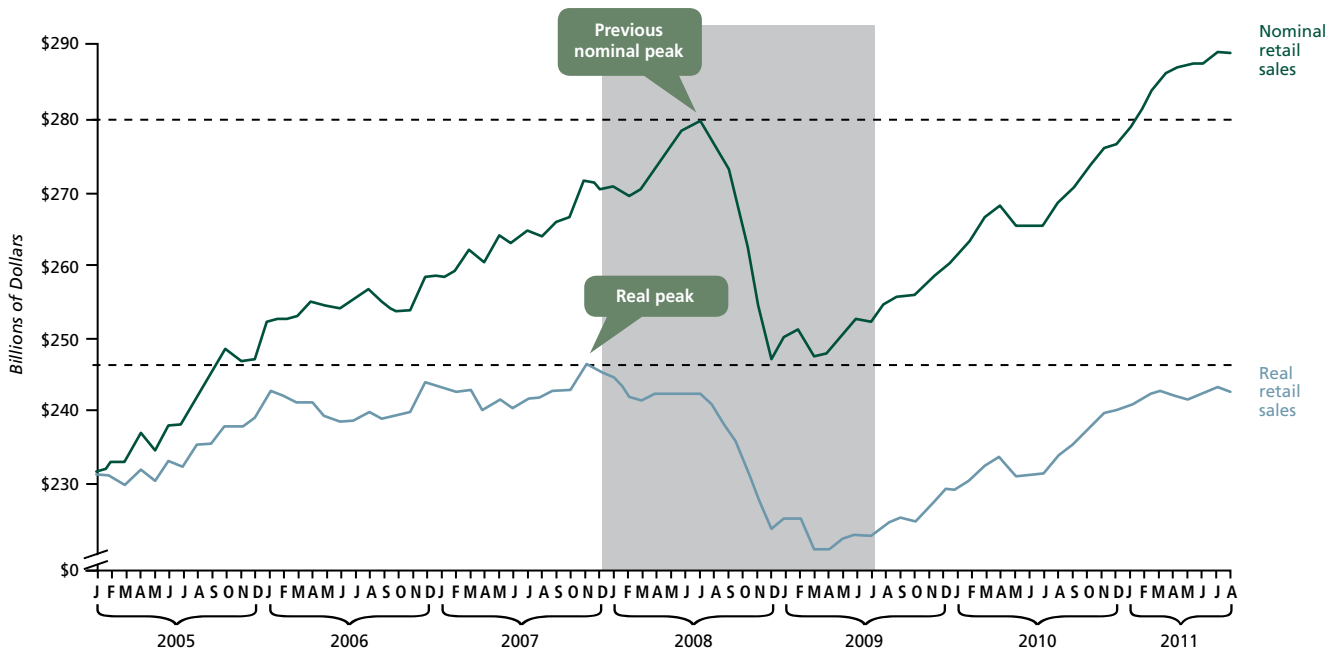


## L.E.K. Consumer Sentiment Survey, Volume 7: Consumer Spending to Remain Muted

Retail sales (excluding autos) in real terms have grown considerably since the end of the downturn in 2009. But after declining by more than 10% during the recession, retail spending has yet to reach the November 2007 peak four years after the fact (see Figure 1). Consumers have been generally cautious about their spending, and in this installment of the L.E.K. Consulting Consumer Sentiment Survey (CSS), consumers only expect their spending to be moderate during the next six months.

While tracking historical sales data is instructive, understanding the consumer's current outlook toward their spending and related factors is integral to helping companies that depend on consumer spending to shape their plans. To that end, L.E.K. Consulting has undertaken its CSS semiannually since fall 2008 to track households' spending expectations. For the fall 2011 L.E.K. CSS, we contacted more than 2,000 U.S. consumers for insight into their spending expectations for the next six months.

