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From Leader to Laggard:
Consumer Behavior in Transition

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Introduction

There have been few times in our nation's history when events have been viewed as so threatening to our future living standards that we favor the immediate adoption of radically new economic policies and institutions. In the face of collapsing financial institutions and freezing credit markets, economic ideology quickly gave way to economic distress. Confidence declined with breathtaking speed. Uncertainty quickly engulfed nearly every aspect of people's economic lives. The loss of confidence that stifled ordinary economic transactions became the justification for the rapid adoption of radical changes in economic policies and institutions.

Economists have never been comfortable with the notion of "confidence" and its influence on economic behavior. Confidence is neither completely rational nor completely irrational. Keynes referred to this amalgam as "animal spirits," which I have always thought to be an unfortunate label since it placed the study of confidence outside the domain of economics. When forced to recognize the economic impact from a loss in confidence, the first reaction of policy makers is to "talk up" the economy, thinking that a positive message would persuade and possibly break the free-fall in confidence. From Hoover to Bush, presidents have famously declared the economy to be fundamentally sound with the implicit expectation that it might improve confidence. Roosevelt's famous remark about the banking crisis in his 1933 inaugural address —"The only thing we have to fear, is fear itself."— did not renew confidence then nor has that type of verbal persuasion ever succeeded. What Roosevelt did was immediately announce a banking "holiday," a creative and comforting term that signified the rather drastic step of a nationwide bank shutdown. Obama's inspiring inaugural address was quickly followed by the passages of the American Recovery and Reinvestment Act. What Roosevelt and Obama knew, but Hoover and Bush apparently did not, was that the only way to restore confidence was not by words but by actions that improved economic conditions. Moreover, each man understood that even though the plunge occurred in a blink, the restoration of confidence would be a long and slow process.

The damage done to the financial situation of consumers has been substantial. It will take years to repair, and, for some, the losses may never be fully recovered. Indeed, the ongoing shift in how some consumers evaluate financial risk may last a lifetime, just as the Great Depression marked an earlier generation. These developments have challenged the long held spending propensities of the U.S. consumer: optimistic and confident about their financial futures, they are known worldwide as the driver of economic growth at home and abroad. Will U.S. consumers now become pessimistic and defensive, less spending and more saving minded, and thus act to slow the overall pace of economic growth? This is a theme that Obama has advanced on his recent trip to Asia. There is near universal agreement that a shift from spending to saving is necessary for the U.S. economy to regain its balance both at home and in the global economy. Nonetheless, this would represent a profound shift in the behavior of U.S. consumers, and such a transformation would take years to become fully establish and widely accepted.

The Surveys of Consumers were founded in the ashes of the Great Depression, when the conventional wisdom was that the immediate post World War II period would be dominated by the same problems that existed prior to the war. Some may find it surprising that the primary problems surrounding the Great Depression were the same we now face: a boom and bust in equity as well as home prices, record levels of household debt, widespread income declines, as well as persistently high unemployment. These experiences caused consumers to maintain higher precautionary saving balances and to avoid the excessive use of debt until the early 1960's. By the mid 1960's, caution began to yield to a pervasive sense of optimism and confidence. Spending became the driving motivation, and the rapid pace of growth in spending was facilitated by rising indebtedness and increasing labor force participation. Debt provided the early access to the goods consumers craved and reinforced and accelerated the upward trend in household labor force participation.

The heightened demand for goods and services created more jobs and higher incomes that, in turn, was used to repay higher debts, and promoted even higher material aspirations. This was thought to be a virtuous cycle. It took more than three decades before this treadmill of ballooning material desires would reach its breaking point. Too much debt and too little income meant that the only relief for an increasing number of consumers was from foreclosure and bankruptcy. Even for the vast majority of consumers, whose budgets were not stretched to the breaking point, the losses in stocks and home values as well as heightened job and income insecurity caused a fundamental reassessment of the economic risks they faced.

There is no way to determine if the resulting shift toward saving and away from debt will be permanent, but it will last for the foreseeable future. Nor is it important. What's permanent, anyway? Ten years, thirty years, a half century? It surely isn't forever. Moreover, a fundamental change does not have to be a large shift from spending to saving. I am not suggesting that the U.S. move toward savings rates anywhere near the levels recorded in Asian countries. I expect the shift to amount to just a one percentage point decline in the average growth rate of consumption—the difference between a real growth rate in personal consumption of 2.5% compared with the 3.5% average recorded over the past several decades. Since consumers account for about two-thirds of the total economy, the overall pace of economic growth would also decline and so would the ability of the economy to create new jobs. This, in turn, would reinforce the shift toward precautionary savings among consumers. This is not what I'd call a virtuous cycle.

