

Consumer spending: A balancing act between the weak housing market and the strong labor market

by Bend_Weekly_News_Sources

The Deloitte Research Leading Index of Consumer Spending fell this month, due to continued weakness in the housing market.

"Holiday spending received a boost from falling energy prices and strong wage growth. While consumer spending still has good momentum going into the New Year, we're seeing a balancing act between the housing market and the labor market, which are exerting opposite forces on the economy," says Carl Steidtmann, chief economist with Deloitte Services LP's Deloitte Research and author of the monthly index. "Real wages continue to be strong, fueled by lower energy prices and a strong labor market. On the other hand, the housing market continues to show weakness, with the secondary effects of lower mortgage refinancings, which puts less cash in consumers' pockets, and potentially lower construction employment."

The index, comprising four components - tax burden, initial unemployment claims, real wages and real home prices - fell to 3.58 percent, from a downwardly revised gain of 3.86 percent a month ago.

"Following a solid holiday season, retailers should now turn their attention to how to make next holiday season -- and the months in between - even better," added Pat Conroy, a vice chairman of Deloitte & Touche USA LLP and national managing principal of its Consumer Business industry practice. "As we found in our recent survey, many consumers walked out of a store without buying what they wanted this holiday season - and many of their reasons are fully within retailers' control. Better managing inventory, ensuring that store staffing matches shopper traffic, and improving selling behaviors are just some of the ways that retailers can increase customer conversion, and thus improve sales and earnings, customer loyalty and, ultimately, shareholder value."

Highlights of the index, which tracks consumer cash flow as an indicator of future consumer spending, include:

- * **Tax Burden:** Personal income tax burden continues to rise slowly and is up more than 1.0 percent of income from a year ago.
- * **Initial Unemployment Claims:** Since the first of the year, claims have consistently averaged between 300,000 and 325,000 claims per week. As a share of total employed, claims are lower than at any time since the 1960s. Claims for the month were down slightly, giving a boost to the index.
- * **Real Wages:** After rebounding through the fall, real wages were flat for the month, but still up 1.7 percent from a year ago. Higher energy prices in December put a cap on real wage growth. Falling energy prices in January should have a positive impact on the index next month.
- * **Real Home Prices:** Home prices fell in December and prices for the previous month were revised downward. The inventory of unsold homes has

risen sharply over the past year as has the share of unoccupied homes. Defaults on sub-prime home mortgages are rising, adding to the problems in the housing market. Mortgage refinancing is closely tied to the rise and fall in home prices. Declining real home prices reduces a key source of cash for consumers.

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