



# **The 2008 Outlook for Consumption: Testing the Limits of the Resilient Consumer**

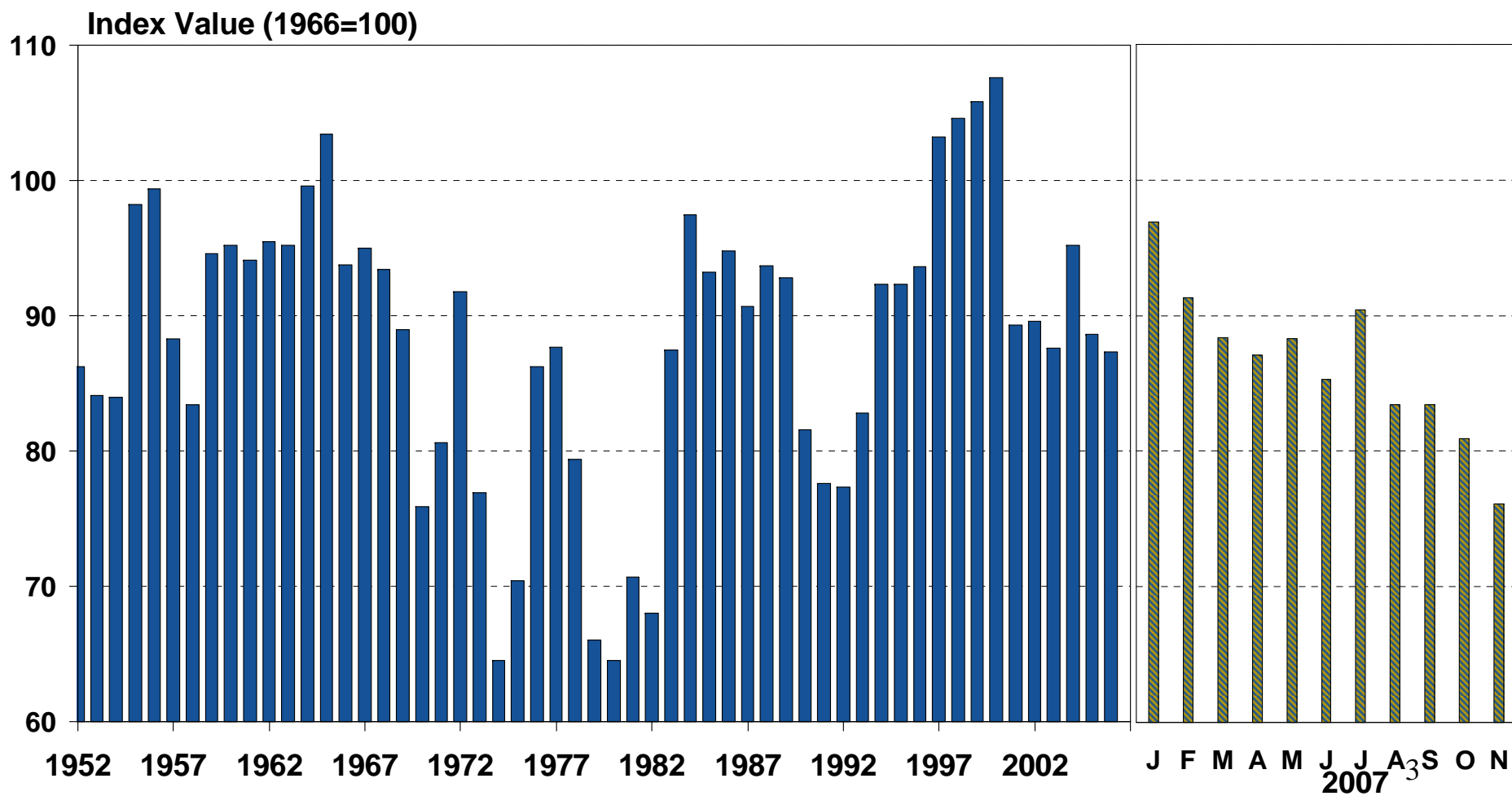
**Richard Curtin  
Research Professor and  
Director, Surveys of Consumers  
The University of Michigan**

**surveys of consumers**  
**REUTERS UNIVERSITY OF MICHIGAN**

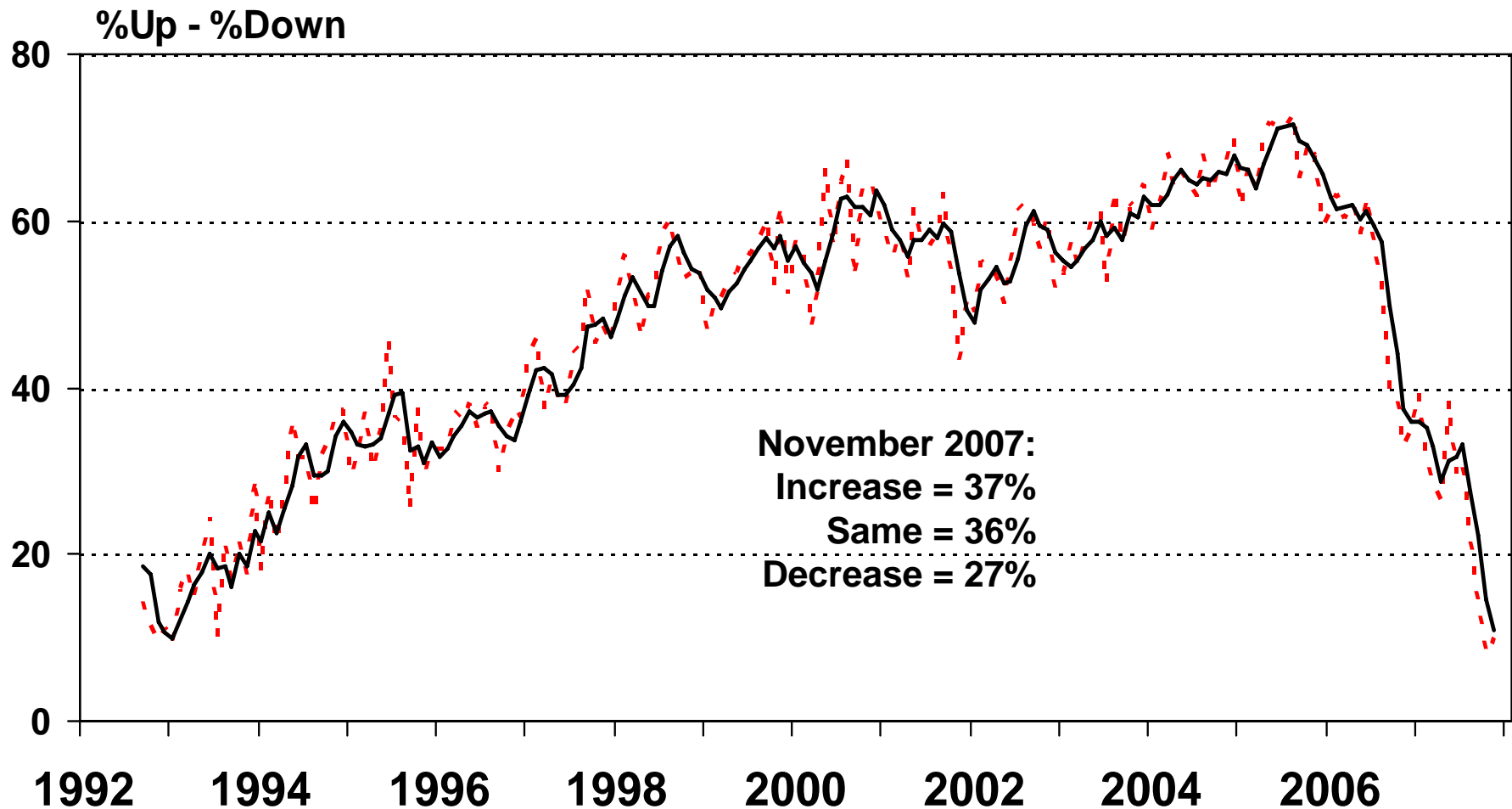
# The consumers' agenda . . .

- Slumping housing market
  - Rising credit standards, falling home prices, and diminished housing wealth
  - Main direct effects on employment; indirect effects via cash-out refinancing
- Increasing non-core inflation
  - Food and fuel prices
  - Differential impact on income subgroups
- Record low saving and record high debt
  - Ongoing reassessment of debt burden and risks of low savings
  - Constrained ability to cope with additional economic adversity
- Growth in jobs and wages key to past spending strength
  - Robust gains in real wages falter
  - Job growth expected to slow in year ahead
- Bottom line: average of 2.0% growth in PCE and 2¼% growth in GDP
  - PCE growth slows to just 1% in current quarter and 1<sup>st</sup> quarter of 2008
  - Just above stall speed, but not comfortably so