This new dynamic will not be driven by altruistic motives to lower material aspirations for the sake of the planet. The change will be driven by the fear of financial disaster that has been made very real by the countless examples of economic calamities striking neighbors, friends, and family. "But for the grace of god..." is a feeling that has been intoned by even the most economically secure. The enduring lesson for consumers is to save more and be more judicious in the amount and type of debt they undertake.

Whereas in the past the natural inclination of consumers was to boost economic growth, the new spending dynamic of consumers is to slow the pace of growth. Optimism and confidence as a driving force of the economy will now share equal billing with reducing risk and increasing financial security as motivating forces. Consumers were once rather daring in the amount of economic risk they accepted. Other than for the recent extremes, this acceptance was overwhelmingly beneficial for them as well as for the overall economy, creating more vibrant labor markets as well as more innovative product markets. Now risk aversion is more likely to dominate all of their decisions and, as a result, this shift is more likely to slow rather than accelerate economic growth. Please don't exaggerate the size of the change I anticipate: it will be a small change, although at the margin it will have a significant impact on the overall economy as well as on economic policy.

That is the overall theme of my presentation and an apt summary of my forecast for the consumer sector for the year ahead. To support this theme, I will first document overall trends in consumer confidence, followed by a more detailed examination of the economic expectations of consumers.

Consumer Sentiment Rises Slightly Due To Expected Impact of Stimulus Program

The Index of Consumer Sentiment reached its last cyclical peak of 96.9 in January 2007 and then fell by 19% by the start of 2008 and then tumbled by an additional 29% to a low of 55.3 in the November 2008 survey. The rebound in Sentiment was quick and shallow, rising by just 17% on the hope that the economic policies of the new Obama administration would improve economic prospects. Since the 2nd quarter of 2009, the Sentiment Index has been absolutely unchanged on a quarterly basis (the 4th quarter is based on the first half of the quarter), although the media has given substantial coverage to the small and offsetting monthly changes (see Chart 1).

What is clear from the data is that consumers no longer believe that the economy is in free-fall; they had looked over the edge of the abyss and are relieved that the economy has now partially regained its footing. While few consumers expect the reestablishment of good economic times anytime soon, people generally anticipate that the worst is over. It is unclear how long this sense of relief will buttress confidence without being accompanied by substantial improvement in the financial situation of consumers.

Impact of Government Economic Policies

The improvement in consumer sentiment since the start of 2009 meant that consumers were not surprised by the recent upturn in GDP growth after a year of decline (see Chart 2). Moreover, they expect continued slow growth in the overall economy during the year ahead. Most of improvement in expectations as well as in the economy have been due to the policies of the Obama administration. Confidence in government economic policies rose rapidly from its all-time low just prior to the Presidential election in October of 2008 to May of 2009, but has since eased back (see Chart 3). It is difficult to ascribe the lack of continued increases in confidence to disappointment in the Obama administration given the seriousness of the economic problems. Other popular presidents met the same fate, for example, in the first year of the Reagan administration confidence in government economic policies displayed the same pattern during what was then described as the worst recession since the Depression.

Consumers were asked to assess Obama's stimulus program for its potential effectiveness at improving the overall economy and for its effectiveness at improving the consumers' own financial situation. While the majority thought that the stimulus package would be effective at stimulating economic growth, the majority thought it would be ineffective at improving their own financial situation. Across all consumers, there were 36% that thought it would be effective at improving both the economy and their own finances, and 43% thought the package would be ineffective at achieving both goals. These views have grown somewhat more negative over the past six months (see Chart 4).

These assessments, however, had a substantial impact on consumer expectations. Among those who judged the stimulus to be effective, the Index of Consumer Expectations, a component of the Index of Leading Economic Indicators, was an astounding 46.8 Index points higher than among those who thought the stimulus would be ineffective on both counts. Increases in unemployment were expected by 62% of consumers that thought the stimulus would be ineffective compared with just 21% among those who thought the stimulus would be effective, a difference of 51 percentage points. The same differences were observed for the question about overall confidence in economic policies: the difference in the Expectations Index was an unprecedented 59.5 Index points for the question on the effectiveness of the stimulus program, and a difference of 42 percentage points for unemployment expectations.

The Federal Reserve Board has also played a very public role in their response to the financial crisis. At last year's conference I noted that the public viewed the Fed much more negatively than in prior years. In the latest surveys, 49% of all consumers expressed less confidence in the Federal Reserve, just below the 56% recorded earlier in 2009 but still well above the 19% recorded in 1987 (see Chart 5). The impact of the loss in confidence in the Fed did not have the same dramatic impact on consumers' economic expectations, but it was still substantial. The loss of confidence in the Fed was associated with a 26.3 Index-point difference in the Expectations Index, and an increase of 31 percentage points in the proportion that expected higher unemployment rates.

