The State Of The AMERICAN CONSUMER
Lukewarm... languid... listless... It’s not clear which adjective best describes the consumer spending environment in the US over the past few years. It is clear, however, that the words “hot” or “unchained” or “rocking” do not apply.

Manufacturers, marketers and merchants across multiple segments have all been wrangling for enhanced engagement. They have been digging deep in the bag of tricks, deploying LTOs, BOGOs and other programs in an effort to gain traction.

Things are not bad. They just are a long way from great. Macro conditions over the past three years (2012-2014) are certainly better than those that prevailed the prior three years (2009-2011). At the same time, conditions are not at all like they were ahead of the 2008 financial collapse.

It’s like we have purchased a new Ford sedan. The car is nice enough — more gizmos, better efficiency, the new car smell. It’s affordable. And, it’s certainly better than what we traded in. But it’s no BMW M6, offering dizzying performance and striking good looks, price be damned.

Pragmatism has, to a large degree, supplanted pizzazz. There is a natural tension in the equation. On balance, from a national perspective, living closer to within our collective means is almost certainly a good thing. More conservatism in 2006-2008 would have meant less carnage in 2009-2011. At the same time, CPG company and retailer financial performance would benefit if consumers fell off
the wagon or at least went on an occasional bender.

Recently, a “solution” has emerged that could be win-win. With gasoline prices plummeting, consumers have some “extra” spending money. Ostensibly, that could be good news for demand without consumers throwing caution to the wind.

The stakes are moderate to high for the economy generally and the dairy industry specifically. For example, a 1% bump in domestic cheese demand spurred by increased spending in restaurants or grocery stores would translate to about 110 million pounds additional use, a number that would meaningfully offset export losses and alter stocks building trajectory.

With all of that in mind, our look at “the state of the American consumer” is designed to provide:

- Snapshots of the overall macroeconomic environment
- Pertinent data spotlighting consumer financial and spending trends
- A look at the potential impact of lower gasoline prices
- A summary of the current situation
- Opinions on near- and medium-term outlook with implications for the US dairy marketplace

The Macro Picture

So-called “real” US GDP grew by 2.4% in 2014 versus 2013. That pace was better than that seen between 2013 and 2012 (+2.2%). It topped performance in Germany (+1.4%), Japan (+0.3%) and Brazil (+0.1%), among numerous others. But, the US economy was growing more in the early-to-mid 2000s (+3.3% compound annual growth from 2003 to 2006) or all of the 1980s or 1990s (+3.5% and +3.4% of, respectively). In short, the headline numbers have been of the slow-and-steady variety.

Of course, GDP data doesn’t buy groceries or restaurant meals. People with jobs do that. More Americans held jobs in January 2015 than at any other time in history — 140.8 million people. Unemployment was at 5.7%, a marked improvement from the recession highs (10.0% in October 2009).
That’s the good news. Some of the numbers behind the numbers are not as impressive.

**Underemployment remains high.** The payroll to population ratio was at 58.7% in January. While better than the 57.6% low in January 2011, that ratio averaged 62.7% from 2004 to 2008. Government estimates showed 6.8 million people working part time for economic reasons in January compared to 4.4 million on average per month from 2003 to 2007. Unemployment plus “marginally attached workers” plus part-timers who would like full time work (what is known as the U6 rate): 11.3% in January. Again, that’s better than worst of the recession (17.1%), but still above the 2003-2007 average (9.0%).

**The unemployed remain so for an extended period.** In January, average duration of unemployment was at 32.3 weeks. That was down 20.4% from the recession peak (40.6 weeks) but up 77.8% from the 2003-2007 average (18.2 weeks).

**Wages are not really growing.** Government data shows aggregated wages up 14% and per capita income up 13% in 2014 versus 2008. Adjust those numbers for inflation, however, and there is not much progress, with wages up 2% and per capita income up 1% over a six-year period.

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Spending restraint makes sense when consumers do not feel as though they are really getting ahead income-wise. Things may be changing on the pay front, however. Two weeks ago, Wal-Mart announced that it would begin paying starting employees $9 per hour. Last week, TJX, the parent company of T.J. Max, Marshalls and Home Goods, said that by next June all of its workers who have been employed for six months will be paid $10 per hour. Over the weekend, The Wall Street Journal noted increased competition, and higher wages, unfurling in the food service arena. According to the article:

*Food-service employment has surged since the recession ended nearly six years ago, growing twice as fast as overall payrolls. But those gains had largely failed*
to translate into better wages in the sector, until recently. Restaurant wages zoomed up to an annualized pace of more than 3.0% in the second half of last year from below a 1.5% pace in the first half of 2013...

Many restaurant owners are now scrambling to hire and retain workers, a potential precursor to widespread wage gains if it signals diminished slack in the labor market...

Overall, the employment and wage picture appears steady-to-better, with potential for a little near-term acceleration.