# Chart 3: Index of Consumer Sentiment

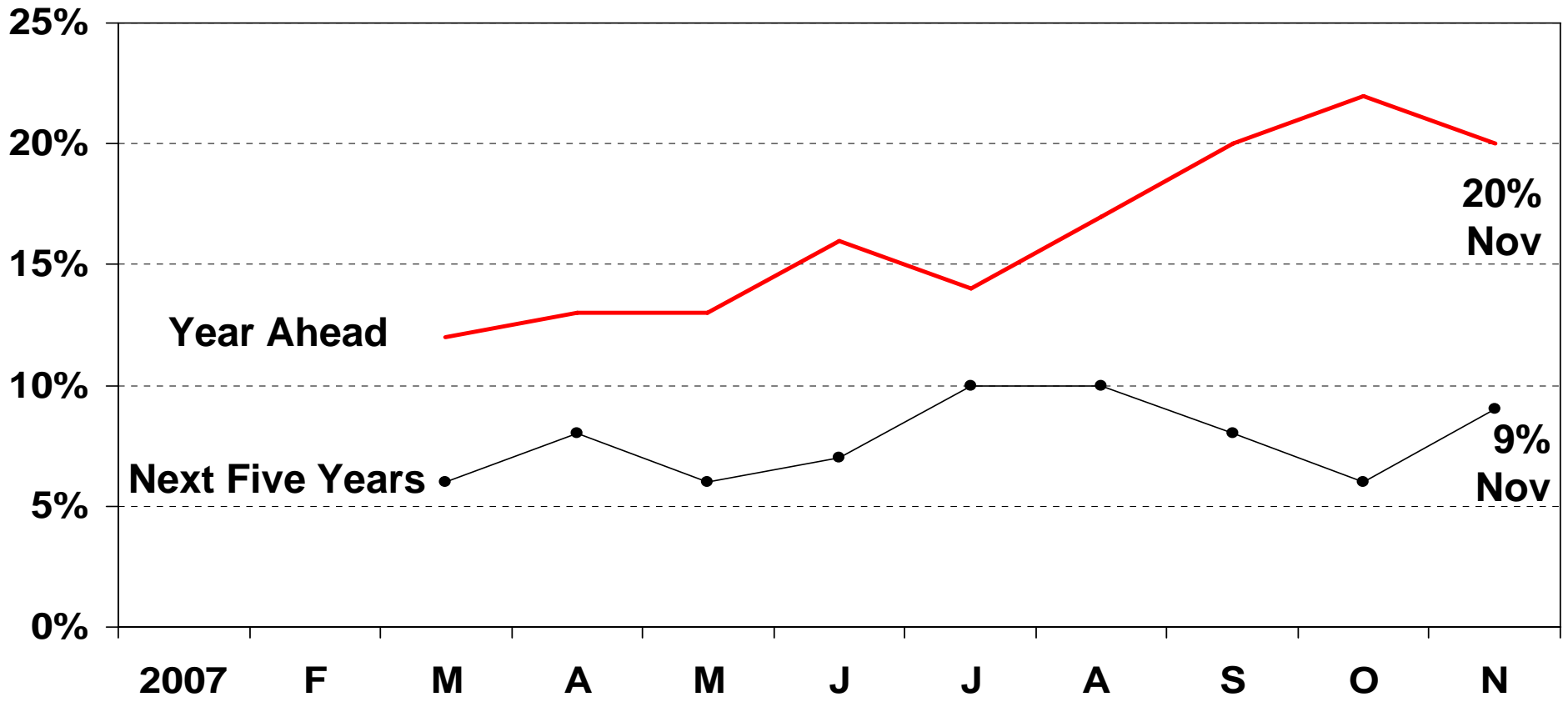


# Chart 4: Homeowner's Perceptions of Changes in the Value of their Home

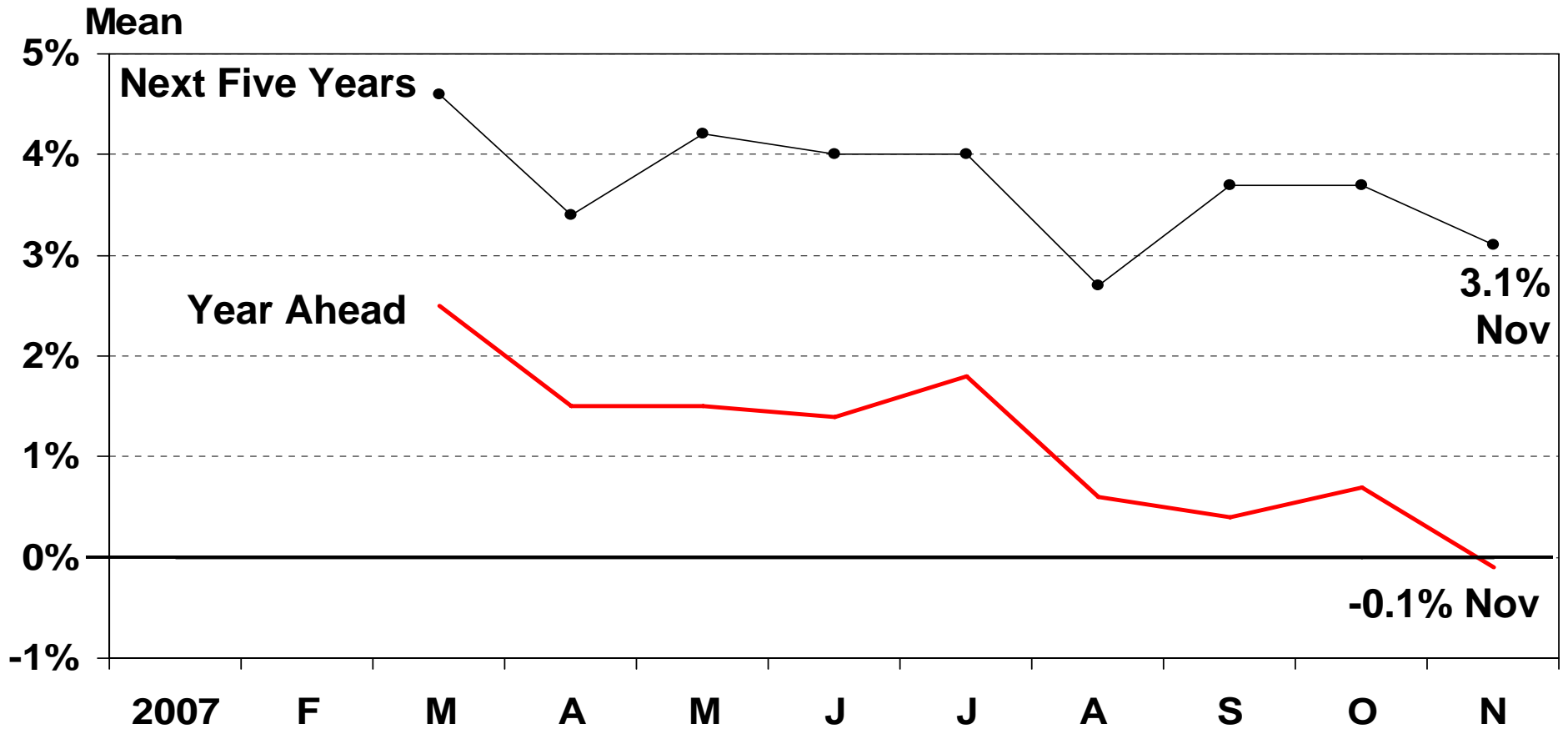


# Chart 5:

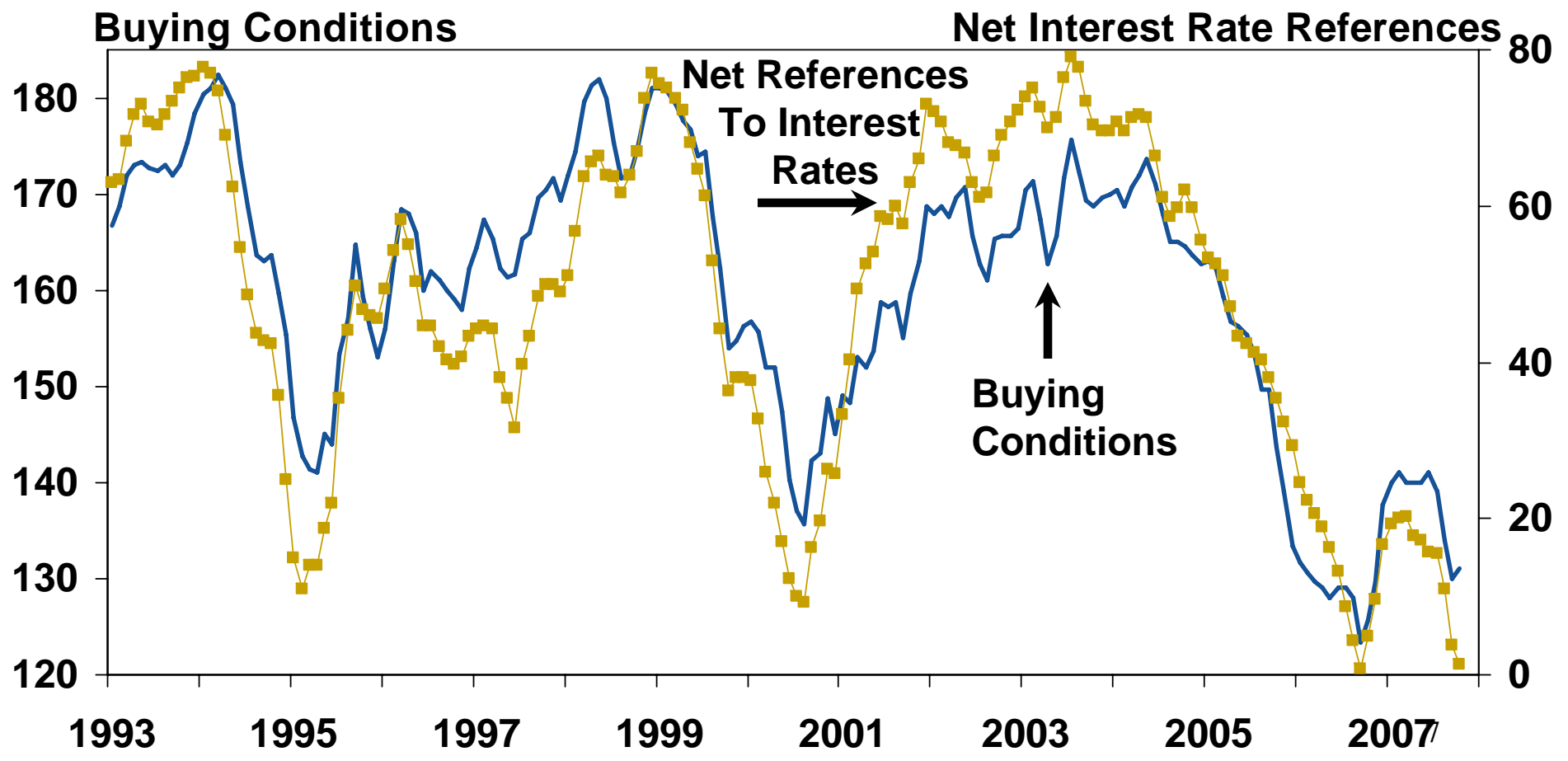
## Percent of Homeowners that Expect Declines in Value of Home During Year Ahead and Next Five Years



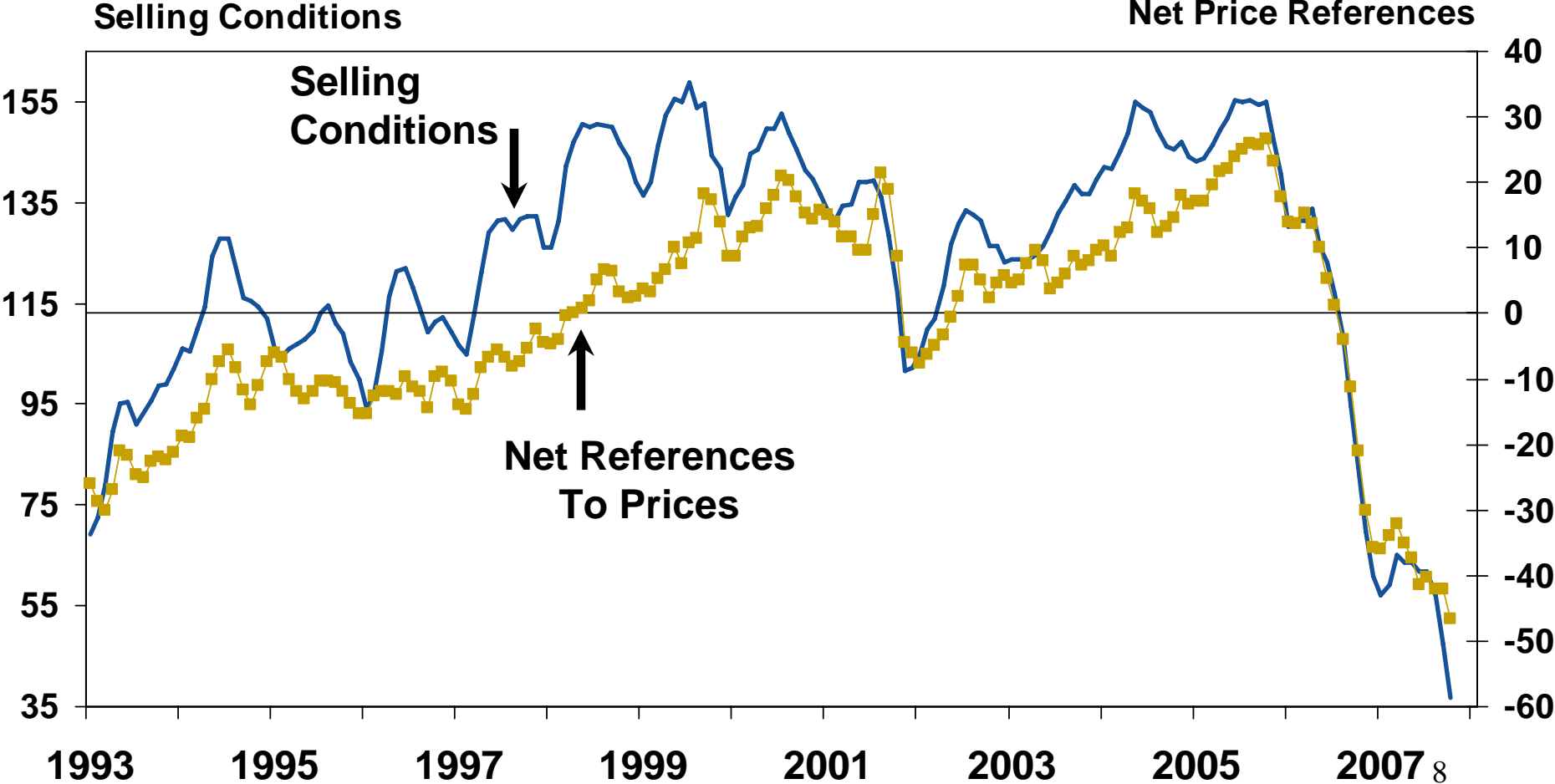
# Chart 6: Annual Expected Change in Home Value During Year Ahead and Next Five Years



