



Thursday, February 4, 2010

The Philadelphia Inquirer

Bleak forecast for the American consumer

The once-invincible American consumer has met its Kryptonite.

The Great Recession, a debt binge, high unemployment, and a collapse in housing prices have all sapped the once miraculous ability of shoppers to spend the U.S. back to economic health.

That was the message economist **Ellen Beeson Zentner** brought to the **Philadelphia Council for Business Economics** at the **Federal Reserve Bank of Philadelphia** Wednesday.

The talk, titled "The U.S. Consumer - Shocked into Submission," made the case that while the U.S. economy is in recovery mode, the consumer may sit it out.

Zentner, the senior U.S. macroeconomist at the **Bank of Tokyo-Mitsubishi UFJ Ltd.** in New York, is forecasting a 1.8 percent increase in consumer spending in 2010. That may sound good, coming after a decline of 0.6 percent in 2009 and 0.2 percent in 2008 - the first back-to-back contraction since 1933.

But 1.8 percent growth is anemic compared with the average rise of more than 5 percent that occurs during the recovery phase of the business cycle, she said.

Several long-term trends factor into her forecast. First, Americans' dependence on debt grew over 25 years. She calculated that household debt as a percentage of disposable income surpassed 140 percent in 2007.

During the last two years, Americans have paid back more debt than they ever have. But their debt burden is still 30 percent above disposable income, she said.

Consumer spending will lag because job growth will be slow, the housing market remains weak, and household formation has slowed.

That last point may sound like economist-speak. But Zentner, who will quote the lyrics of the hip-hop group **Black Eyed Peas** to make a point, said household formation is a big driver of consumption. When you buy a house or rent an apartment, you need to buy other things to fill the space.

When Zentner outlines the prospects for the 16- to 24-year-old age group, it's a bleak view. Persistent unemployment and underemployment will hold down their lifetime earnings. In a weak job market, they'll live with their parents, rather than start their own households.

"I feel bad for them, but they'll be the poorest generation since World War II," Zentner said.

Posted by Mike Armstrong @ 8:53 AM