

ECONOMICS: US PERSPECTIVES—JANUARY 13, 2012

Consumer Spending Rebounds, Helped by Improved Labor Markets

■ **Joseph G. Carson**
 US Economist and Director—Global Economic Research

Retail sales posted strong gains in the fourth quarter, while the pace of employment growth also improved. A part of the recent spending gains reflects a release of some of the pent-up demand from the recession, which we expect to be a positive driver for growth again in 2012.

Consumer spending posted a solid gain in the fourth quarter of 2011, and coupled with fresh evidence of improvement in the labor markets, puts the US economy on a stronger foundation going into 2012. The latest spending and jobs data support our forecast for US gross domestic product growth to accelerate to 3% this year.

Nominal retail sales increased by an annualized 7.9% in the fourth quarter, according to preliminary data released this week by the Census Bureau. The fourth-quarter gain was relatively strong even though the preliminary report for December showed a smaller-than-expected monthly rise of 0.1%. It was the biggest quarterly gain since the first quarter of 2011 when sales rose 10.4% **(Display 1)**.

The real volume gains in the fourth quarter were probably even stronger than the numbers imply because consumer price inflation was benign in late 2011, while in the first quarter of the year prices had risen sharply. Indeed, we estimate that real consumer purchases of durable and

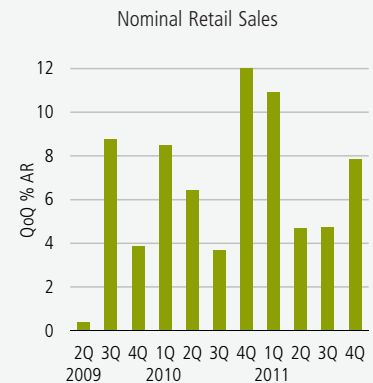
nondurable goods jumped 6.0% to 6.5% annualized in the fourth quarter, roughly two percentage points faster than in the first quarter and one of the strongest quarterly advances of the current recovery **(Display 2)**.

Car Sales Surge

Strength in consumer spending on goods was centered in big-ticket, discretionary items. According to preliminary data, new motor vehicle purchases surged nearly 40% annualized in the fourth quarter. The pace of new vehicle sales increased by one million units to an annualized 13.5 million units—the strongest rate for a quarter since mid-2008 **(Display 3, next page)**.

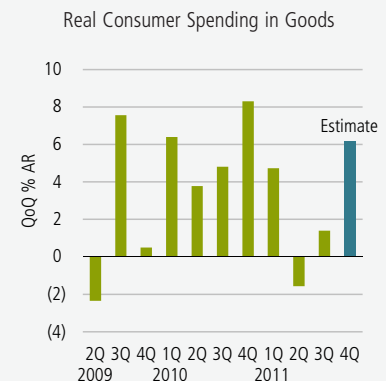
Technology products—such as audiovisual equipment and computers—also enjoyed a 25% increase in annualized sales during the fourth quarter. However, the pace of spending growth on nondurable goods was much slower, up about 2%, with spending on clothing (which is often considered a discretionary purchase) rising by close to 4% annualized.

Display 1
Rebound in Consumer Spending



As of December 2011
Source: Census Bureau and Haver Analytics

Display 2
Strength in Discretionary Items



As of December 2011
Source: Census Bureau and Haver Analytics

The strength in discretionary spending was echoed in the recent consumer credit data, as well as in consumer sentiment and confidence surveys. In November, consumer credit jumped \$20 billion, the largest monthly increase in 10 years. Three-fourths of the gain occurred in non-revolving credit, which is used primarily for the purchase of motor vehicles and other durable goods. Consumer surveys in the fourth quarter also showed a rise in confidence, admittedly from very depressed levels, as well as an increase in the willingness to spend and use credit to finance purchases.

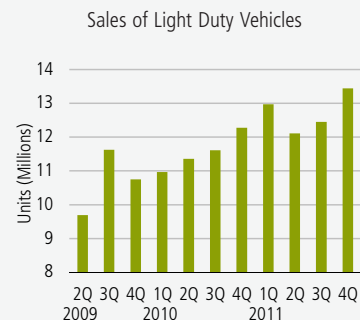
The rebound in consumer spending for goods, especially for big-ticket items, is something that typically occurs in the early stages of a cycle. But since the recession ended in mid-2009, the pattern has been more irregular than usual. In 2011, the ability and willingness of consumers to spend was hit by several shocks, including the spike in commodity prices, the S&P downgrade of the US credit rating and a subsequent plunge in equity markets in late summer.