# Chart 7: Home Buying Plans and References to Mortgage Interest Rates

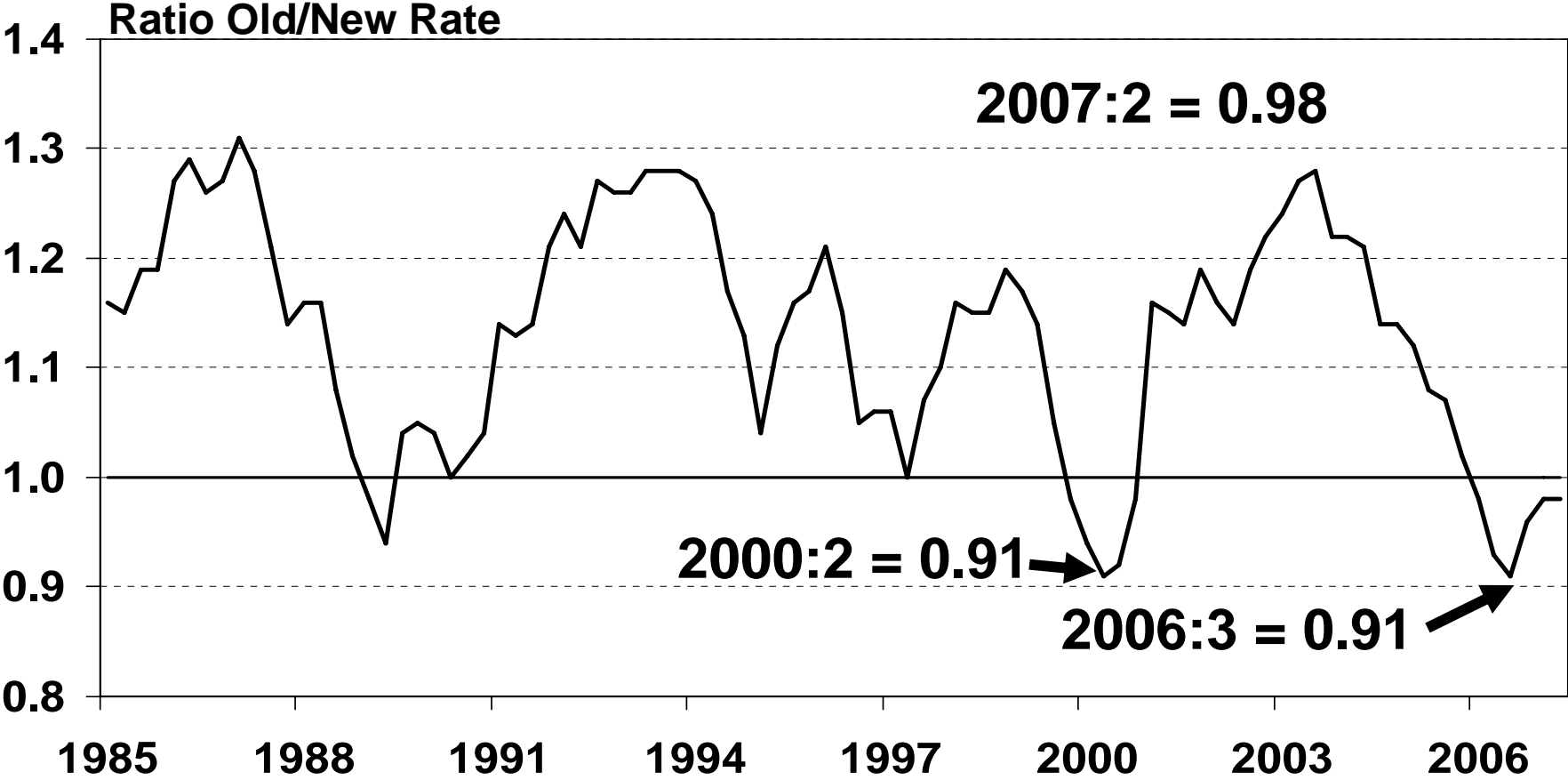


# Chart 8: Home Selling Conditions and References To Home Prices

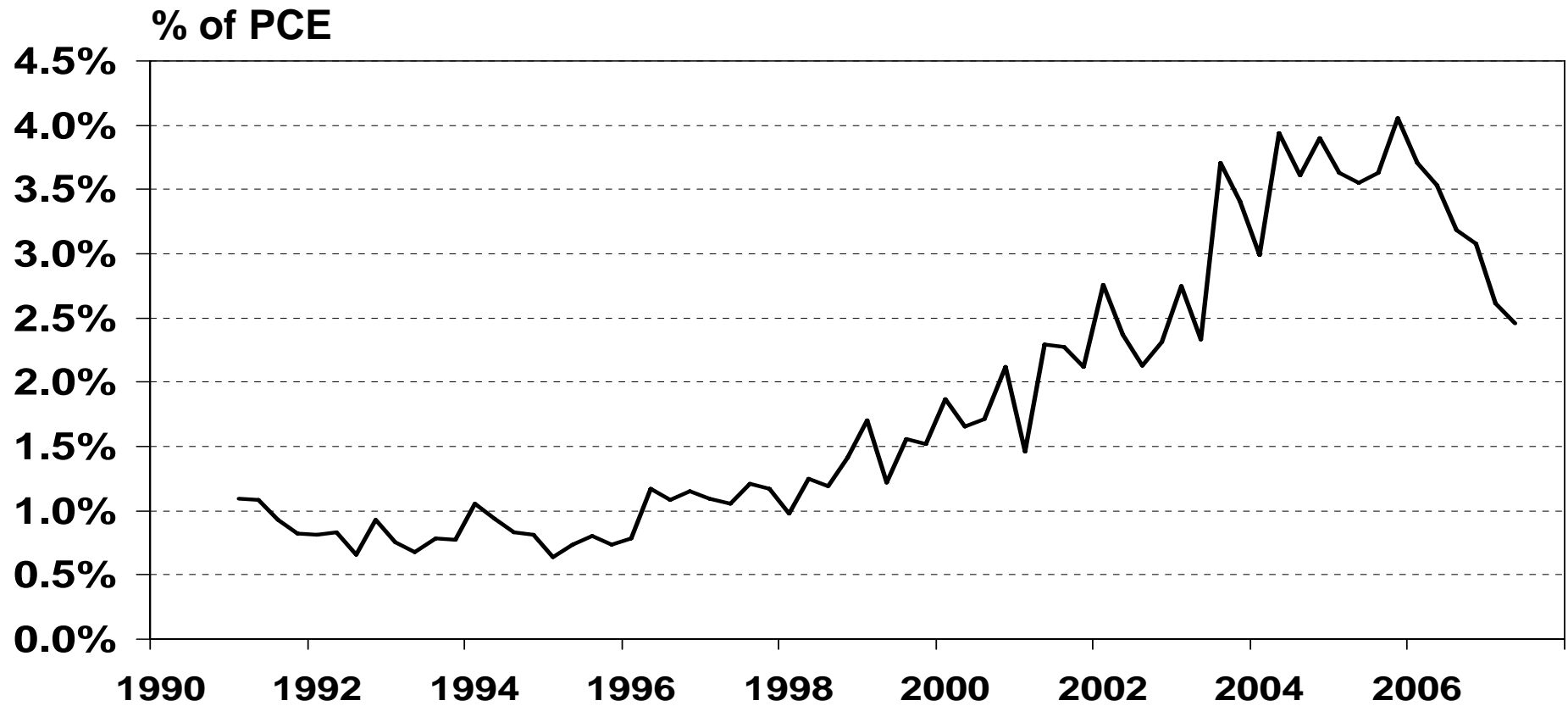




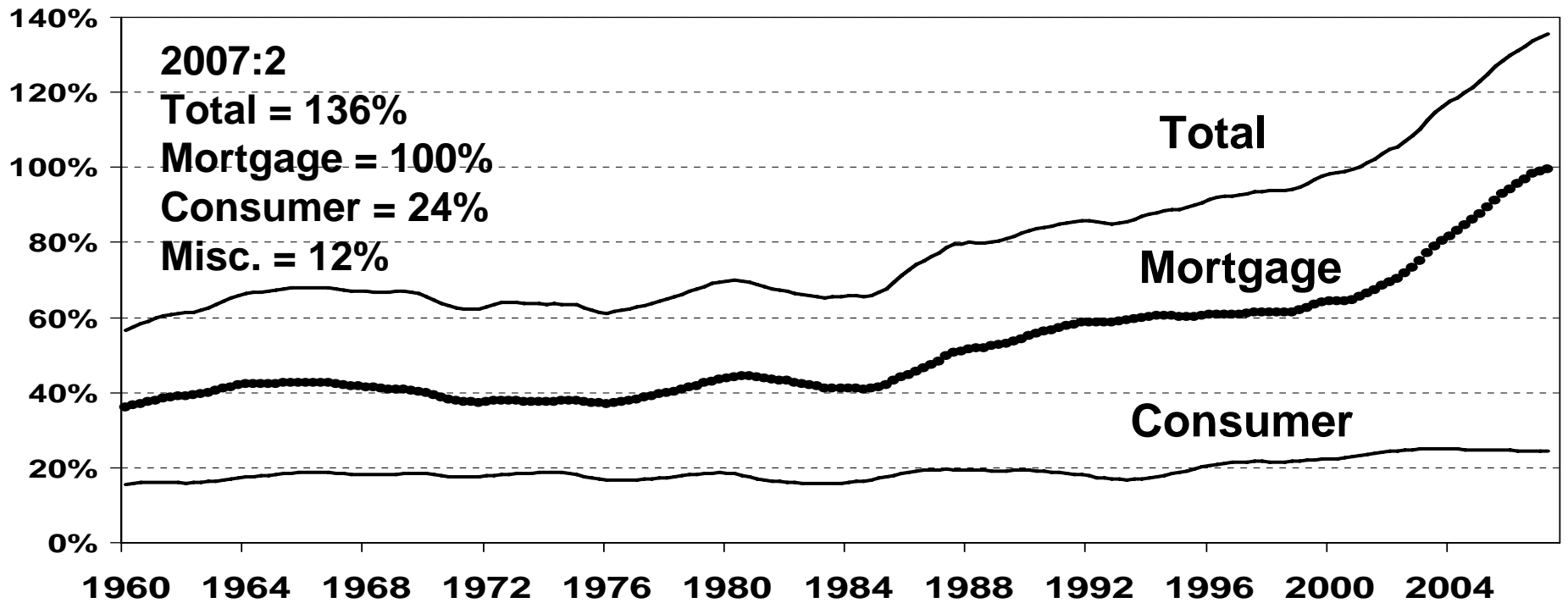
# Chart 9: Ratio of Old to New Mortgage Rates on Refinanced Mortgages



