Trends in U.S. Consumer Spending
October 30, 2012

Louise Keely
Chief Research Officer
The Demand Institute

Gad Levanon
Director of Macroeconomic Research
The Conference Board
Overview

- The webcast will focus on trends in U.S. consumer spending since the great recession
- What are the factors impacting consumer spending?
- The developing recovery in the housing market will have a major impact on consumer spending
- Spending by type of consumption
- Spending by type of household
Consumption collapsed and is slow to recover

Trend in U.S. consumption (1972Q1 to 2012Q3)

Source: BEA National Accounts
Factors impacting consumption

- Disposable income
  - Compensation of employees
  - Other income (self-employment, rental, interest, dividends)
  - Transfers and taxes
- Prices
- Wealth and retirement preparedness
- Interest rates
- Consumer confidence
Trends in disposable income

1. Employment declined significantly and is recovering slowly – still well below pre-recession levels
2. Wage growth slowed down significantly since 2008 and is still growing slowly
3. Other types of income slowed even more, but are recovering faster
4. Government support somewhat offset the weakness, but is winding down – fiscal cliff
5. Inflation was very weak as well, which helped the real spending power of consumers
6. Outlook – slow income growth is likely to continue
Labor compensation is still very weak

Nonfarm employment and wages & salary
Employment (persons) and 4-quarter % change in employment cost index (ECI)

Source: BLS
Disposable income enjoyed strong support from the government, which is now winding down

Components of income

<table>
<thead>
<tr>
<th></th>
<th>Compensation of employees, received</th>
<th>Other income</th>
<th>Net transfers (transfers minus taxes)</th>
<th>Disposable personal income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Average ($)</td>
<td>Change (%)</td>
<td>Average ($)</td>
<td>Change (%)</td>
</tr>
<tr>
<td>2008</td>
<td>8073</td>
<td>2.68</td>
<td>3495</td>
<td>6.20</td>
</tr>
<tr>
<td>2009</td>
<td>7794</td>
<td>-3.46</td>
<td>2896</td>
<td>-17.14</td>
</tr>
<tr>
<td>2010</td>
<td>7970</td>
<td>2.26</td>
<td>3051</td>
<td>5.35</td>
</tr>
<tr>
<td>2011</td>
<td>8295</td>
<td>4.08</td>
<td>3252</td>
<td>6.59</td>
</tr>
<tr>
<td>2012Q2</td>
<td>8562</td>
<td>3.22</td>
<td>3379</td>
<td>3.91</td>
</tr>
</tbody>
</table>

Source: BEA National Accounts
Trends in income by sub-groups

1. Young and low income workers suffered from an especially large rise in unemployment and slow wage growth
2. Income from self-employment, dividends and interest slowed down significantly, mostly hurting higher income households
3. Government support especially helped lower income households
4. Overall income inequality still increased
5. Younger workers hardest hit
   a) Spending power reduced
   b) Some moved in/stayed with parents
6. The population keeps getting older
   a) More baby boomers reach retirement age
   b) Older workers delaying retirement
Our Mission

The Demand Institute illuminates how consumer demand is evolving around the world.

We are on a mission to strengthen the growth and vitality of the global economy by helping leaders align their investments to where consumer demand is headed across industries, markets and countries.

We are a non-profit organization founded by The Conference Board and Nielsen.
Our May 2012 report on the U.S. housing market

“The Demand Institute’s report is one of the most comprehensive and substantive arguments we’ve seen yet that the housing market is nearing the light at the end of the tunnel.”

TIME Magazine

“The Demand Institute – a joint venture between The Conference Board and Nielsen – is predicting a housing recovery…They are saying the worst is over for the U.S. Housing Market…”

CNBC

“Most Americans hope to own a home, But that home will be smaller than the MacMansions of the housing boom…. according to a new study released by The Demand Institute.”

THE WALL STREET JOURNAL
Young adults were hit hardest

13.2% 6.8%

20-24 YEAR OLDS OVER 25

UNEMPLOYMENT RATE IN MARCH 2012

-68%

UNDER 35 1980s vs now

Source: Bureau of Labor Statistics, Pew Research Center
Home ownership decline concentrated with young adults

Percent Decline in Home Ownership by Age Cohort (2006–2010)

-17.5%

Source: US Census American Community Survey
Young adults postponed household formation

<table>
<thead>
<tr>
<th></th>
<th>Head of Household or Living with Spouse</th>
<th>Living with Parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>58%</td>
<td>25%</td>
</tr>
<tr>
<td>2010</td>
<td>49%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Source: American Community Survey, 2005-2010
But, young adults are important part of recovery

43% MOVE IN THE NEXT 2 YEARS
OVER 1/2 OF THEM WILL RENT

Source: The Demand Institute, The Conference Board Consumer Confidence Survey (December 2011)
The tendency to delay retirement is accelerating

Percent planning to delay retirement and related factors
Percentage values

Source: The Conference Board Consumer Confidence Survey
Trends in the willingness to consume