Unemployment Dominates
Assessments of Economy

There was a time when inflation and unemployment dominated consumers' evaluations of economic conditions. In the past few years, inflation has devolved into deflation while unemployment has soared. Some may have expected that with each up-tick in the unemployment rate, consumers would expect ever higher rates in the future. As many of you know from my past presentations at this conference, consumers do not simply extrapolate from the past but form expectations based on forward looking information, and have shown a remarkable ability to predict actual changes in the national unemployment rate (see Chart 6). Rather than increase, unemployment expectations have decline over the past six months. Consumers now expect the unemployment rate to peak at about 10.7%, within a half a percentage point of the current 10.2%. That's the good news. The far grimmer reality is that very few consumers foresee any declines in the unemployment rate on the horizon. Consumers expect the unemployment rate to remain persistently high for a long period of time.

Rather than primarily judging the economy by GDP growth, consumers place much more weight on trends in employment. It was that way in the Great Depression as well. In only five of the eleven years from 1930 to 1940 was the annual real growth in GDP negative (see Chart 7). In contrast, the unemployment rate jumped from 3.2% in 1929 to a peak of 24.9% in 1933 and was still at 14.6% in 1940. There is no question that unemployment will not get anywhere near as high as in the 1930's. But it should be noted that the Depression era unemployment rates were not the result of monthly Labor Department surveys, but estimated after the fact from census data—the Labor Department only started their household surveys in the early 1940's. Moreover, there is some question about whether the most accurate comparisons are between those earlier estimates and the current official unemployment rate or one of the expanded concepts that include discouraged workers.

Even by the official estimates, current times are bad enough: the economy has already lost 7.3 million jobs over 22 months, with additional losses widely expected, and that excludes the jobs lost that would be needed to accommodate the natural growth in the labor force. The national unemployment rate has already recorded the steepest and largest increase since the Depression (see Chart 8). The key question of interest to consumers is how long will it take for unemployment to get back down to the 4-6% range that has been associate with economic expansions in the last half century? Unfortunately, they are coming to the conclusion that it might take as long as a decade, with an extended period of elevated unemployment like in the 1980's.

It is useful to view the unemployment rate as the ratio of two components: the population employment ratio and the labor force participation rate (see Chart 9). The labor force participation rate stood at 65.1 in October, down from its last peak of 67.3, returning to the levels recorded more than twenty years ago. The employment-population ratio fell to 58.5 in October 2009, down from a peak of 64.7, and at a twenty-five year low. Discouraged workers are responsible for some of the decline in labor force participation rate, perhaps a significant portion, but an extended adolescent and an aging population have also played a role.

When the employment-population ratios are examined by sex and age groups, men under age 25 have the lowest rate recorded since the late 1940's and young women are now at a 35 year low. Even among those of prime working age, between ages 25 and 54, men have the lowest employment ratios ever recorded, and women are at fifteen a year low. In sharp contrast, employment-population ratios for both men and women over age 55 have been increasing over the past decade, although they are now about half the level of younger workers. The evaporation of pension investments will no doubt act to extend this trend among older workers into the future.

Worst Personal Financial Assessments in Sixty Years

Now I must turn to the really bad news from the surveys. The first question in every survey conducted since 1946 has asked consumers for an assessment of their financial situation. At last year's conference I reported that those assessments fell to the most unfavorable level in the history of the surveys. It's hard to imagine anything worse, but it happened. In every survey during the past year that same level of financial despair has been repeated (see Chart 10). There has not been even a hint that the financial reversals have eased. As each month passes, the cumulative impact grows ever more dire, pushing more households into giving up on cherished dreams for themselves and their children. Last year I mentioned that economic discontent has five stages, with the final stage when people relinquish any hope for improvement and simply focus on economic survival. Although that process is now underway, that final transformation does not occur quickly but takes years of frustration and despair to develop. Although we are now one year closer, it is still very unlikely to fully develop. What is more likely is that consumers will engage in behaviors that reduce the impact of future economic risks by increasing their precautionary savings.