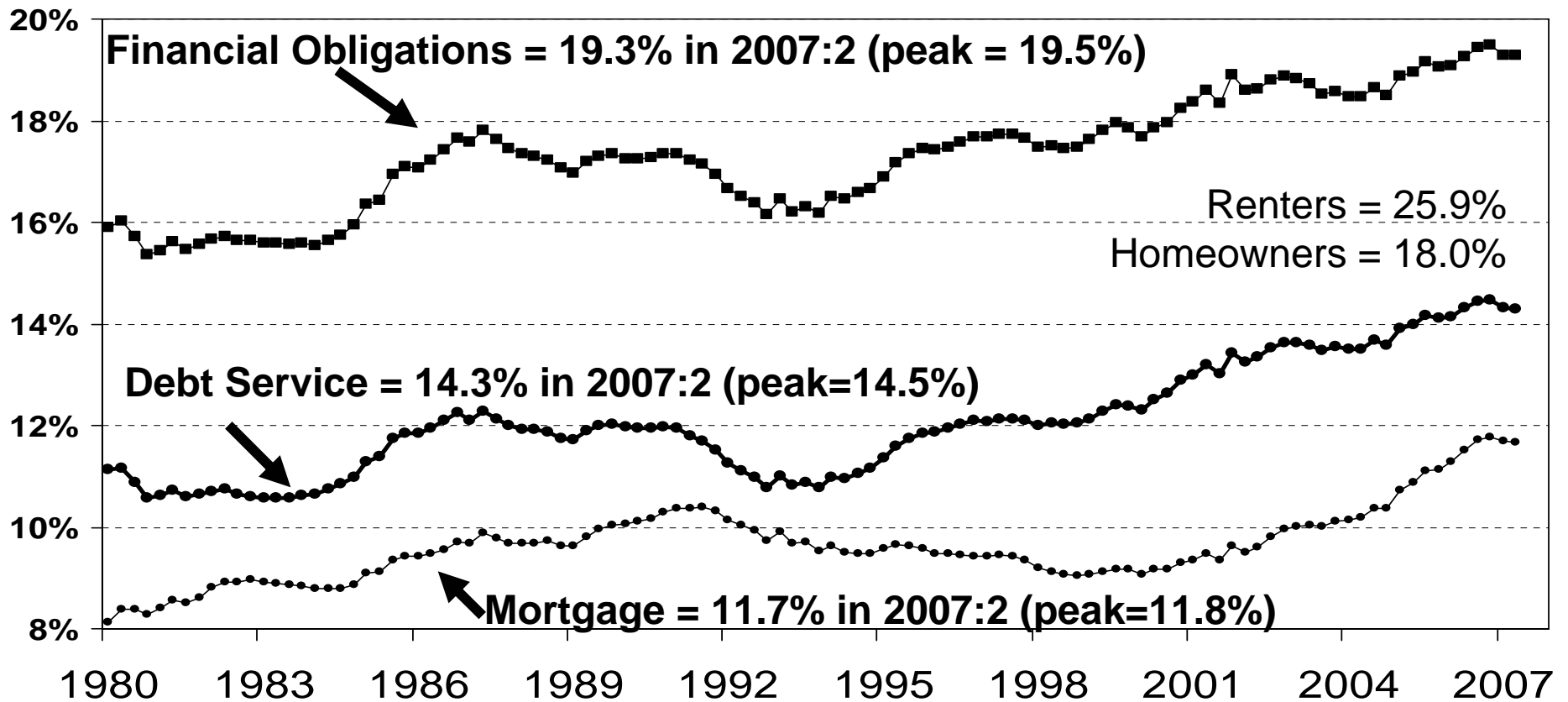
# Chart 10: Impact of Home Equity Extraction on Personal Consumption Expenditures



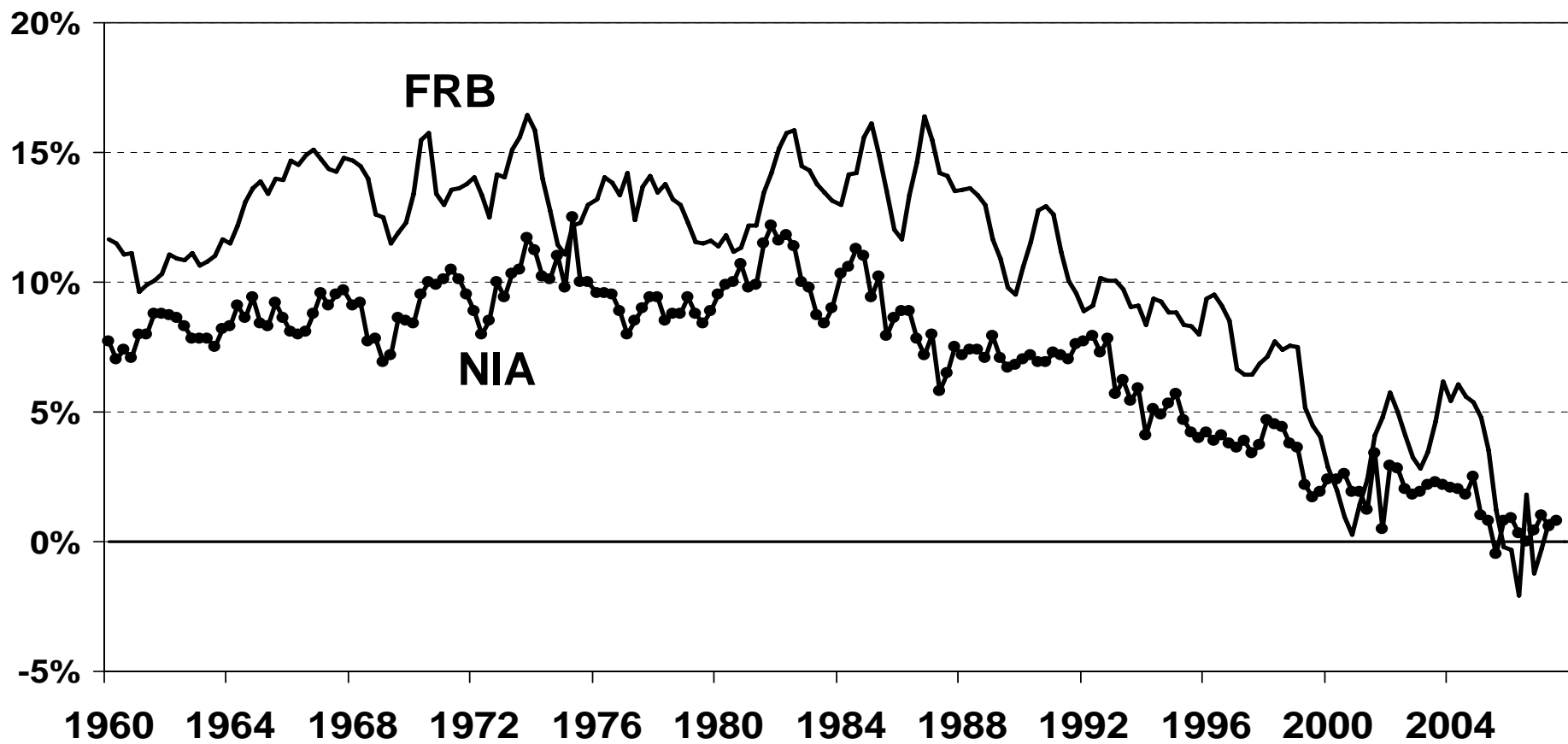
# Chart 11: Household Debt as a Percentage of Personal Disposable Income



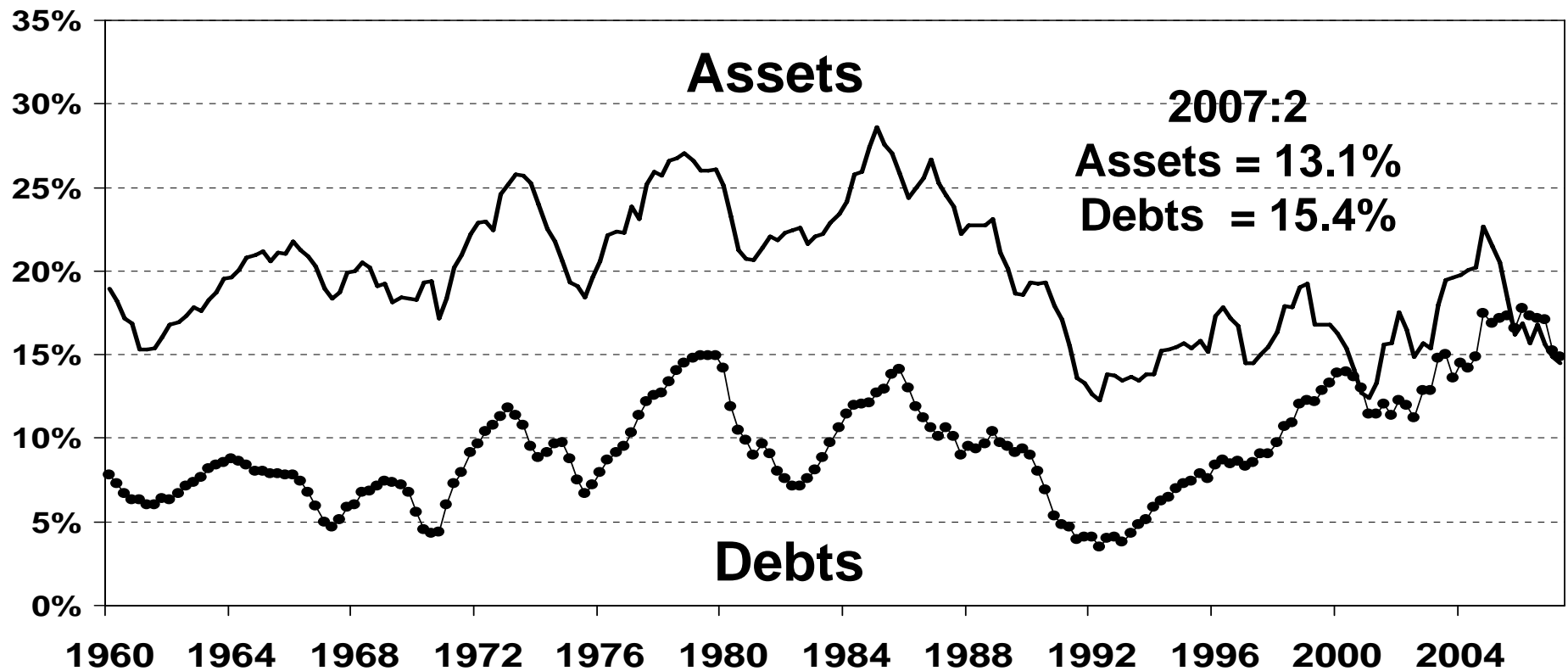
# Chart 12: Debt Service & Financial Obligations as a Percent of Disposable Income