1. Wealth is still well below pre-recession levels
   a) Stock prices are back up, but
   b) Home prices barely started recovering
2. No home equity extractions
3. Interest rates are at historical lows, reducing the willingness to save
4. Consumer confidence still low, but improving
5. The saving rate is higher than in the pre-recession period and is unlikely to decline much
Household net worth and personal savings rate are inversely correlated

Note: Shaded areas represent recessions.
Sources: Bureau of Economic Analysis, U.S. Federal Reserve Flow of Funds
This housing recovery will be different

STRONG RENTAL DEMAND

SMALLER HOMES

MORE ACCESSIBLE LOCATIONS

Source: The Demand Institute
Rental demand is leading the U.S. housing recovery

**Occupied Rental Units as a Share of US Housing**

- '05: 31%
- '11: 34%
- '12 (Q2): 35%

**Rental Vacancy Rates**

- '05: 10.1%
- '11: 9.7%
- '12 (Q2): 8.6%

**Rented Units (Millions)**

- '05: 34.1
- '11: 38.4
- '12 (Q2): 39.4

*Source: US Housing Vacancy Survey*
Shopping habits will change

- More frequent shopping & smaller baskets
- More online replenishment
- More interest in local stores
- More experience seeking

Source: The Demand Institute
Specific retail markets will grow

**ADJACENT RENTAL MARKETS**

**HOBBIES OUTSIDE THE HOME**

*Source: The Demand Institute*
Big box retailers will have opportunity

Source: The Demand Institute
Electronic shopping gaining share, but superstores holding their own

Share of electronic shopping and superstores in retail sales
Percentage values

Source: US Census Monthly Retail Trade Survey
CPG durables demand will evolve

**SMALL HOME FURNISHINGS**
WILL CONTINUE TO THRIVE

**LARGER DURABLES**
MULTIFUNCTIONALITY

**FURNITURE & APPLIANCES**
WILL BE SMALLER

Source: The Demand Institute
Some CPG durables categories will experience resurgence

ANNUAL PERCENTAGE DROP IN CONSUMER SPENDING DURING HOUSING CRASH AND POTENTIAL INCREASE THROUGH 2016

Source: The Demand Institute, BEA National Accounts, US Census Bureau, National Association of Realtors
CPG non-durables demand is shifting

DEMAND FOR MORE VALUE-ORIENTED PRODUCTS

SMALLER PACK SIZES DUE TO LESS STORAGE

Source: The Demand Institute
Media and home entertainment will continue to thrive

People still watch over 150 hours of TV per month

People will increase the variety of video devices

Source: The Demand Institute, Nielsen Cross Platform Report: How We Watch from Screen to Screen (May 2012)
Integrated devices will co-exist among portable ones
The shape of the housing recovery will change consumer demand

Source: The Demand Institute
Purchases of recreational goods are well above pre-recession levels, but transportation items are well below

Change in select personal expenditures (2007Q3 to 2012Q3)
Percentage values

<table>
<thead>
<tr>
<th>Spending Category</th>
<th>Real</th>
<th>Nominal</th>
<th>Price change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recreational goods and vehicles</td>
<td>7.0%</td>
<td>0.2%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Health care</td>
<td>1.9%</td>
<td>4.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Furnishings and durable household equipment</td>
<td>1.2%</td>
<td>-0.2%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Food services and accommodations</td>
<td>0.8%</td>
<td>3.4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>0.8%</td>
<td>2.0%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Housing and utilities</td>
<td>0.8%</td>
<td>2.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td><strong>Personal consumption expenditures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recreational goods and vehicles</td>
<td>7.0%</td>
<td>0.2%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Health care</td>
<td>1.9%</td>
<td>4.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Furnishings and durable household equipment</td>
<td>1.2%</td>
<td>-0.2%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Food services and accommodations</td>
<td>0.8%</td>
<td>3.4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>0.8%</td>
<td>2.0%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Housing and utilities</td>
<td>0.8%</td>
<td>2.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td><strong>Personal consumption expenditures</strong></td>
<td>0.7%</td>
<td>2.6%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Food and beverages purchased for off-premises consumption</td>
<td>0.4%</td>
<td>3.1%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Recreation services</td>
<td>-0.1%</td>
<td>2.0%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Gasoline and other energy goods</td>
<td>-1.6%</td>
<td>4.0%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Financial services and insurance</td>
<td>-1.6%</td>
<td>1.0%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Motor vehicles and parts</td>
<td>-1.7%</td>
<td>0.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Transportation services</td>
<td>-2.6%</td>
<td>0.3%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

