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Shoppers won't lose energy in 2011, economists say

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WASHINGTON — Shoppers' holiday-season splurge was likely a preview of what's to come in 2011, and economists say it should embolden companies to expand and hire.

Americans spent more in the 50 days before Christmas than analysts had expected — the sharpest annual increase since 2006. It's the surest sign yet they're becoming less frugal as the economy rebounds.

"It has been the consumer that has been afraid to spend that has held the economy back and held businesses back from hiring," says Joel Naroff of Naroff Economic Advisors. "That cycle is beginning to break."

Normally in January, shoppers recover from their holiday splurges by curtailing their purchases. Not likely this time. Economists say the tax cuts approved by Congress, a rising stock market, a slow but steady rise in hiring and banks' growing willingness to lend will sustain shoppers' spending.

"I don't think consumers are going to suffer a hangover after Christmas," says Mark Zandi, chief economist at Moody's Analytics. "They are going to hang tough and spend more aggressively in 2011."

Zandi thinks consumer spending will rise 3.6 percent in 2011, twice as fast as in 2010. That would propel the economy to grow about 4 percent, up from the 2.8 percent Zandi expects for 2010.

The stronger growth should lead companies to add 2.9 million jobs this year, up from 1.1 million jobs projected for last year, Zandi says. That would drop the unemployment rate to 9 percent for all of 2011, down from an average 9.5 percent rate for 2010, he says.

Excluding auto sales, holiday shopping in the 50 days before Christmas totaled \$584 billion, according to MasterCard SpendingPulse. That's 5.5 percent more than last year — the highest year-over-year jump on records dating to 2006.

Shoppers spent more on just about everything: clothing, jewelry, home furnishings and electronics. Higher food and energy prices also contributed to the increased spending.

All told, the International Council of Shopping Centers said Thursday that overall holiday spending, which combines sales for November and December, rose 3.8 percent. That was up from a 2.3 percent increase last year. And it was the best showing since 2006.

The post-Christmas blizzard in the Northeast kept some shoppers away. Retailers such as Target Corp., Costco Wholesale Corp. and Macy's Inc. reported Thursday smaller-than-expected gains for December. But SpendingPulse data earlier this week showed shoppers spent more on clothes, shoes, luxury goods and electronics in December than they did a year earlier.

Despite a depressed housing market, rising energy prices and unemployment near 10 percent, economists say they think the spending momentum will carry well into 2011.

Sal Guatieri, economist at BMO Capital Markets, predicts consumer spending will grow at a 3.5 percent annualized clip in the first three months of this year. That would be up from an estimated 3 percent pace for the final three months of last year. And it would mark the strongest showing since late 2006, before the recession.

After boosting their spending by a solid 0.4 percent in December 2009, consumers spent just 0.1 percent more in January 2010, according to government figures. But for this January, Zandi expects consumer spending to rise 0.4 percent, the same gain he expects for December.

Working Americans will start seeing extra money in their first paycheck of the year because of a provision in the tax-cut law that lowers their Social Security tax.

The Standard & Poor's 500 stock index also surged nearly 13 percent last year. The higher stock prices have boosted Americans' wealth, making them feel more inclined to spend.

"We think it is going to be a very strong January for retailers," says Gary Stibel, CEO of the New England Consulting Group, whose clients have included McDonald's and Wal-Mart.

That said, spending could soften later in the year if gasoline prices, now above \$3 a gallon nationwide, rise further, Stibel says. He expects January retail sales to be roughly 5 percent above last January's.

Besides higher gasoline and food prices, the economy faces other threats that could derail economists' optimistic forecasts should they worsen:

- Further declines in home prices and more foreclosures.
- Persistently high unemployment, now at 9.8 percent.
- Higher interest rates that could further depress home sales, reduce purchases of big-ticket items like cars and make it costlier for businesses to expand and hire.
- Layoffs and spending cutbacks by struggling state and local governments.

Still, economists foresee solid consumer spending for 2011 even after factoring in lower home values and unemployment that's expected to remain near 9 percent by year's end.

The Labor Department said last week that the number of people applying for unemployment benefits fell to its lowest point since July 2008 — a sign that layoffs are slowing.

And a December survey by the Business Roundtable found that 45 percent of big company CEOs planned to add jobs within six months, up from 31 percent who said so in the fall.

"Consumer spending is going to gather speed because the job market is turning," says Craig Johnson, president of retail consultancy Customer Growth Partners.

Economists say they think households will be willing to part with more of their income despite meager pay gains.

Consumers are expected to save about 5.3 percent of their disposable income this year, according to Zandi and others. Some predict it will drop to around 4 percent. That would be down from a projected 5.8 percent savings rate for 2010.

Before the recession, consumers were saving far less — just over 1 percent.



Don't expect a return to that level any time soon, if ever, experts say.

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