Immediately following this question, each respondent is asked to explain in their own words the reasons underlying the changes in their financial situation. Less income due to job losses, fewer work hours, less overtime, and smaller bonuses and even wage give-backs were reported by record numbers of consumers (see Chart 11). In the November 2009 survey, just one-in-ten consumers mentioned that their household income had increased, the smallest proportion recorded in more than sixty years. Income declines were mentioned by more than one-in-three consumers, the highest proportion ever recorded. Perhaps the most troubling aspect was that reports of income declines have grown progressively more negative during the past year. Moreover, prospects for income gains during the year ahead also remained at record low levels. Indeed, the majority of households anticipated that their incomes would remain unchanged or decline in every survey during 2009. Even with lower inflation, nearly nine-in-ten households anticipated no increase in their inflation-adjusted incomes during the year ahead.

Needless to say, declines in household wealth also played a significant role in the declining financial status of households, including significant losses in home values and financial assets (see Chart 12). Although recent increases in stock prices has reversed some of the decline, the gains will mitigate but reverse the negative wealth effect on consumption.

Increased Savings and Reduced Debt

The legacy of the booms in stock prices in the late 1990's and the housing boom in the 2000's was the rapid increase in debt and the unprecedented decline in saving out of current incomes (see Chart 13). Now, consumers are attempting to increase their savings and reserve funds and lower their debts. In recent surveys, one-third of all households reported that they intended to increase their savings during the year ahead even though increasing savings in the midst of financial reversals is a difficult task. Decreasing their indebtedness by more than simply making their scheduled monthly payments was a more common desire. Consumers' intentions to decrease their debts were particularly prevalent for credit card debt (38%), followed by installment loans for vehicles and other large household durables (21%) and even mortgages and home equity loans (11%). Most of the declines were intended by younger as well as higher income households.

How did consumers recoup their financial security from the Great Depression? To be sure, the conclusion of World War II had a positive impact on consumer confidence, but the increase in savings during the war was also an essential element. Saving rates were pushed to historic highs partly by the force of rationing and other war time controls as well as appeals to patriotism. At war's end, consumers felt that their financial situation had been transformed to one of financial security. Consumers had no intention of squandering these hard won reserves, but it made consumers more optimistic and confident.

Trends in debt have always shown greater cyclical variations than trends in financial assets; in downturns the greater rate of decline in debts have typically pushed savings rates higher. The rate and extent of reductions in debts during the past few years has been record setting (see Chart 14). Although the growth rates in household debt have been declining for several years, for the first time since the Federal Reserve began keeping records, the level of outstanding debt has declined. While declines in mortgage debt have been somewhat exaggerated by home foreclosures, that was not the category that posted the largest declines. The greatest declines were in consumer debt, including installment loans as well as credit card debt, which fell by 6.5% in the latest quarter that data are available.

How much will debt decline in the future? The past increase in overall indebtedness was due to much higher mortgage debt (see Chart 15). This represents a significant barrier to the reduction of the overall debt burden. While the are some government programs that encourage the reduction of principal, the extent of the runup in mortgage debt dwarfs those programs. The overall reduction of the debt burden is likely to await growth in income, which will be painfully slow.

The amount saved by households depends on their age and incomes, with older and higher income households responsible for the vast majority of money saved. The baby-boomers represent the largest age cohort and the leading edge of this generation has reached retirement age. One indication of those heightened motives is reflected in a question about the probability of a comfortable retirement (see Chart 16). The majority of consumers reported that the probability of a comfortable retirement, considering their accumulated savings, pensions, and Social Security, was at the lowest level in a decade. This suggests that consumers, especially those nearing retirement, will attempt to increase their savings to the maximum extent possible as well as delay retirement.

The Impact of Changed Credit Standards

Changes in the availability of credit has always played a significant role in determining trends in consumer spending, as much so in the 1920's and 1930's as in the 1990's and 2000's. The legitimization of consumer credit in the 1920's prompted an increase in mortgage debt from 13% of disposable income in 1920 to 41% in 1930, 15% of households bought cars on credit in 1929, up from just 5% a decade earlier, and the use of store credit was widespread in the 1920's but largely undocumented. The liberal use of credit was abruptly halted during the 1930's and those restrictions continued through the first half of the 1940's.

For decades following World War II, consumer credit was allocated by means other than interest rates, mainly by changes in the standards used to grant a mortgage or loan. In the past quarter century, changes in interest rates were the dominant means to allocate credit, although in the late 1990's and early 2000's declining credit standards also played a role. More recently, the allocation of credit has been again dominated by changes in credit standards rather than interest rates. Since the sudden change in the credit standards was the result of a financial crisis, it would seem reasonable to anticipate a return to more rational system after the crisis subsides. Without a return to less restrictive rules, consumer spending will remain depressed.

