

Deloitte Consumer Spending Index continues steady decline in January

NEW YORK, US: The Deloitte Consumer Spending Index (the Index) continued to decline in January, hitting its lowest level since August 2009. The Index attempts to track consumer cash flow as an indicator of future consumer spending.



"Growing weakness in real wages and a tax rate that is creeping higher offset small improvements in initial jobless claims during the month of January," said Carl Steidtmann, Deloitte's chief economist and author of the monthly Index. "Although real consumer spending has been rising at a healthy pace, inflationary pressures may begin to crimp Americans' buying power in the months ahead, particularly if food and energy prices continue to climb."

The Index, comprising four components - tax burden, initial unemployment claims, real wages, and real home prices - fell to 3.82%, from an upwardly revised gain of 4% a month ago.

"In an environment where growth may continue at a sluggish pace, retailers should consider talent management strategies that improve the interactions with their core customers," said Alison Paul, vice chairman and retail sector leader, Deloitte LLP. "One way to do so is to attract and develop employees who reflect the retailer's target customer segments. A diverse workforce that understands different customer preferences may have the advantage in delivering the right merchandise, marketing, and services that build long-term loyalty with consumers."

Highlights of the Index include

Tax burden: With the tax benefits of the 2009 stimulus ebbing, the tax burden is pushing slowly higher and is now significantly above levels of a year ago. Extension of former President George W. Bush's 2001 tax cuts is not likely to change this trend. As the economy improves, households are pushed into higher tax brackets, raising the government's take.

Initial unemployment claims: Claims continued to improve albeit at a slower pace. At year-end 2010, it looked like claims might break below the 400 000 mark, but, unseasonable weather and labour market weakness has pushed the number claims back up to the 460 000 to 425 000 range that has held over the past year.

Real wages: Real wage growth is beginning to fall due to rising energy prices. It is no longer the contributor to the Index that it once was through much of 2010.

Real home prices: The housing market continues to weigh on the Index and the consumer. Real housing prices are declining once again. With more supply coming on the market due partly to foreclosures, prices are falling. Declining home prices create a negative wealth effect that is a drag on consumer spending.

For more information about Deloitte's retail sector, go to www.deloitte.com/us/retail.

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