Source: BEA
# A more detailed look at spending by type

Change in specific personal expenditures (2007 to 2011)
Percentage values

<table>
<thead>
<tr>
<th>Category</th>
<th>Real</th>
<th>Nominal</th>
<th>Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Video, audio, photographic, and information processing...</td>
<td>55.2%</td>
<td>1.8%</td>
<td>-34.4%</td>
</tr>
<tr>
<td>Hospitals</td>
<td>11.1%</td>
<td>23.9%</td>
<td>11.6%</td>
</tr>
<tr>
<td>Higher education</td>
<td>7.8%</td>
<td>34.0%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Physician services</td>
<td>6.4%</td>
<td>14.5%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Nursing homes</td>
<td>6.3%</td>
<td>19.4%</td>
<td>12.3%</td>
</tr>
<tr>
<td>Pharmaceutical and other medical products</td>
<td>5.6%</td>
<td>19.3%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Electricity</td>
<td>1.1%</td>
<td>13.2%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Food and nonalcoholic beverages purchased for off-...</td>
<td>0.8%</td>
<td>13.5%</td>
<td>12.6%</td>
</tr>
<tr>
<td>Purchased meals and beverages</td>
<td>-0.7%</td>
<td>11.4%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Furniture and furnishings</td>
<td>-1.3%</td>
<td>-10.2%</td>
<td>-9.0%</td>
</tr>
<tr>
<td>Household appliances</td>
<td>-2.4%</td>
<td>-6.7%</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Household maintenance</td>
<td>-6.8%</td>
<td>-2.1%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Motor vehicle fuels, lubricants, and...</td>
<td>-7.0%</td>
<td>17.7%</td>
<td>26.6%</td>
</tr>
<tr>
<td>Motor vehicle parts and accessories</td>
<td>-8.0%</td>
<td>6.4%</td>
<td>15.6%</td>
</tr>
<tr>
<td>Gambling</td>
<td>-11.4%</td>
<td>-4.0%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Motor vehicle maintenance and repair</td>
<td>-12.9%</td>
<td>-1.1%</td>
<td>13.6%</td>
</tr>
<tr>
<td>Public transportation</td>
<td>-13.0%</td>
<td>2.5%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>-13.6%</td>
<td>30.4%</td>
<td>50.9%</td>
</tr>
<tr>
<td>Jewelry and watches</td>
<td>-14.5%</td>
<td>3.1%</td>
<td>20.6%</td>
</tr>
<tr>
<td>New motor vehicles</td>
<td>-16.6%</td>
<td>-13.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Fuel oil and other fuels</td>
<td>-18.8%</td>
<td>12.4%</td>
<td>38.3%</td>
</tr>
<tr>
<td>Postal and delivery services</td>
<td>-26.2%</td>
<td>-10.9%</td>
<td>20.8%</td>
</tr>
<tr>
<td>Sports and recreational vehicles</td>
<td>-31.5%</td>
<td>-28.5%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Source: BEA
A recovery is on the way in autos and housing related spending

Change in select personal expenditures (2010Q3 to 2012Q3)
Percentage values

<table>
<thead>
<tr>
<th>Category</th>
<th>Real</th>
<th>Nominal</th>
<th>Price change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recreational goods and vehicles</td>
<td>11.5%</td>
<td>4.4%</td>
<td>-6.4%</td>
</tr>
<tr>
<td>Furnishings and durable household equipment</td>
<td>6.1%</td>
<td>5.6%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Motor vehicles and parts</td>
<td>5.5%</td>
<td>7.7%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Food services and accommodations</td>
<td>3.1%</td>
<td>6.0%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>2.7%</td>
<td>5.7%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Recreation services</td>
<td>2.4%</td>
<td>4.7%</td>
<td>2.2%</td>
</tr>
<tr>
<td><strong>Personal consumption expenditures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health care</td>
<td>2.0%</td>
<td>3.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Transportation services</td>
<td>1.7%</td>
<td>4.1%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Food and beverages purchased for off-premises consumption</td>
<td>1.6%</td>
<td>4.7%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Housing and utilities</td>
<td>0.7%</td>
<td>2.4%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Financial services and insurance</td>
<td>0.2%</td>
<td>2.3%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Gasoline and other energy goods</td>
<td>-1.7%</td>
<td>13.9%</td>
<td>15.9%</td>
</tr>
</tbody>
</table>

Source: BEA
Income inequality increased, but consumption inequality declined

Change in spending* and disposable income, by income

Percentage values

*Spending excludes insurance and housing related expenditures
Source: Consumer Expenditure Survey
Large variation in income and spending across age groups

Change in spending* and disposable income, by age
Percentage values

*Spending excludes insurance and housing related expenditures
Source: Consumer Expenditure Survey
Different spending patterns on food by age groups

Change in food spending
Percentage values

Source: Consumer Expenditure Survey
And in transportation and entertainment

Change in entertainment and transportation spending
Percentage values

Source: Consumer Expenditure Survey
Inflation is the lowest in 40 years

5-year growth in prices
Percentage values

Source: BLS
States that experienced a large housing crisis are more likely to lag in incomes and spending

Change in income of select states
Percentage values

Source: Bureau of Economic Analysis
Outlook for the next year

1. Income will continue to grow slowly, especially after the fiscal cliff, but inflation will remain low
2. Spending will not grow much faster than income given the already low savings rate
3. Housing related items are likely to be a bright spot
4. The shift to smaller homes, rental units and accessible locations will shape consumer spending in the foreseeable future
5. Younger households will continue to spend less
6. Older households will continue to delay retirement to somewhat offset their lack of retirement preparedness
Contact information

For more information about our upcoming housing program, please contact:

Louise Keely
Chief Research Officer
The Demand Institute

P. 312-425-3624
E. Louise.Keely@DemandInstitute.org