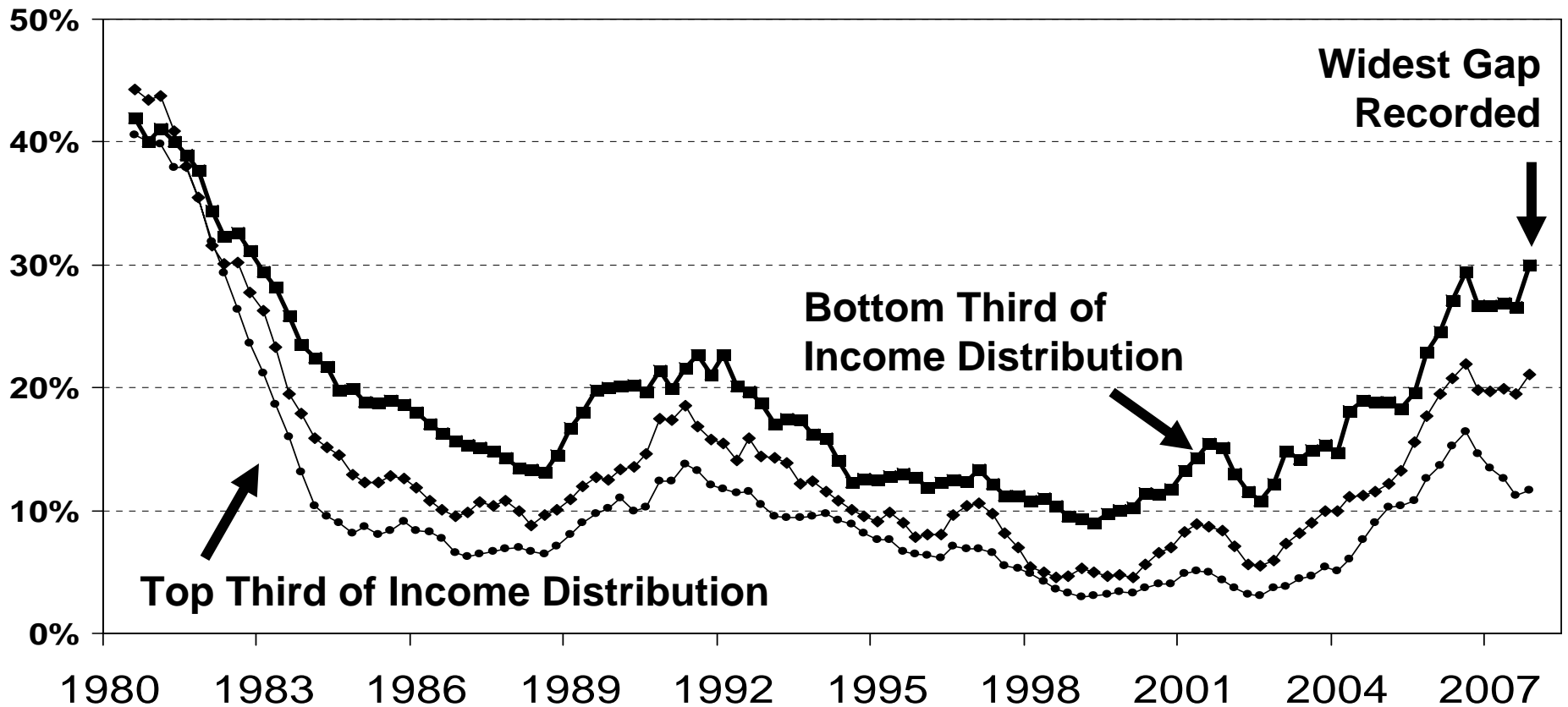
**Chart 13:**  
**Personal Saving Rates: NIA & FRB**  
(Four-quarter moving averages)



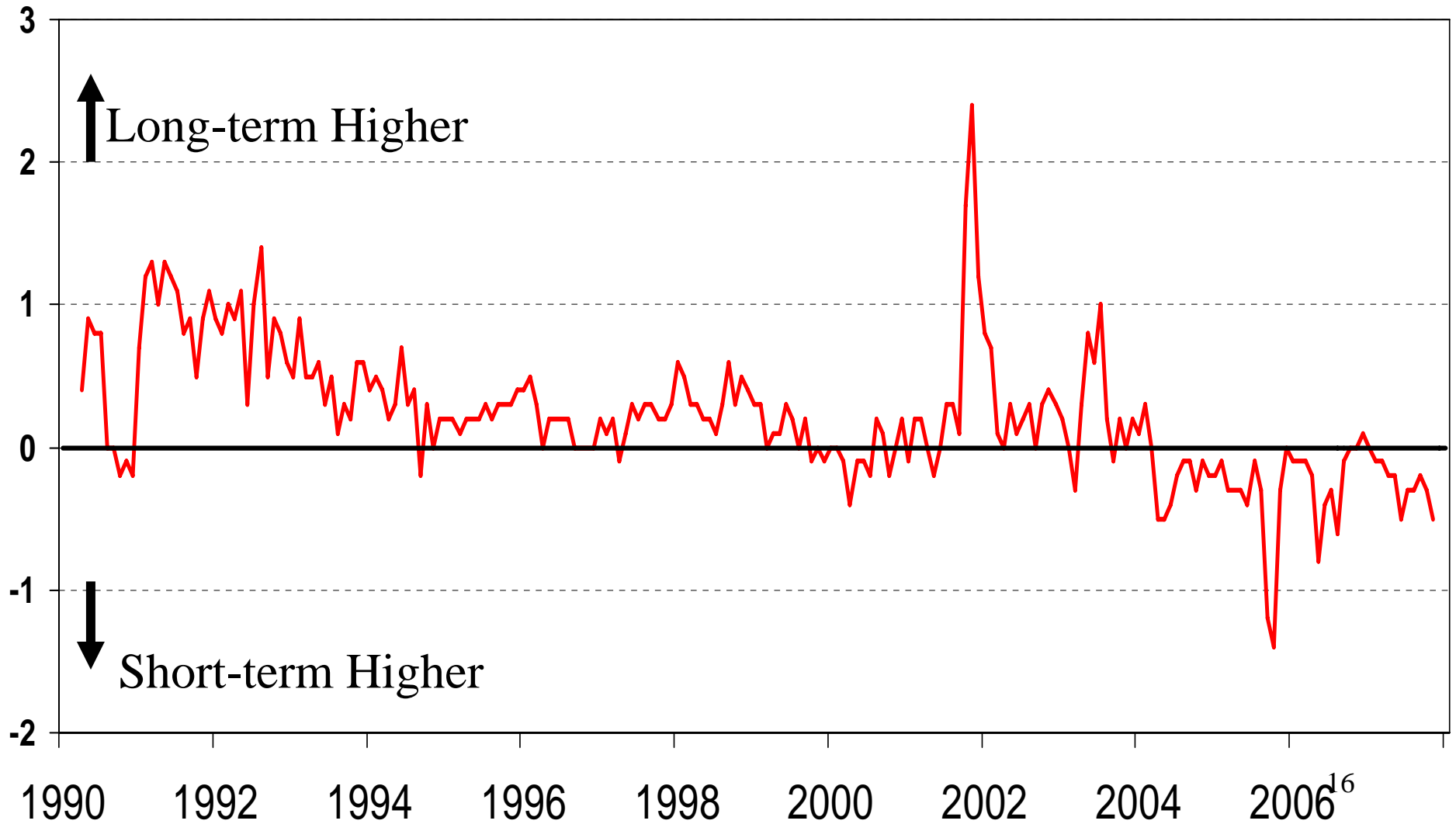
**Chart 14:**  
**FRB: Net Acquisition of Assets and Debts as a Percentage of Disposable Income**  
(4-Quarter Moving Average)



**Chart 15: References to High Prices in Assessments of Personal Finances By Thirds of Income Distribution (Four-quarter moving averages)**