An indication of bankers motivations was contained in a Fed survey conducted in July of 2009 of senior bank officers. The key question was when their banks would return to the average credit standard they had used during the prior decade (see Chart 17). The crisis may have been too near for them to give an objective answer, but the answers were nonetheless surprising. The response "never" was given by 42% for mortgages, 32% for credit cards, and 25% for installment loans. Never is a long time, and would indicate that this time, unlike in the past, the lesson would never be forgotten. That's not the conclusion that I drew from the data. The more important implication was how few banks reported their willingness to return to the older standards anytime during the next year. Just 18% for mortgages, 29% for credit cards, and 33% for installment loans expected to return to their prior decade standard by mid 2010. These data strongly suggest that credit availability will remain a constraint on spending growth during 2010 as well as in subsequent years.

Buying Plans: the Role of Income Uncertainty and Price Discounts

Income and prices are the key determinants of consumers' demand for goods and services, but the timing of these purchases, especially for discretionary items, is determined by the degree of confidence people have in their future job and income prospects as well as their expectations for future price trends. The good news is that when asked about purchase conditions, most consumers do not hold as unfavorable buying plans as they did at the height of the financial crisis. Unfortunately, the gains have been quite small, leaving purchase plans near their cyclical lows.

After asking about purchase plans for a variety of products, each respondent is asked to state in their own words why they hold their opinions. More than a hundred different references to various factors have been followed over the years. What has increasingly dominated recessionary declines are references to uncertainty about future jobs and incomes (see Chart 18). After reaching a new all-time peak in early 2009, job and income uncertainties were still by far the most important factor for postponing buying plans in late 2009. Consumers have found that the postponement of large purchases is an effective means to provide greater budget flexibility in the face of persistent economic adversity.

Discounted prices represents the strongest positive appeal for current purchasers (see Chart 19). Indeed, they have dominated buying plans to a greater extent in 2009 than ever before. In part, this emphasis on price reductions reflects the new budget restrictions faced by consumers, and in part, on consumers expectations that the prices of manufactured goods are likely to continue to fall, despite the fact that consumers anticipate continued increases in commodity prices, especially for food and energy. The price deflator for durables in GDP accounts has declined for more than a decade, and consumers expect continued declines in the future.

In the past several years, the strong expectation that ever deeper discounts would be available in the future prompted consumers to postpone purchases in anticipation of lower future prices. Unfortunately, changes in the value of the dollar imply upward pressure on import prices and the financial difficulties of auto manufacturers will limit their ability to offer discounts on vehicles. This new pricing reality has not yet been completely understood by consumers. Demand will lag until consumers become convinced that ever deeper discounts are a thing of the past. The new and more expensive hybrid vehicles that are about to be introduced could make the discounting on conventional vehicles even more intense in the global marketplace.

Overall, confidence in future income streams has always ruled the pace of consumer spending, and there is no reason to expect that to change in the year ahead (see Chart 20). Unemployment expectations are a proxy for a broad range of job and income concerns. The data indicate an annual growth rate in real total personal consumption expenditures (PCE) will record a decline of -0.7% in for 2009 compared with 2008, which would be barely better than the 1974 decline which was the largest decline since the 1930's (excluding the WWII war years). In 2010, the data indicate a growth rate of just 1.6% in total real personal consumption expenditures. Overall GDP growth will be somewhat higher, with models based on the consumer data indicating a growth rate of 2.5% during 2010.

Summary Outlook

After this review of the current financial situation and future plans of consumers it would be understandable if you were confused as to whether I was predicting a continued recession or an economic recovery. I anticipate a sustained recovery in the sense that total personal consumption expenditures will increase throughout 2010, but as I have indicated the gains will be small and largely due to the stimulus. The billions spent on the stimulus package will effectively return GDP growth to its new trend growth rate of 2.5%.

From the perspective of consumers, the term recovery will seem like an exaggeration, more of a 2010 campaign slogan than a reality. Unemployment will rise through the first half of next year, job losses will narrow and slowly turn positive in the second half of the year, but the gains will hardly dent the staggering job losses. More importantly, there is little hope that unemployment will appreciably decline by the end of 2010. Home values will have hit bottom, but little in the way of gains can be expected. Credit will not return to the levels that were typical in past recoveries, and consumers will be more hesitant to increase their debts than ever before. It is hard to imagine how the Obama administration will resist during an election year a new federal stimulus package focused on relieving the economic stress caused by rising unemployment and lackluster income growth. Such a stimulus may be needed even if it adds to the economy's long term imbalances.