**Figure 1**  
**Retail Sales are Returning to Pre-Recession Levels**



Notes: U.S. monthly retail sales excluding autos. Sales data is adjusted for seasonal, holiday, and trading-day differences, but not for price changes; Real monthly sales indexed to January 2005 and adjusted with CPI data; vertical grey bar indicates recession period; monthly data up to, and including, August 2011  
Source: Bureau of Labor Statistics, U.S. Census Bureau, L.E.K. analysis

L.E.K. Consumer Sentiment Survey: Consumer Spending to Remain Muted was written by **Francois Mallette**, a Vice President and head of L.E.K.'s North American Private Equity Practice; and **Jon Weber**, a Vice President at L.E.K. Consulting in the Retail and Consumer Products Practices. Please contact us at [retail@lek.com](mailto:retail@lek.com) for more information.

## Snapshot of Economic Sentiment

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When asked about their perceptions of the economy, consumers expect the economy and their personal wealth to get worse before they get better. In this survey, L.E.K. found that a net 12.7% more consumers expect the economy to be worse or much worse during the next six months compared to the spring 2011 survey. As a point of reference, approximately as many consumers expect the economy to be worse or much worse during the next six months as did in the fall 2008 CSS.

After having lived with a recession followed by a very soft economic environment for more than four years, consumers are fatigued and their mood has darkened. The combination of ongoing economic uncertainty, high unemployment, stagnant real wages and price increases all lead consumers to continue pushing out the time when they expect that their personal financial situations will recover.

On average, consumers expect the time when their personal financial will recover to be 16 months which, in practical terms means an unknown and indefinite timeframe. As a result, consumers have responded that they will continue to manage their household budgets closely to ride out these uncertain waters as best they can.

When asked, consumers state they are planning to curtail their spending slightly. And they generally plan to do this by taking fewer items home. For example, 91% say they will buy fewer items of clothing, apparel and footwear, and 80% will curtail health & wellness purchases. Some consumers who plan to trim their purchasing will also trade down to less expensive brands and stores.

Looking at the data by demographic, high-income households (\$200K+) have lowered their positive outlook on spending since the spring, although they are still more optimistic about their personal finances than any other income group. This decline is likely a result of the “wealth effect,” and reflects the stock market swoon during the late summer. It’s important to note, however, that regardless of income demographic, there are a

number of factors that will cause consumer spending to differ from their stated intent, including shifts in the economy, lower unemployment, and retailers’ promotions and discount campaigns.

On a positive note, consumers across income brackets are slightly more upbeat about their personal finances. L.E.K. believes this reflects that more consumers are taking control of their financial situation and are managing it within the bounds of their resources.

## Spending Opportunities Vary by Category

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L.E.K. asked consumers to share their projected spending across 16 categories during the next six months. Our findings help to better understand likely purchasing patterns by income bracket across multiple economic sectors (see Figure 2).

