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The Face of the Changing Consumer

For many years, Americans have been chided for their unwillingness to save and propensity to spend. One of the most interesting aspects of the recent debt crisis has been the study of consumer choices. Years of low interest rates and easy financing enabled Americans to borrow heavily against their homes. Steady and rising incomes that were a result of a very strong job market created a false sense of security for many indebted Americans. Consumers were jolted into action when the economy hit the wall.

The drop in housing and retirement account values and the subsequent loss of jobs created a force that made consumers feel “poor.” This new feeling drove consumers to pay down their debt, use less credit and cut discretionary spending. What a sea change in a few short years!

How have families chosen to allocate their budgets? Understandably, budget flexibility is directly tied to a family’s income level. Below is a chart that outlines how the recent economic crisis has affected Americans at various income levels. It outlines the way in which many households have changed their spending habits.

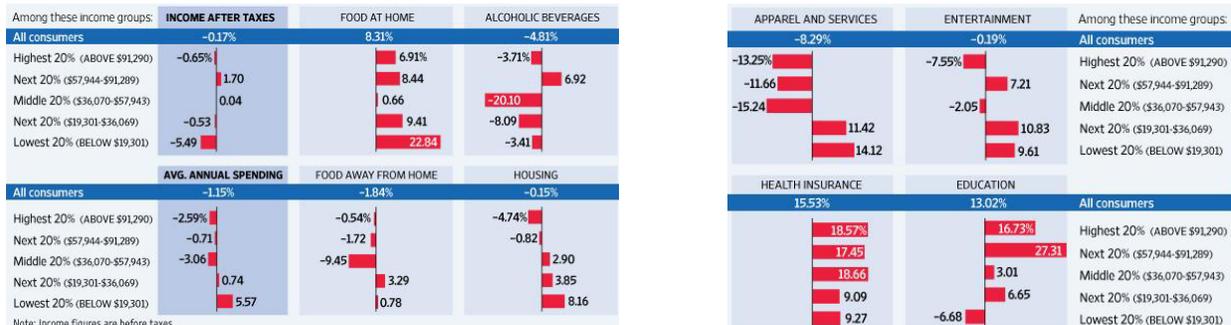


Figure: How the recession has changed Americans’ spending patterns from 2007 to 2009
Source: Labor Dept.

Americans have chosen to eat at home more often but have been unable to combat the rising cost of health insurance. Additionally, clothing and entertainment have generally suffered as discretionary spending decisions are made, yet educational expenditures have climbed sizably at most income levels. As a result, the poorest families have been hit hardest as budgets have been squeezed and they lack the flexibility to better their economic status.

This information hits close to home because many of us have recently experienced wide swings in wealth as a result of our real estate and stock market investments. Consequently, we may have changed our spending habits during this downturn. It is revealing to see how Americans have fared collectively.

As 2011 begins, the job market is recovering, the housing market is stabilizing and resilient US consumers have clearly demonstrated that when push comes to shove, they can tighten their belts and change with the times.

- Rachel Wakefield, CFA