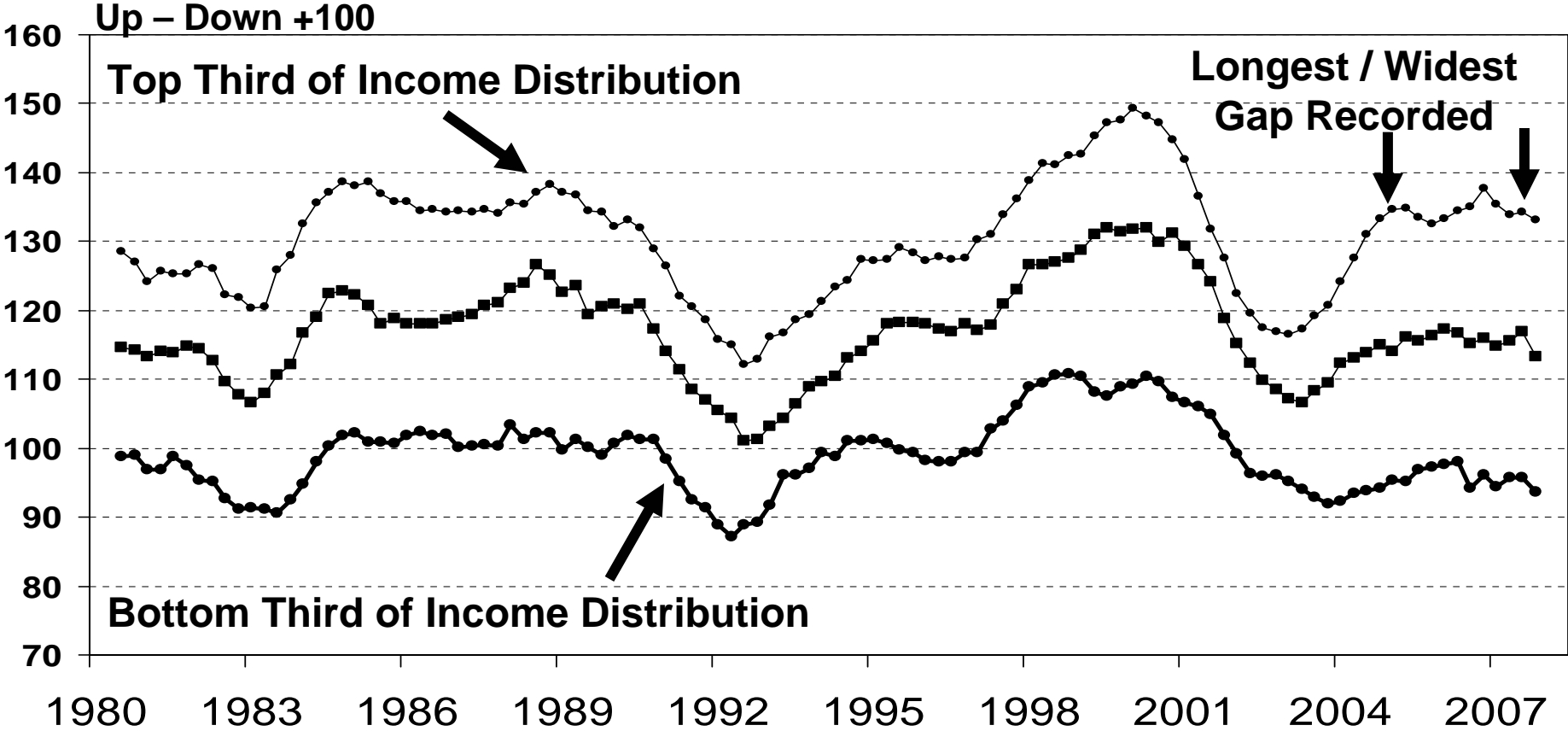


# Chart 16: Difference Between One Year and Five Year Inflation Expectations

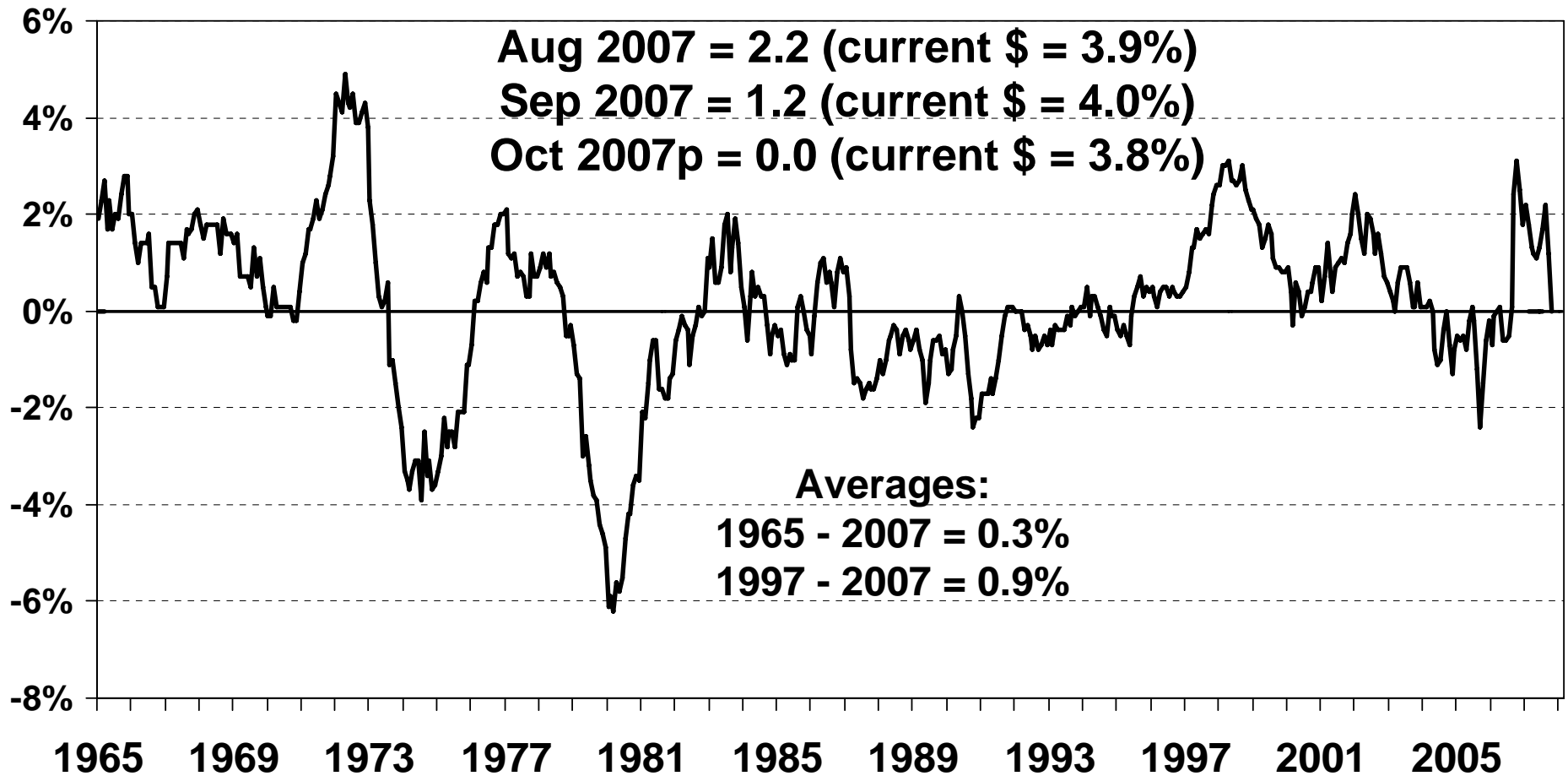




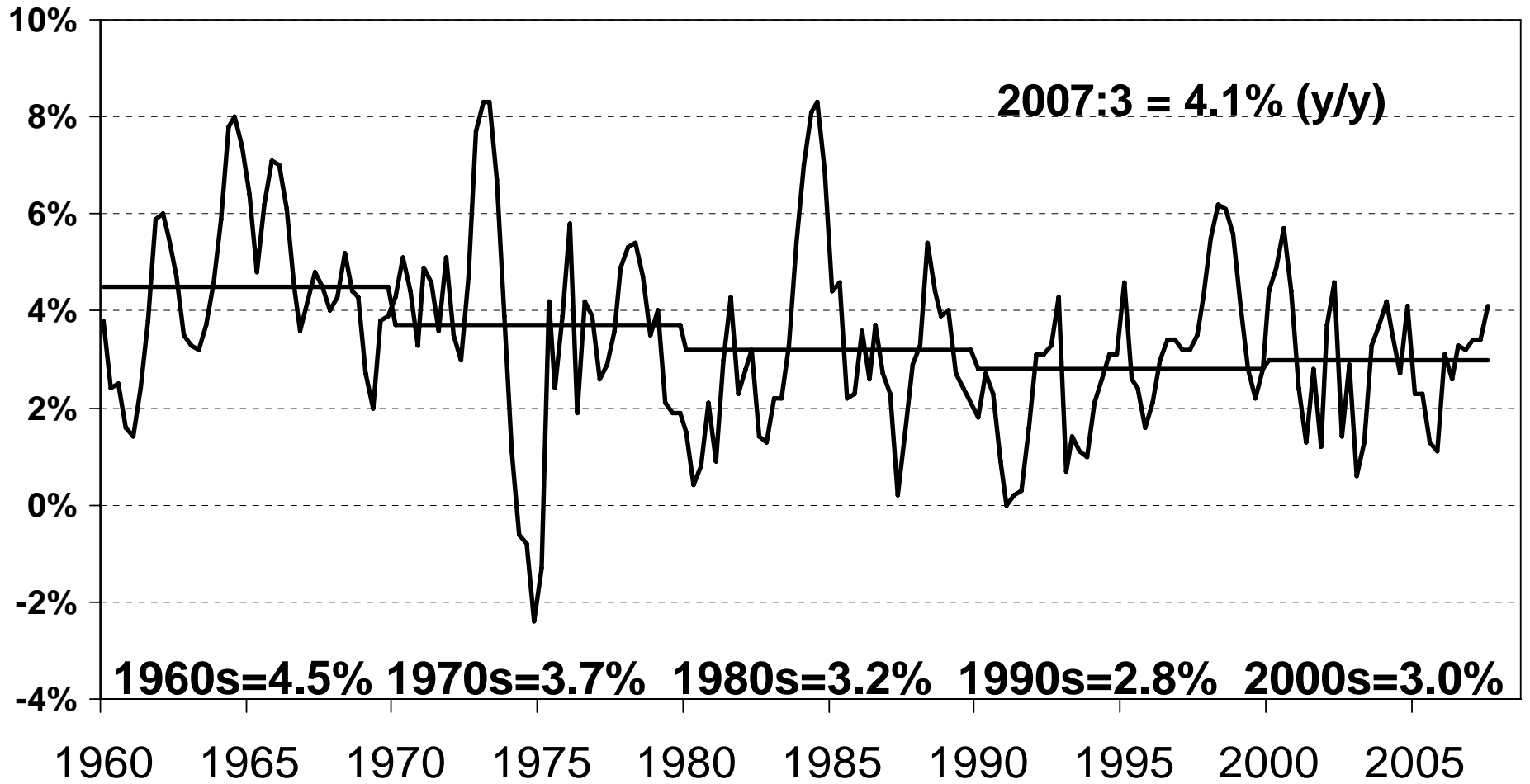
# Chart 17: References to Income Gains in Assessments of Personal Finances By Thirds of Income Distribution (Four-quarter moving averages)



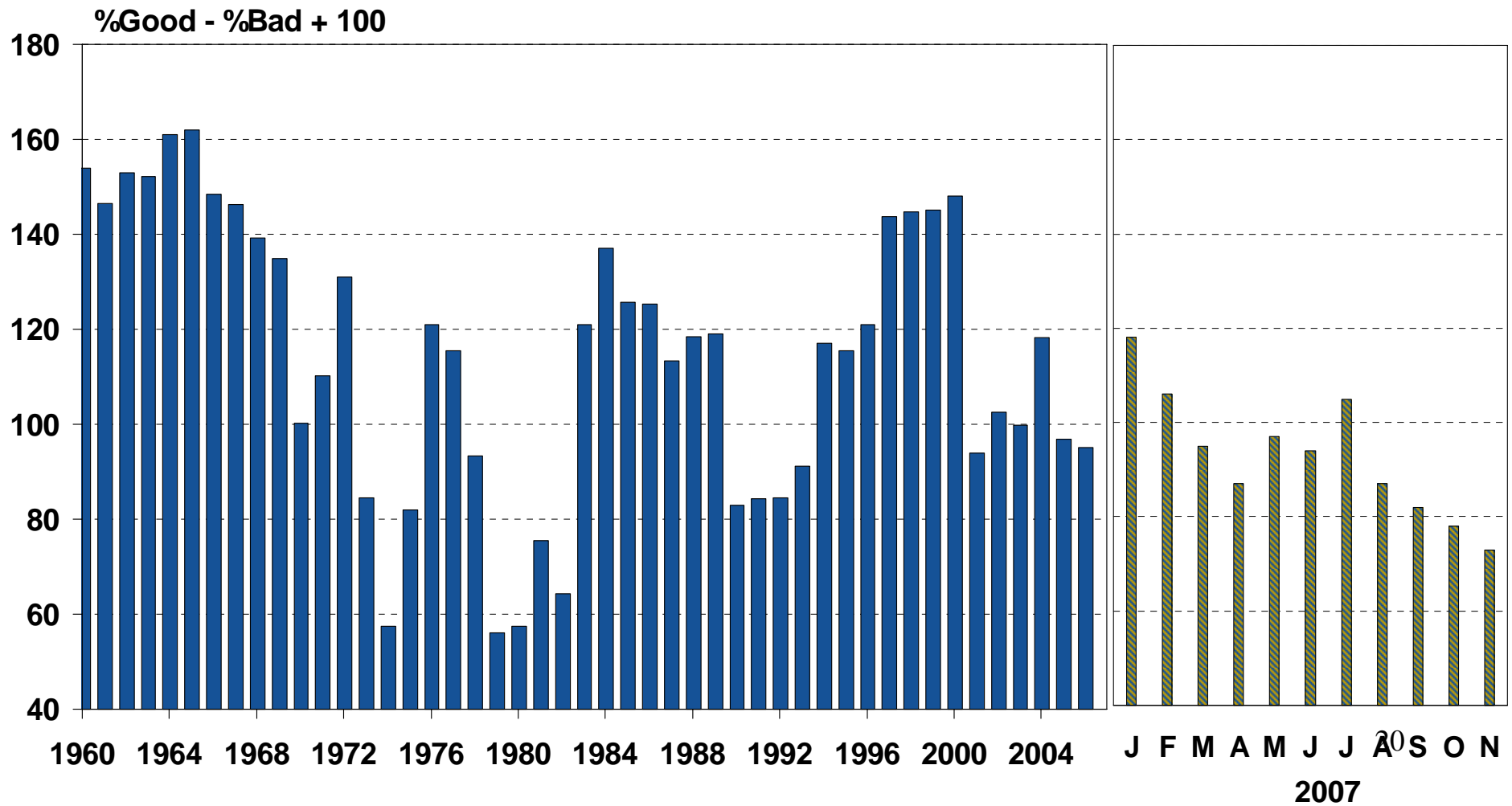
# Chart 18: Annual Change in Real Average Hourly Earnings Among Private Labor Force (Production and non-supervisory workers)