The lasting cure for the U.S. economy is to erase our economic imbalances by adopting a tax policy that favors saving over consumption, a dollar policy that favors exports over imports, and an education policy that effectively increases the lifetime job skills of our entire population. While it is hard to break old habits,, the public may be more responsive to such initiatives than ever before. We are in a radically different environment than when President Carter disastrously tried to convince people to lower their material aspirations. The negative reception reflected the fact that at that time, even in the midst of an energy crisis, people still thought their economic destiny was to enjoy rapidly rising material living standards. Rather than bumping against such strongly held views, economic policy now has the advantage of the public's tilt toward financial security and job growth. To be sure, it will still be a very difficult task, an uphill battle, to say the least. But as a leading spokesman for the Obama administration has famously said: "You don't ever want to let a crisis go to waste."

Chart 1: Index of Consumer Sentiment

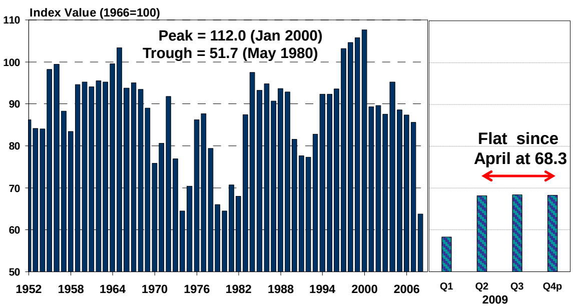
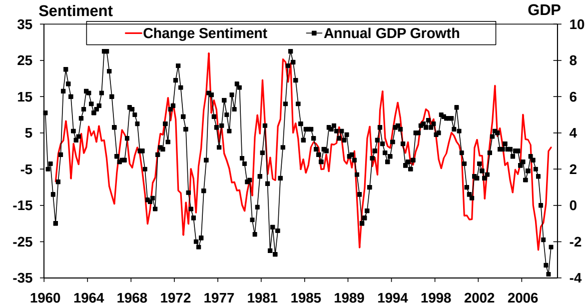


Chart 2: Change in Sentiment Index and Annual Growth in GDP



Largest Post WWII Declines:	1954	1958	1974	1975	1980	1982	1991
	-0.7%	-1.0%	-0.5%	-0.2%	-0.2%	-1.9%	-0.2%

Chart 3: Confidence in Government Economic Policies

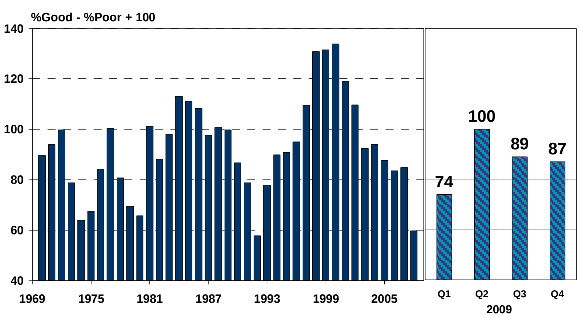


Chart 4: Confidence that Obama's Stimulus Package Will Improve Economic Conditions

	Effectiveness of Government Stimulus Programs				Overall Government Economic Policies			
	Effective for Economy and Personal Finances		Ineffective for Economy and Personal Finances		Favorable Assessments		Unfavorable Assessments	
	Mar-Jun 2009	Sep-Oct 2009	Mar-Jun 2009	Sep-Oct 2009	Mar-Jun 2009	Sep-Oct 2009	Mar-Jun 2009	Sep-Oct 2009
All Households	**43%**	**36%**	**31%**	**43%**	**25%**	**20%**	**27%**	**32%**
Index of Consumer Expectations	**81.0**	**93.5**	**40.6**	**46.7**	**83.2**	**100.0**	**41.8**	**40.5**
Expect Increase in Unemployment	**35%**	**21%**	**39%**	**62%**	**18%**	**12%**	**37%**	**54%**

Note: Middle response categories excluded from table.

Chart 5: The Impact of Confidence in the Federal Reserve on Consumer Expectations

	Greater or an Unchanged Level of Confidence		Less Confidence in Federal Reserve	
	Oct – Nov 2008	Sep-Oct 2009	Oct – Nov 2008	Sep-Oct 2009
All Households	**41%**	**49%**	**56%**	**49%**
Index of Consumer Expectations	**62.9**	**84.5**	**49.8**	**58.2**
Expect Increase in Unemployment	**37%**	**33%**	**61%**	**64%**

Chart 6: Unemployment Expectations & the Change in the Actual Unemployment Rate

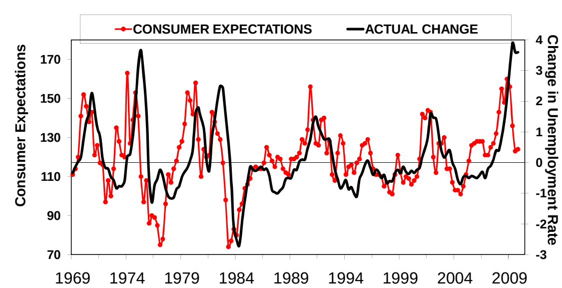


Chart 7: Real GDP Growth During Great Depression Was Negative in Just Five of Eleven Years