Now, however, consumer spending may prove more resilient, especially as

conditions in job markets improve. Payroll employment increased by 200,000 in December, with 61% of all industries adding jobs, according to data from the Bureau of Labor Statistics released earlier this month. In addition, debt servicing expenses have fallen significantly, leaving consumers with more disposable income to spend. More jobs and lower debt service ratios add spending power to consumers. But in order for this to translate into a strong cyclical spending rebound, consumers must also have a compelling need to open their wallets.

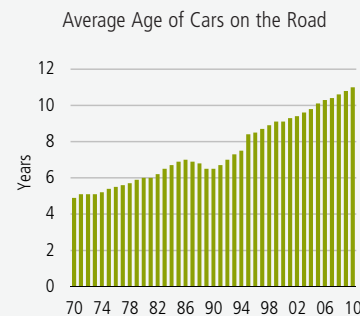
In our view, this “need” factor exists after consumers postponed major purchases during the recession, which has created huge pent-up demand for many durable goods items. For example, the average age of vehicles on US roads today is the highest in several decades (**Display 4**), as is the case for many other durable goods. We think this is a good example of how the need to replace obsolete products could fuel demand and spark a sharp rise in consumer spending in 2012, especially now that income flows and finances are on a stronger footing. ■

Display 3
Best Quarter for Vehicle Sales Since 2008



As of December 2011
Source: Bureau of Economic Analysis and Haver Analytics

Display 4
Huge Pent-up Demand for Vehicles



As of December 2010
Source: RL Polk

The information contained here reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. Past performance does not guarantee future results. The views expressed here may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. It does not take an investor's personal investment objectives or financial situation into account; investors should discuss their individual circumstances with appropriate professionals before making any decisions. This information should not be construed as sales or marketing material or an offer or solicitation for the purchase or sale of any financial instrument, product or service sponsored by AllianceBernstein or its affiliates.

Note to Canadian Readers: AllianceBernstein provides its investment management services in Canada through its affiliates Sanford C. Bernstein & Co., LLC and AllianceBernstein Canada, Inc.

Note to UK Readers: UK readers should note that this document has been issued by AllianceBernstein Limited, which is authorised and regulated in the UK by the Financial Services Authority. The registered office of the firm is: 50 Berkeley Street, London W1J 8HA.

Note to Australian Readers: This document has been issued by AllianceBernstein Australia Limited (ABN 53 095 022 718 and AFSL 230698). Information in this document is only intended for persons that qualify as “wholesale clients,” as defined in the Corporations Act 2001 (Cth of Australia), and should not be construed as advice.

Note to New Zealand Readers: This document has been issued by AllianceBernstein New Zealand Limited (AK 980088, FSP17141). Information in this document is only intended for persons who qualify as “wholesale clients,” as defined by the Financial Advisers Act 2008 (New Zealand), and should not be construed as advice.

Note to Readers in Vietnam, Brunei, Thailand, Indonesia, China, Taiwan and India: This document is provided solely for the informational purposes of institutional investors and is not investment advice, nor is it intended to be an offer or solicitation, and does not pertain to the specific investment objectives, financial situation or particular needs of any person to whom it is sent. This document is not an advertisement and is not intended for public use or additional distribution. AllianceBernstein is not licensed to, and does not purport to, conduct any business or offer any services in any of the above countries.

Note to Readers in Malaysia: Nothing in this document should be construed as an invitation or offer to subscribe to or purchase any securities, nor is it an offering of fund management services, advice, analysis or a report concerning securities. AllianceBernstein is not licensed to, and does not purport to, conduct any business or offer any services in Malaysia. Without prejudice to the generality of the foregoing, AllianceBernstein does not hold a capital markets services license under the Capital Markets & Services Act 2007 of Malaysia, and does not, nor does it purport to, deal in securities, trade in futures contracts, manage funds, offer corporate finance or investment advice, or provide financial planning services in Malaysia.

Note to Singapore Readers: This document has been issued by AllianceBernstein (Singapore) Ltd. (Company Registration No. 199703364C). The Company is a holder of a Capital Markets Services Licence issued by the Monetary Authority of Singapore to conduct regulated activity in fund management.

Note to Taiwan Readers: This information is provided by AllianceBernstein funds Taiwan Master Agent, AllianceBernstein Taiwan Limited. SFB operating license No.: (100) FSC SICE no. 012. Address: 57F-1, 7 Xin Yi Road, Sec. 5, Taipei 110, Taiwan R.O.C. Telephone: 02-8758-3888. AllianceBernstein Taiwan Limited is a separate entity and independently operated business.

Note to Hong Kong Readers: The document has not been reviewed by the Hong Kong Securities and Futures Commission. The issuer of this document is AllianceBernstein Hong Kong Limited.