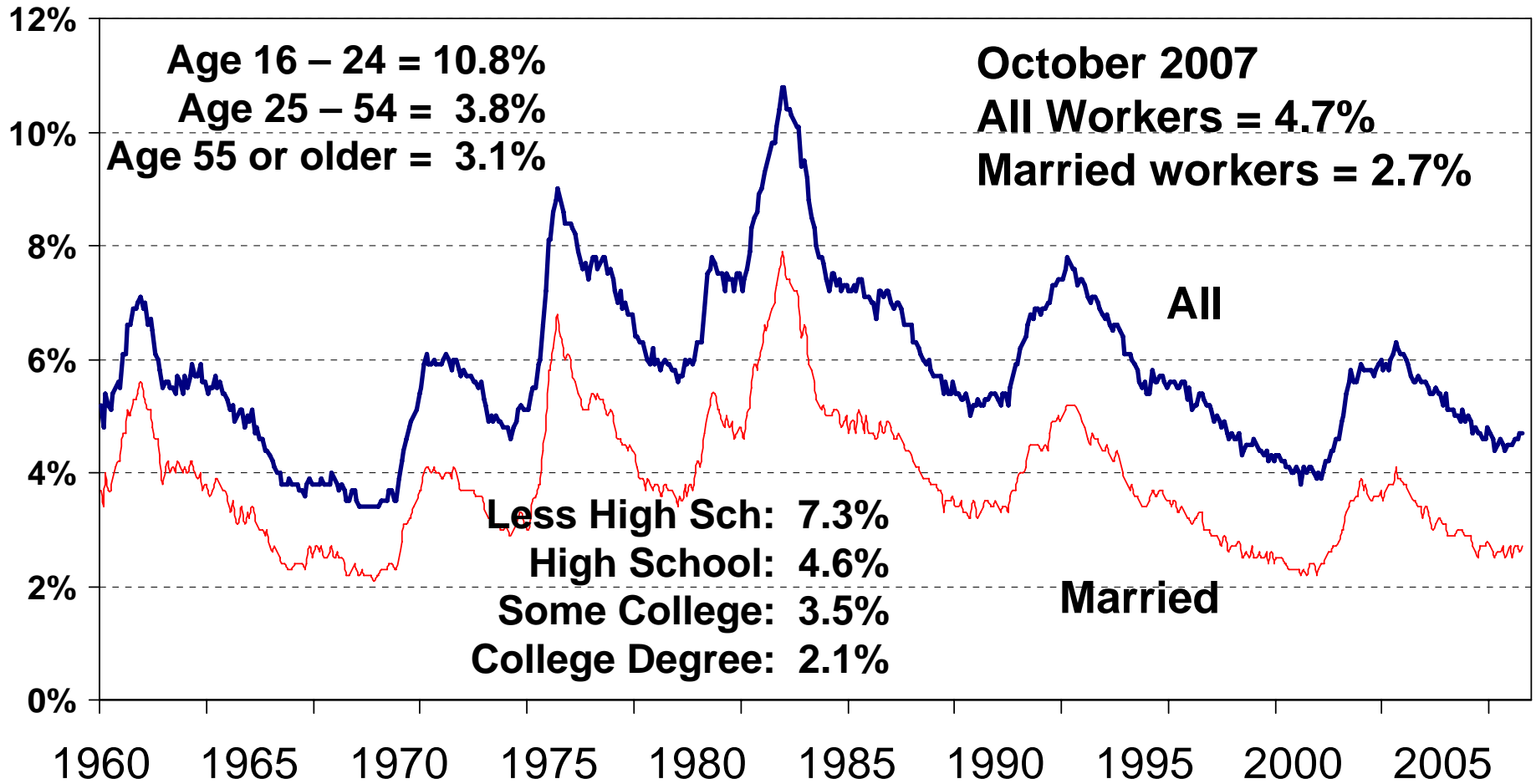
**Chart 19:**  
**Real Personal Disposable Income**  
**(Annual Rates of Growth)**



# Chart 20: One-Year Outlook for National Economy



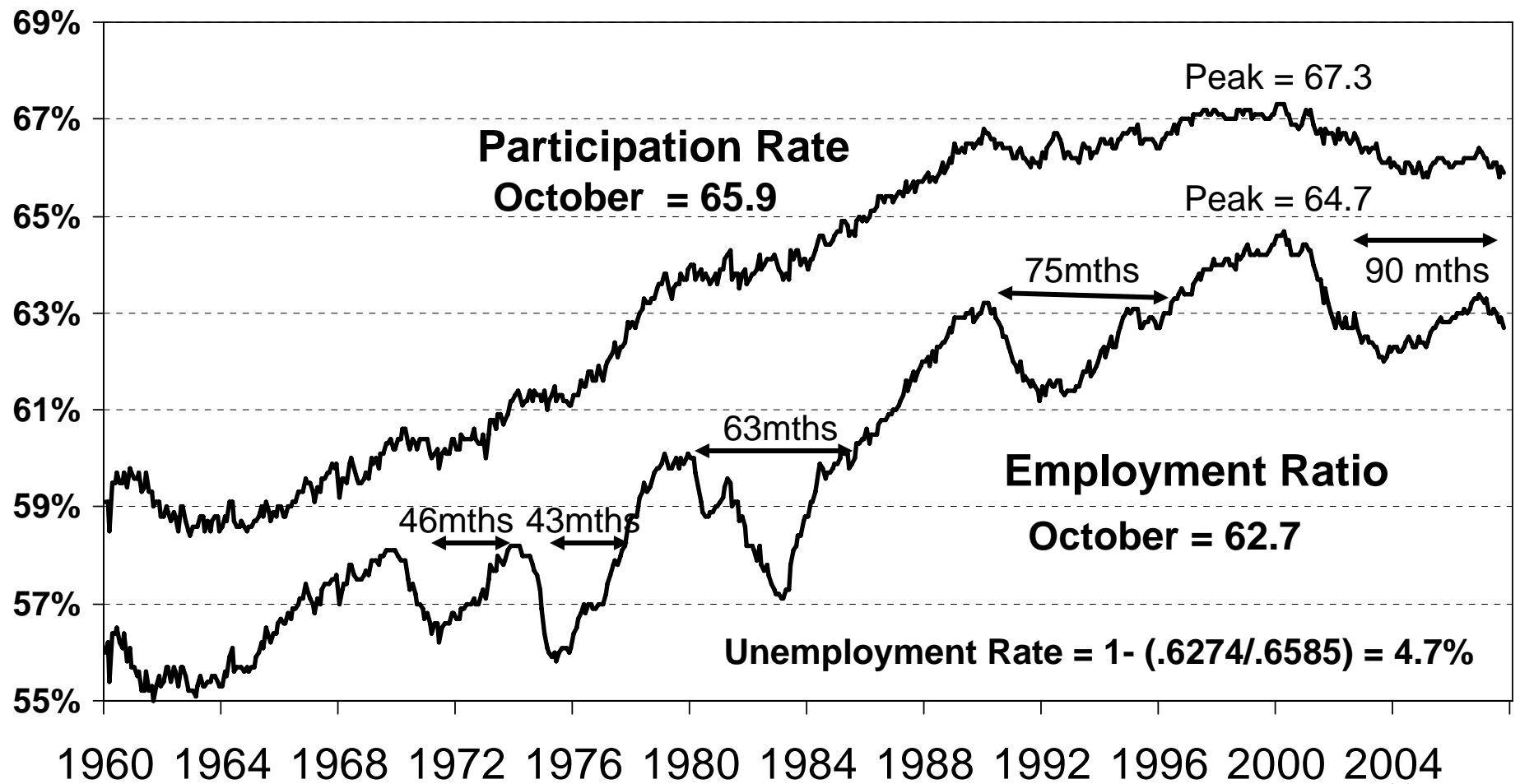
# Chart 21: National Unemployment Rate



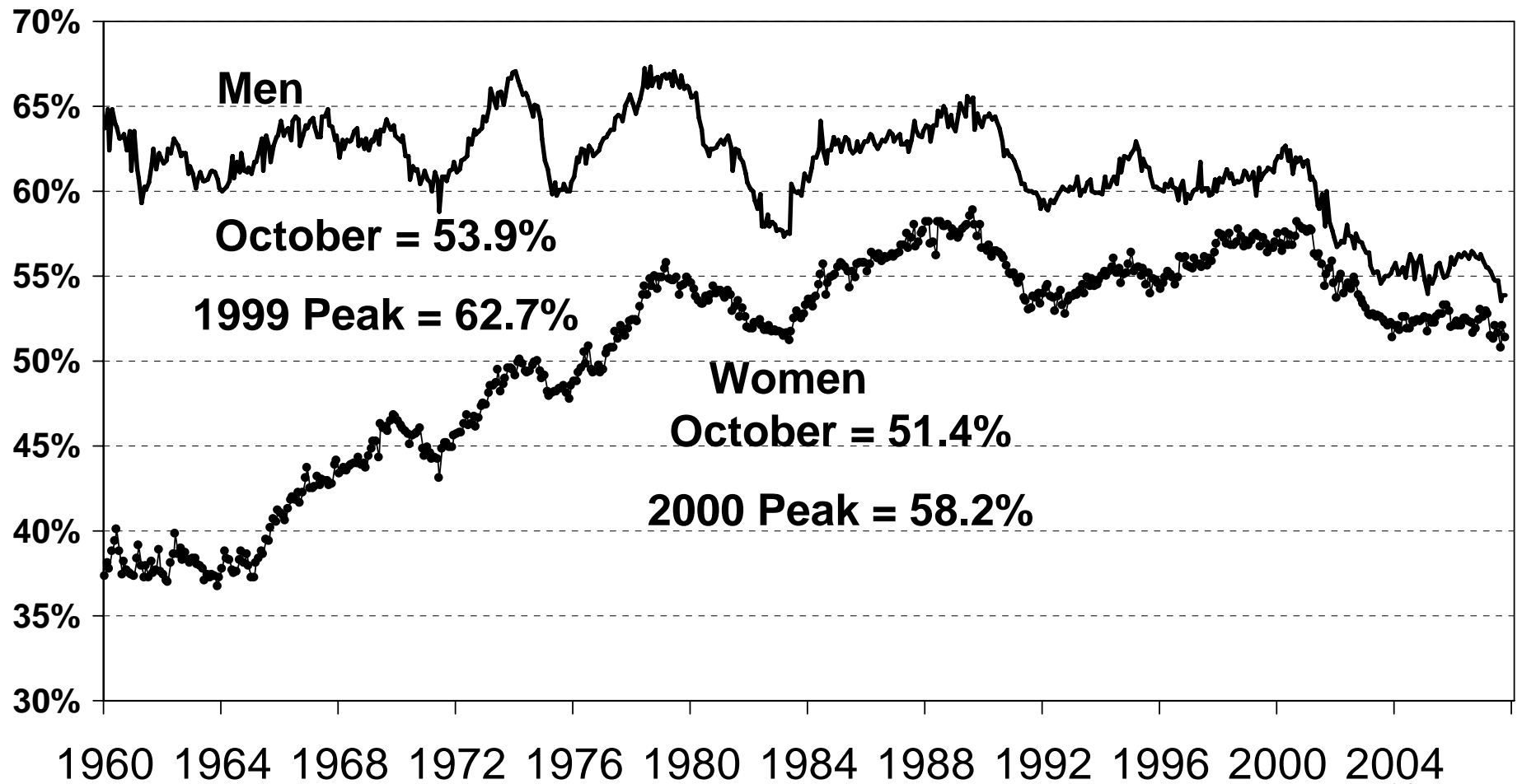
## Decade Averages:

1950s = 4.5% 1960s = 4.8% 1970s = 6.2% 1980s = 7.3% 1990s = 5.8%

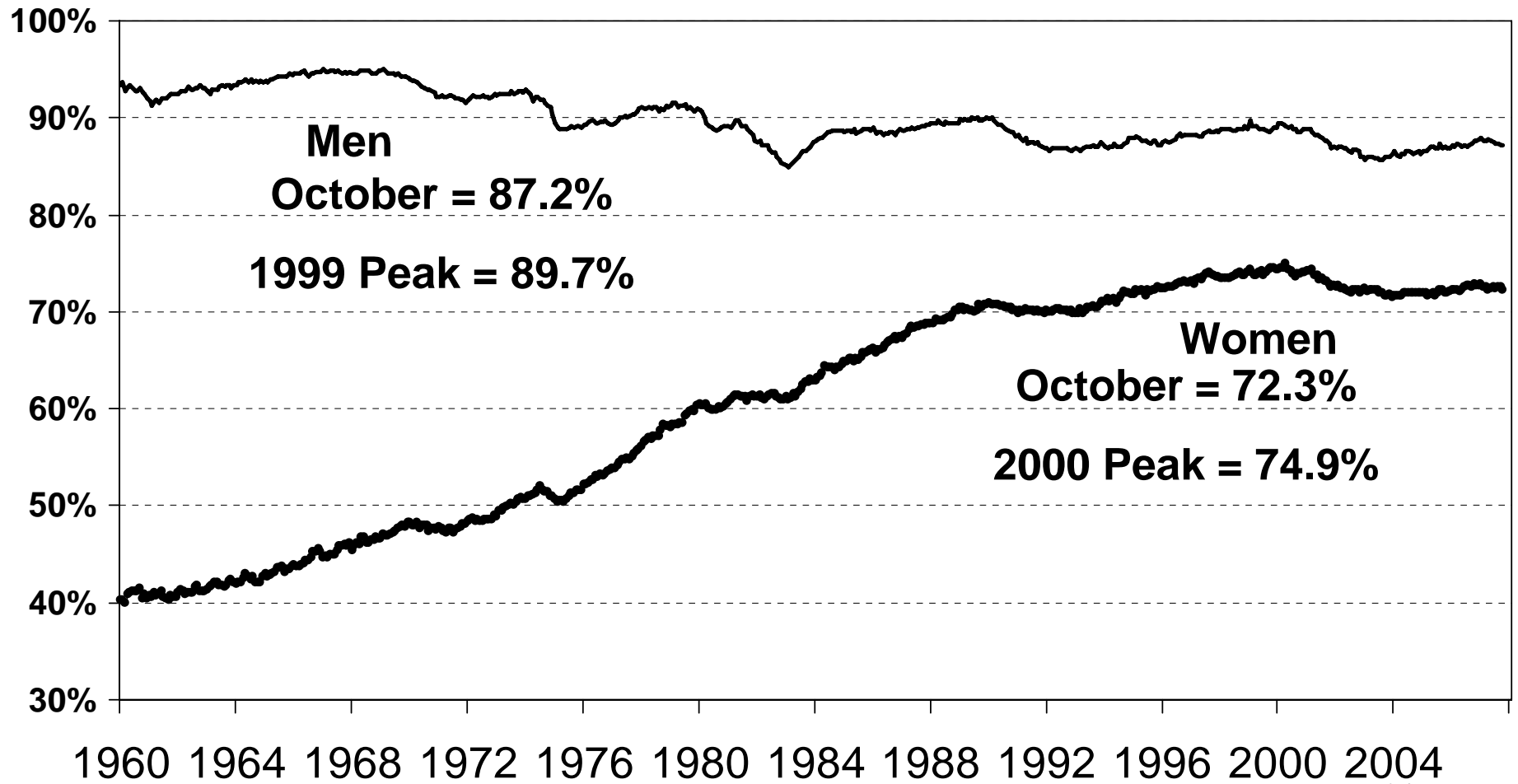
# Chart 22: Labor Force Participation Rate and Employment Population Ratio



# Chart 23: Employment Population Ratios: Men and Women Under Age 25

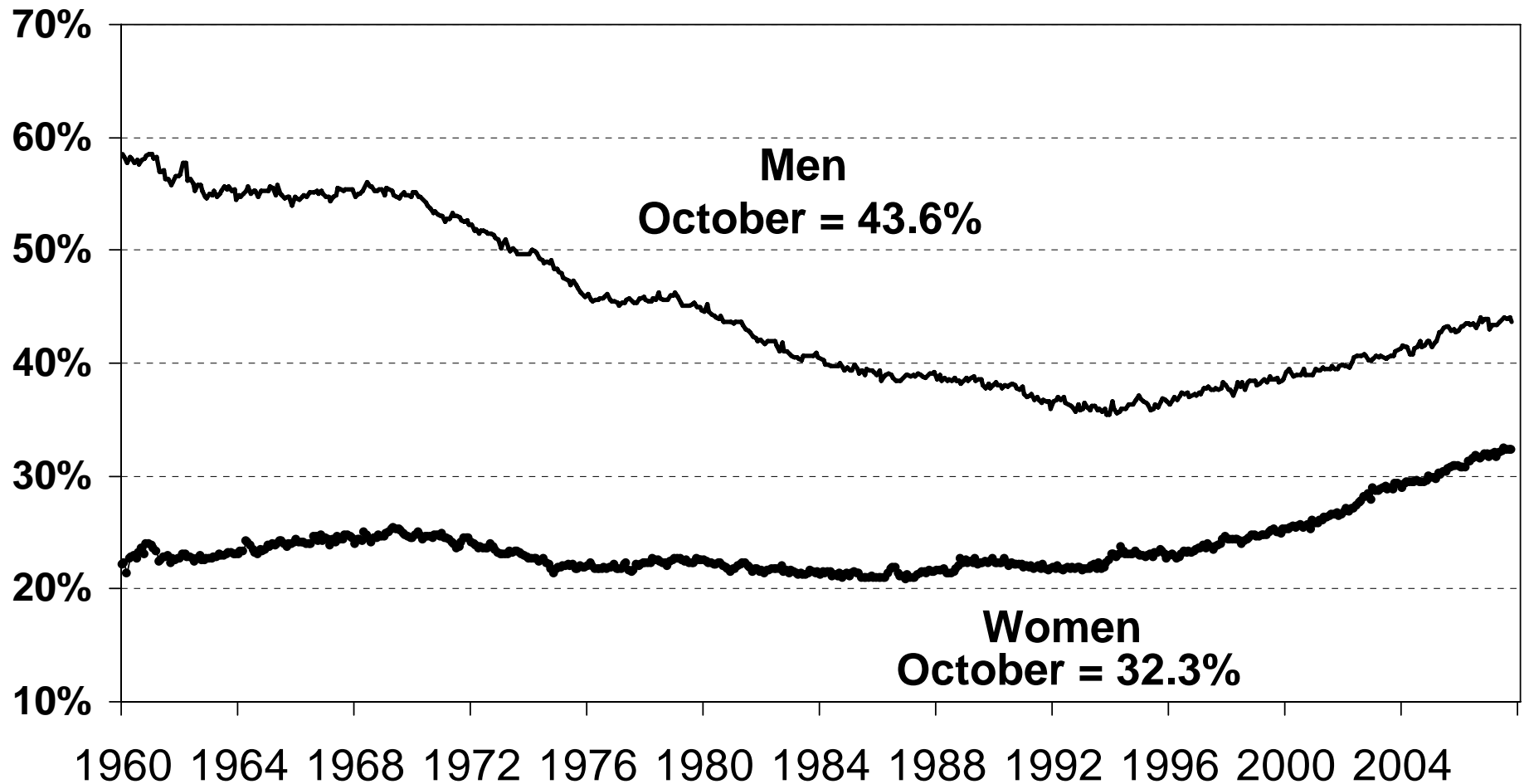


# Chart 24: Employment Population Ratios: Men and Women Aged 25 to 54

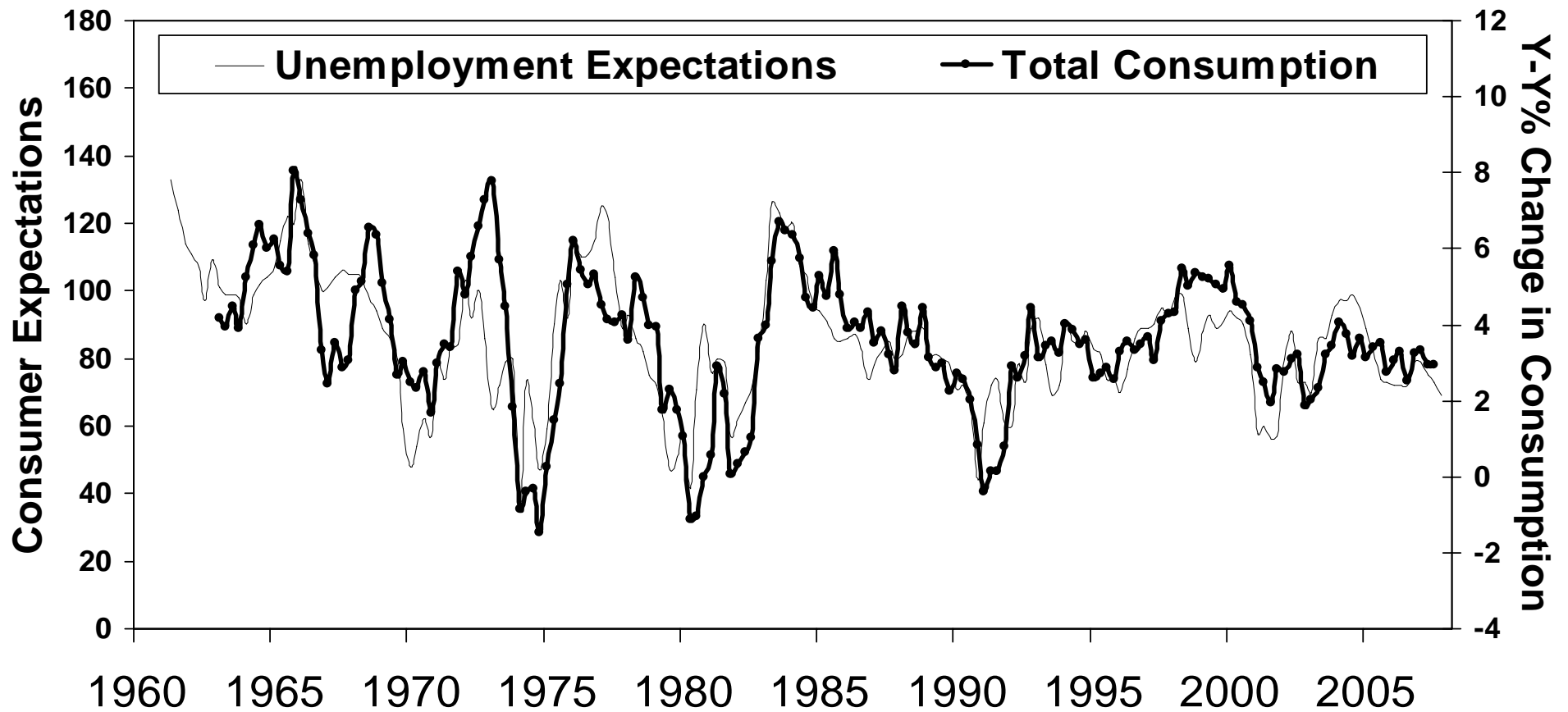




# Chart 25: Employment Population Ratios: Men and Women Over Age 55



# Chart 26: Unemployment Expectations & Growth in Personal Consumption Expenditures



# The Outlook and the Risks

- **2008 growth in personal consumption expenditures of 2.0% due to:**
  - Declines in housing wealth
  - Higher energy and food prices
  - Record high debt and low savings
  - Slowing growth in jobs and wages
  - Negative quarter in consumption possible
- **Major Risks to outlook:**
  - Impact of housing slump greater than expected
  - Unrelenting surge in oil prices
  - Higher interest rates to battle rising core inflation
  - Electioneering: negative on jobs; shifting tax burdens
  - Increased vulnerability to exogenous shocks