

USA Lifestyles: Americans Hang On As Shifting Economic Events Shape 2008

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American consumers might very well remember Bette Davis' famous movie line, "Fasten your seat belts, it's going to be a bumpy ride."

Last Fall we reported on the subprime situation in the US and its initial impact in the UK at Northern Rock. At the time, no one really knew how deep or widespread the economic fallout would be. Now, almost six months later as events have unfolded, the economic reverberations are being felt worldwide. So what happens next?

Historically, American's spending patterns during economic downturns change: instead of spending on vacations, new cars, and in general continuing to spend across a wide range of consumer sectors, this time is different. It used to be that spending would focus on the home, i.e., household furnishings, modest improvements, and a splurge here and there. Now there's a larger sense of uncertainty about the near term economy.

In the U.S., credit has quickly tightened, consumer confidence is plunging, job growth is faltering and the argument is about recession: is it here or is it coming? The totality of it all has negatively impacted world financial markets, retailers are concerned, housing prices and sales have declined, consumer spending has softened, and the "wealth effect" (value and cash derived from home refinancing) has nearly evaporated.

Businesses like Home Depot and Wal-Mart have reported declining sales with a murky future outlook as construction spending slows down. Specialty retailers for home furnishings are suffering as well. Last September, only one in four economists were pessimistic enough to put a chance of recession at 35 percent or higher. Now, according to a report issued by the National Association for Business Economics, 45 percent of the economists on its forecasting panel expect a recession this year. Wherever you look, the signs are unmistakable that the economy is in trouble.

American consumers have only to hear the news and almost every day there is a negative story—the stock market falls 300 points after going up 150 points the day before; more layoff announcements from big companies; and states are cash strapped because tax revenues from declining home sales have dropped significantly. In fact, as many as 18 states have deficits, totaling \$14 billion in the current budget, and 20 forecast spending shortfalls for 2009 — \$34 billion when combined.

So what is the good news? Those who say the U.S. is in recession believe it will be short lived with a turnaround in the summer. Many companies understand that if they cut back on sales staffs that they will lose market share to competitors so they have incentive to

avoid more drastic measures for the time being. Consumers, while cutting back now, are exercising extreme caution and shop with an eye on value for their money.

And of course America is in the midst of a presidential election that injects more uncertainty into the environment. But here too there is hope for change. There is concern that the U.S. is spending over \$2 billion dollars a week on the wars in Iraq and Afghanistan. To date, war spending exceeds \$500 billion and continues to rise. That being said, no wonder there is a lack of money on the home front for spending on infrastructure, education and for programs that will truly create job growth and economic security.

The economic condition is usually tied to politics and this year is no exception. Perhaps with a complete change of administration and a more reality - based domestic and foreign policy the U.S. will right itself in more ways than one. Given all the uncertainty at the moment, it seems America is at a crossroad. We have always voted with our pocketbook and optimism tells us that tomorrow will be better. Until then, the only real choice Americans have at the moment is to hang on and consider what needs to be done and who is the best person to do our bidding. It is possible that by the end of this year we can look back and say we've come a long way – and I'm going to the mall.

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