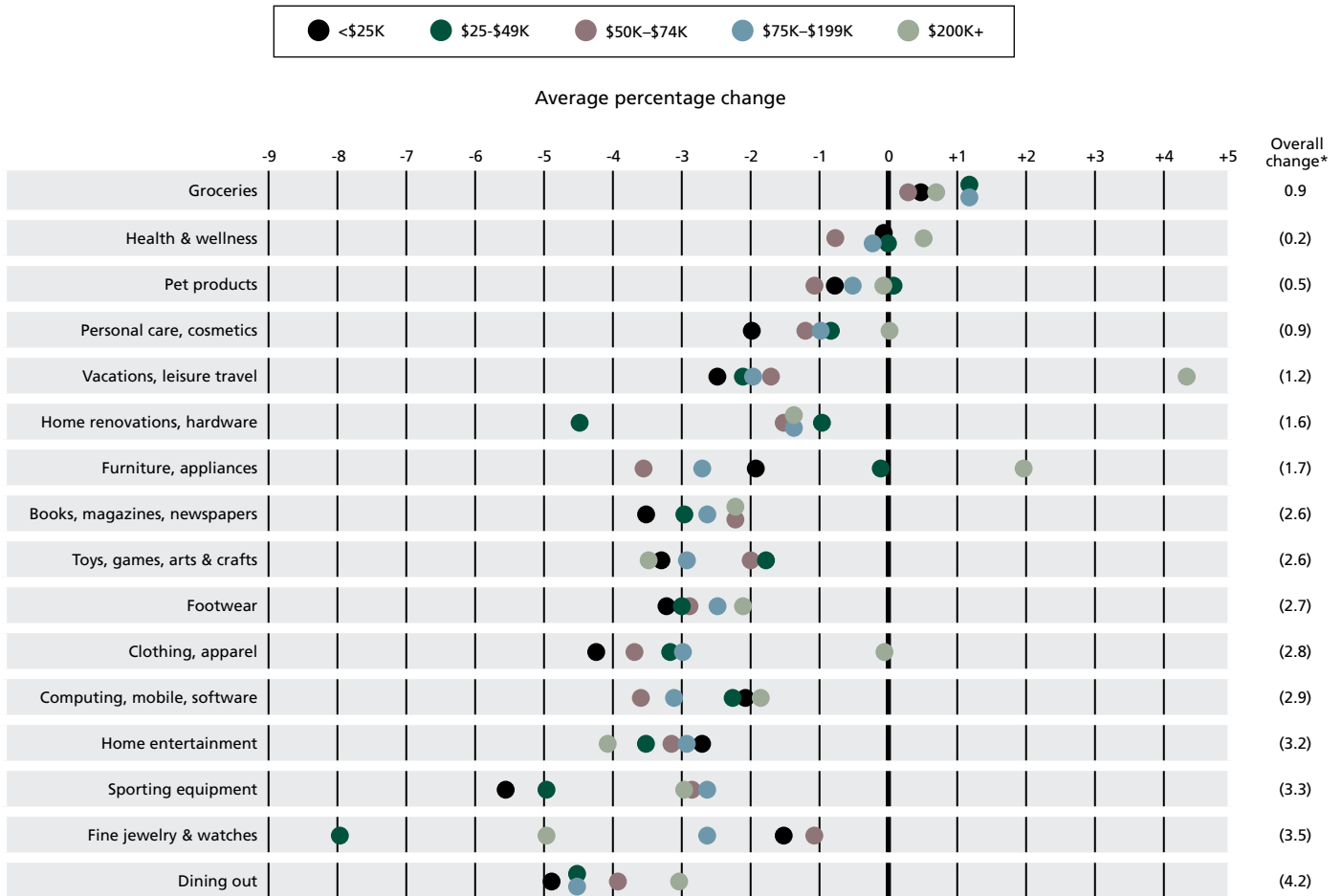
Consumers’ responses reveal that companies exposed to high-income households may see some demand tempered, particularly compared to expectations in the spring. However, these affluent consumers still plan to boost their spending in some discretionary categories such as vacations & leisure travel and furniture & appliances, as well as maintain their spending levels in other categories including clothing & apparel, health & wellness and personal care. Other income demographics share a more austere spending outlook across most categories that we monitor.

## Key Takeaways and Implications

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Consumers have turned more pessimistic about the economy since the spring 2011 CSS, with stagnant job growth and incomes serving as caution signs for consumers (among other factors). And although consumers expect their personal finances to improve marginally, monetary belt-tightening is expected during the next six months, which will be reflected in likely muted growth in retail spending going into the important holiday shopping season.

**Figure 2**  
**Expected Change in Spending Within the Next Six Months**  
**by Category and Income Level**



\* Weighted by percent of spending attributable to the income groups <\$25K, \$25K-\$49, \$50K-\$74K, \$75K-\$199K, and \$200K+  
 Source: L.E.K. Consumer Sentiment Survey, September 2011

While affluent consumers plan to spend less than last fall, they still plan to increase spending in select categories and maintain their current spending levels in others. Looking more broadly, many retailers and brands will have to motivate consumers to spend using a variety of marketing and promotional strategies.

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