest pace since 1995. There was a similar period of very strong growth in hospital spending after the 2001 recession. It seems unlikely this growth will be sustained, if it even survives potential revisions.

Falling debt burdens and increased credit availability are also helping support consumer budgets by providing cash that is not captured in the income data. Federal Reserve figures indicate minimum annual required debt payments declined by about $200 billion from their peak in the second quarter of 2008 through the third quarter of 2011. This amounts to 1.7% of disposable income. While declines have slowed lately, consumers' willingness to spend the money may have increased. In addition, credit is gradually becoming more available. Deleveraging appears to have ended outside of mortgages as consumers increase borrowing faster than they pay off balances or have their debt written off by lenders.

The imbalance between spending and income and the continued weak pace of the recovery mean a slower outlook for consumption growth over the next several months. Spending is expected to reaccelerate later in 2012 as growth improves, but the saving rate is expected to rise as well, even as confidence improves.



Durable goods will lead spending through 2012. Durables are the most cyclical component of spending, as consumers are quicker to cut back on big-ticket items when budgets tighten. Pent-up demand builds, however, and as better times return, so does the desire to make large purchases. In the last recession, spending on durables fell more sharply than on other segments, and it leads the recovery despite supply and credit constraints.



Service spending tends to be the least cyclical component of consumption, although spending on recreation food services and accommodations do vary with the business cycle. In the last cycle, even spending on housing services fluctuated because of the housing component. Service spending fell in 2009, though less than either durable or nondurable goods. Medical service spending remains the most stable component of service spending.
Spending is forecast to moderate in early 2013. We assume that the reduced payroll tax rate that went into effect during 2011 will be extended through 2012 but expire in 2013, effectively raising taxes by 2 percentage points on most wages. Congress is also expected to adopt further tax increases beginning in 2013. The economy will be growing strongly enough at that time to keep the impact modest and short-lived, however.

Scott Hoyt

Scott Hoyt is senior director of consumer economics for Moody's Analytics. He is responsible for the firm’s consumer forecasts and analysis, and is a regular contributor to the Dismal Scientist web site and to Moody’s Economy.com conferences.

He is the lead analyst for CreditForecast.com and is the editor of ConsumerFlow.com. He has done custom modeling for credit and consumer sector clients. His areas of expertise include consumer spending, retail sales and industry performance, consumer credit, and other aspects of consumer behavior.

Before joining Moody’s Economy.com, Dr. Hoyt spent five years as an economist for J.C. Penney, where he did extensive work in the company's credit department. He received his Ph.D. and M.A. in economics from the University of Pennsylvania and his B.A. summa cum laude from Bates College.

Acclaim Federal Credit Union

Acclaim Federal Credit Union is a full service financial institution located in Greensboro, North Carolina and serving the needs of consumers throughout the tri-state region. Since its inception in 1979 Acclaim Federal Credit Union has been serving its members in and around the Greensboro, North Carolina area with exceptional financial products and superior service.

Under the leadership of Valerie Marsh, the Acclaim FCU has grown its membership to over 6,563 with assets of more than $28,901,494. Acclaim FCU’s main office is in Greensboro, NC.

The Acclaim offers its members a full service website that allows for true "*Banking from Home*" functionality. Users have the ability to apply for loans, get account balance and history reports, transfer money between accounts, make bill payments, and so much more. Members can also take advantage of a full array of loans including real estate, business and new and used car loans.

Consumers, who join the American Consumer Council, are eligible to join Acclaim FCU. Please visit Acclaim's website or contact them by phone at 336-332-5302, or email them at Admin@acclaimfcu.org to get exact details.

The American Consumer Council is proud to have Acclaim Federal Credit Union of Greensboro, NC as a Sponsoring Member

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The American Consumer Council and the New Jersey Consumer Council are pleased to recognize Atlantic Federal Credit Union as a sponsoring member.

Atlantic FCU was founded in 1935 by a group of AT&T Western Electric employees in Kearny, N.J. They were dedicated to building a not-for-profit financial cooperative to meet their savings and borrowing needs -- an especially formidable task in that depression era.

Over the years, we've grown from a one company credit union to one of the larger credit unions in New Jersey with over $235 million in assets and 24,000 members from more than 275 companies and organizations. Our main office, centrally located in Kenilworth, N.J., is supported by 5 local branches.

The cooperative spirit among our founders that marked our early beginnings continues today. We take pride in providing outstanding financial services to our members at the lowest possible cost. We invite you to join our financial family and take advantage of the many benefits of Atlantic Federal Credit Union membership.

For more information about AFCU, please call our Member Services Department at 1-800-222-1329 or e-mail us at info@atlfedcu.com.

Green C^{SM} Certification Accepting Applications for 2012 Spring Cycle:

If your company or organization would like to increase its credibility with consumers, you should consider applying for the **Green C^{SM} Certification**. Applications for the 2012 Spring cycle are now being accepted through April 30, 2012.

It's a proven fact that consumers want to do business with companies that are eco-friendly and practice Corporate Social Responsibility (CSR). The process is straight-forward and all applicants are recognized by ACC and the Green USA Institute.

All applicants complete the criteria and submit their responses to ACC's Green Consumer Council for review, assessment and feedback. Program details and the **Green C^{SM} Certification** criteria can be viewed at ACC's website located at: www.americanconsumercouncil.org/green

For more information, please call ACC at 1-800-544-0414 or visit ACC's website by clicking here.

To become a member of the American Consumer Council, visit us at: www.americanconsumercouncil.org