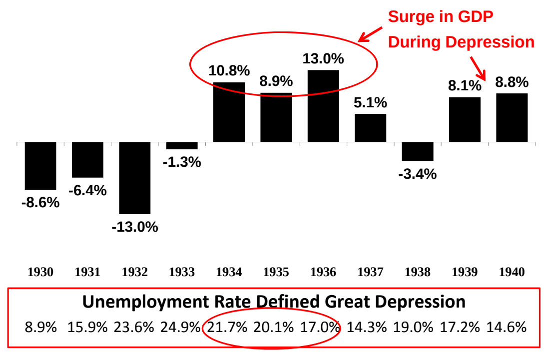


Chart 8: Rapid Increase in Unemployment Rate: Expected to peak at 10.7% in 2010

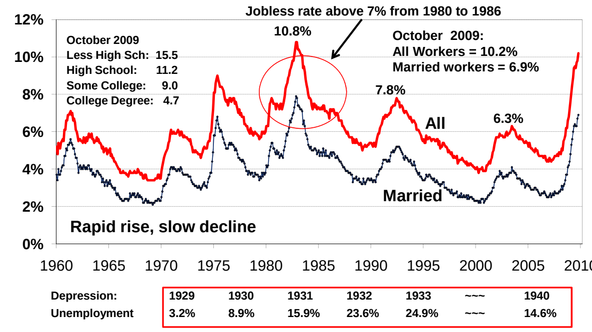


Chart 9: Labor Force Participation Rate and Employment Population Ratio at 20 Year Lows

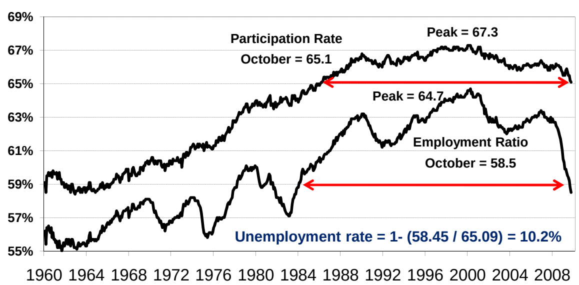


Chart 10: Consumers' Overall Assessments of Their Current Financial Situation

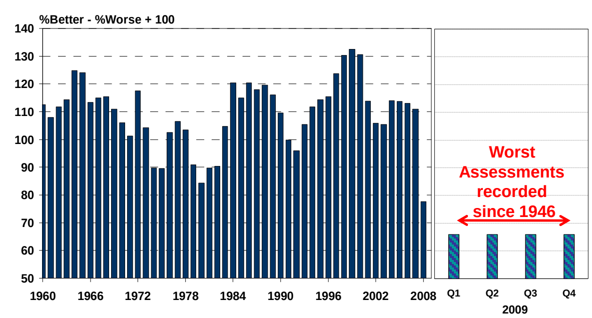


Chart 11: Consumers' Reports of Recent Net Income Gains

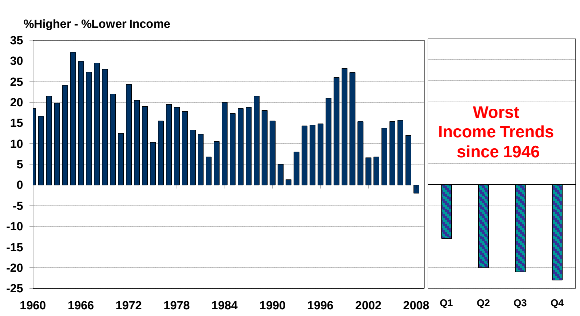


Chart 12: Steep Declines in Household Wealth End; Bubble Completely Reversed

(Wealth as a Percent of Personal Disposable Income)

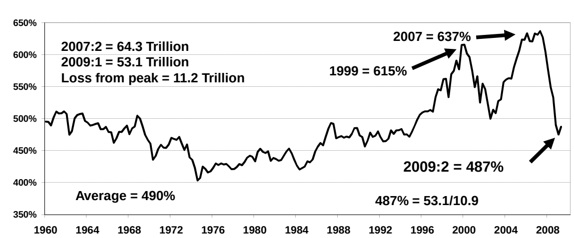
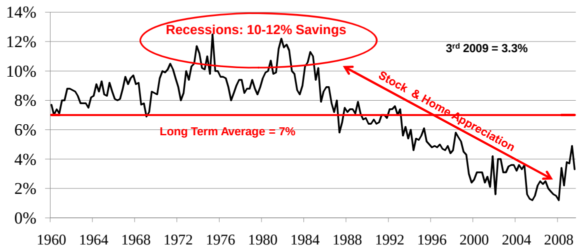


