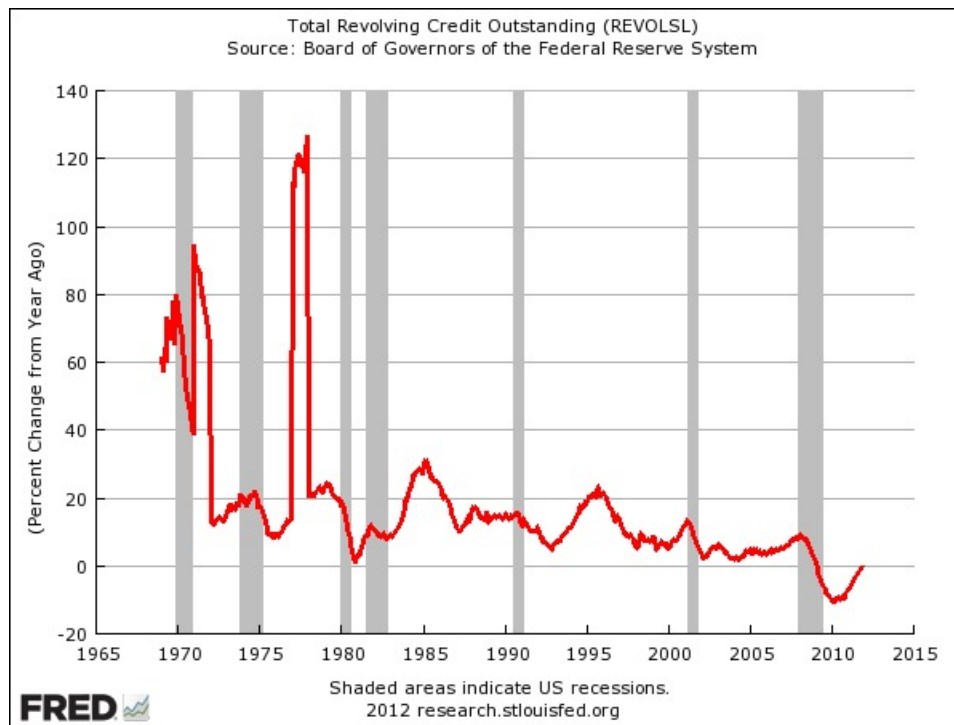


## IS CONSUMER SPENDING A GOOD SIGN? WEB BUZZ 2012.01.17

The stock market is having a breath of new life from the January 9, 2012 Fed announcement of an annualized 10% increase in consumer credit. Both in the print media and on TV this announcement is being hailed as a sign of strength and confidence in the economy. We find just the opposite to be true. As reported in previous Web Buzzes, the consumer has benefited from a tax cut in the way of lower gasoline prices (which are now going the other direction) and a drawdown in savings. Under the present economic conditions of limited increases in employment along with nonexistent wage increases this is, in our opinion, likely a one-time event. Please note the first chart which does indicate that revolving credit totals (credit card) has reached 0% year-over-year for the first time in the recovery.

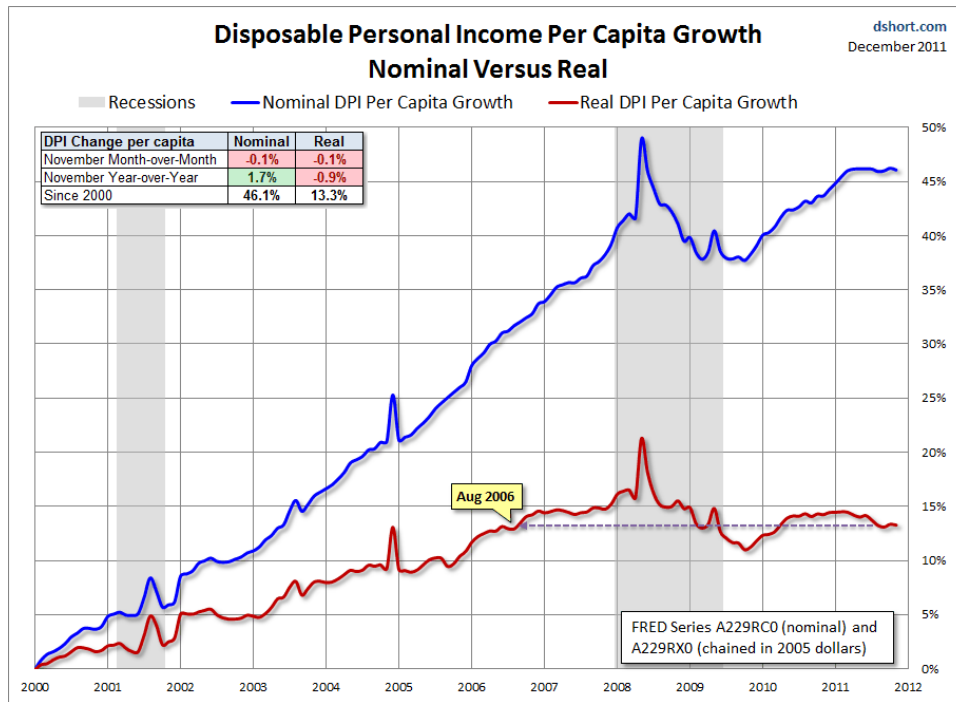


Adapted from [businessinsider.com](http://businessinsider.com)

One of the things one needs to consider when looking at the total credit numbers is that they also include college loans, which are quite substantial, along with auto purchases. These items are considered non-revolving credit and tend to be cyclical.

The reported numbers are not seasonally adjusted. A breakdown of revolving and non-revolving credit is \$807.9 billion and \$1,682.4 billion respectively.

We do not want to throw too much cold water on the fact that consumers are spending a bit more freely; however, the fact remains that adding more debt to an over-indebted consumer is not a long term healthy sign. There will be a time to be pleased for such an occurrence, but not at these debt levels. As a reminder, please note the second chart which shows that per capita disposable personal income has not increased in over five years. This is where spending and paying off debt comes from, thereby placing a limit on what the consumer can do.



Adapted from dshort.com