Chart 13: Increased Personal Saving Rate Expected: Debt Reduction First, Then Asset Accumulation



Extraordinary Wartime Savings Acted to Reversed Depression Losses

Saving	**1940**	**1941**	**1942**	**1943**	**1944**	**1945**	**1946**
Rate:	**5.7%**	**12.2%**	**24.1%**	**25.6%**	**26.1%**	**20.4%**	**9.6%**

Chart 14: Record Decline in Household Debt Helps to Improve Savings Rate

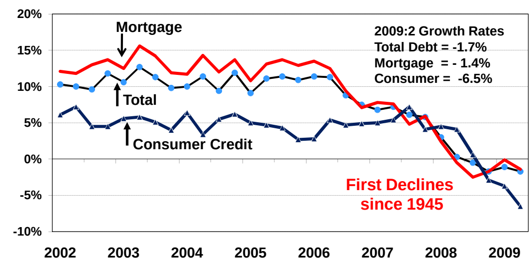


Chart 15: Household Debt as Percent of Personal Disposable Income Still Near All-time Peaks

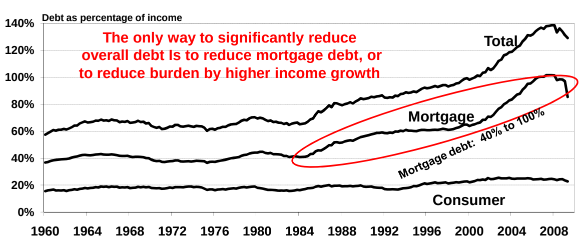


Chart 16: Retirement Savings Top Priority

(Change in Probability of a Comfortable Retirement Given Current Assets)

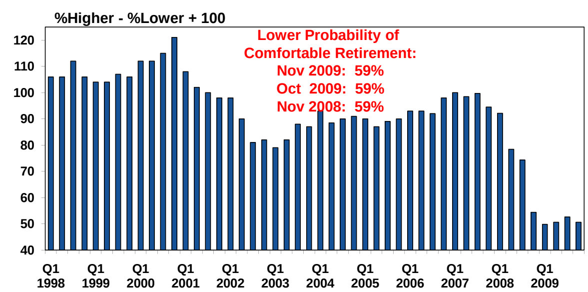


Chart 17: Banking Sector Does Not Plan to Resume Normal Lending Practices for Consumer Loans Anytime Soon

(July 2009 FRB Survey of Senior Loan Officers)

	Currently Not tighter Than Decade average	When return to last decade's average lending standards for consumers					
		2009: H2	2010: H1	2010: H2	2011	Never	Total
Mortgage	**10%**	**2%**	**6%**	**27%**	**13%**	**42%**	**100%**
Credit Card	**16%**	**3%**	**10%**	**13%**	**26%**	**32%**	**100%**
Installment	**25%**	**2%**	**6%**	**23%**	**19%**	**25%**	**100%**

Chart 18: Job and Income Uncertainty Key Determinant of Low Buying Plans

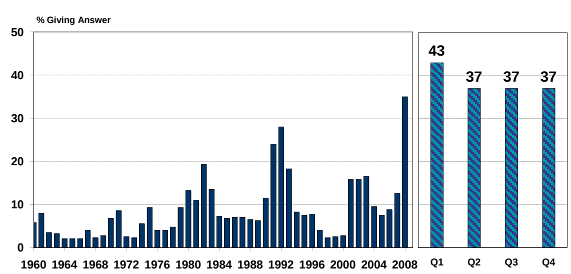


Chart 19: Discounted Prices Main Appeal of Current Buying Conditions

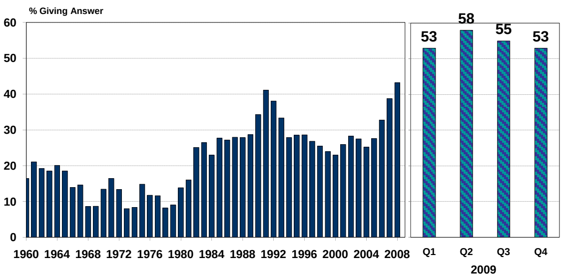


Chart 20: Spending Expected to Decline by -0.7% in 2009 and Rebound to Grow by 1.6% in 2010