It is not clear whether things will be good enough in the working persons arena to close the lingering — and by most estimates, yawning — income and wage gap. Simply put, investors have thrived while savers and the middle class have not gained much ground. Indeed, many households continue to receive aid.

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As of Tuesday, the S&P500 was up 210% versus the low touched in March 2009. Over the six-year stretch between the end of 2008 and the end of 2014, stocks offered a 14.7% compound rate of return. It’s impossible for the labor market to keep up with those returns.

Savings accounts have certainly offered little. In 2014, 10-year Treasuries featured an average yield of 2.5%, with five-year notes returning 1.6%. That compares to 4.4% and 3.9%, respectively, from 2003 to 2007. A web search reveals the best rate on savings accounts at 1.00% APY.

Meanwhile, as of November 2014, government reports show 46.3 million people — 14% of the US population — and 22.7 million households enrolled in the Supplemental Nutrition Assistance Program (SNAP). Enrollment was higher at one point, with 47.8 million people and 23.1 million households in the program in June 2013. But, in November 2008, before the recession, the program was helping out 30.9 million people (10% of the population) and 14.0 million households.
With the programs still bustling, benefits have been trimmed. Government data shows the average benefit at $127.53 per person and $259.95 per household as of November 2014. Individual benefits topped out at $135.73 in November 2012 (6% higher), with household benefits averaging at $295.04 in May 2009 (12% higher).

The SNAP program is political minefield, with conservatives and liberals forever trading opposing theories and statistics. We have no desire to wade in those waters. We are, however, comfortable asserting this much: the fact that more than one-in-ten households is receiving SNAP benefits is not consistent with robust, top-to-bottom economic prosperity.

When things seemed more prosperous a decade ago, two engines powered the bus: housing and finance. Inarguably, those two sectors commingled to overheat in a disastrous way. We won’t likely see what we saw in 2005 or 2006 again any time soon. That’s for the good. At the same time, there is no denying that, even in chastened form, housing and finance are significant economic pillars. Housing is, after all, a repository for a lot of net worth. And, Wall Street has the potential to churn out major profitability.

Multiple data points suggest that housing is in an okay place, characterized by moderate and sustainable growth. **Housing starts have been running about 10% ahead of year-prior levels.** Activity is down 57% from the January 2006 peak, a level not likely to be revisited any time soon, but up 117% from the January 2009 trough.

**Sales of existing homes declined some in 2014 versus 2013, but the problem may be inventory.** Data from the National Association of Realtors showed volume at 4.94 million units, down 2.9% from the year prior. Comments from Lawrence Yun, the NAR’s chief economist, consistently point to lack of available supply as part of the issue. In a release accompanying January data, for example, Yun was quoted as saying, “Realtors are reporting that low rates are attracting potential buyers, but the lack of new and affordable listings is leading some to delay decisions.” In January, the Association showed 1.87 million homes for sale on an annualized, seasonally-adjusted basis, down 1% from the year-prior.

**The S&P/Case-Shiller Home Price Index has been positive on a year-over-year basis for 31 consecutive months.** The 20-market composite reading for December
2014 showed prices up 4.5% when compared to December 2013. And, all 20-markets showed year-over-year gains. Pricing is down 16% from the April 2006 high but up 26% from the January 2009 low.

Even with decent housing sector improvement, construction employment remains well below peak levels. US Bureau of Labor Statistics data showed construction employment at 6.3 million in January 2015, up 16% from the January 2011 low but down 18% from September 2006.

Jobs in the financial sector did not disappear at the same rate during the recession. Accordingly, the comeback trail was shorter. BLS figures show 8.1 million employed in “financial activities” as of January 2015, up 5% from July 2010 and down only 4% when compared to the December 2006 top. Financial sector stock performance has outpaced overall equity market performance since the March 6, 2009 lows. The XLF — a financial sector ETF — is up 339% from that point, while the S&P500 index is up 210%.

We could examine any number of additional macro level indicators and come up with basically the same story. A story that conjures up the old saying, “I could sit still for that!” But, lest we be too dismissive, at least it is not depressingly sad.

**Consumer Spending Particulars**

Consumer spending is a circular force in the US economy. Because it makes up something like 70% of GDP, spending matters a lot to overall economic performance. At the same time, overall economic performance dictates the mood that drives consumer spending. The circle can be virtuous, with positive news feeding spending which creates more positive news. Or, it can be vicious, with negative news dragging down spending, creating more bad news.

Over the long run, the virtuous has topped the vicious.

Bets against the US consumer’s desire to spend — and, well, consume — have been bad wagers. Who would fork over $5 to a barista for a cup of coffee that could be made at home for a fraction of the cost? Who needs 250 channels in high definition? Who really wants to drive a hulking, eight-passenger SUV to transport two kids? Turns out the
answer is, almost always: plenty of us!

Remember the old Steve Martin routine about money? It went like this:

I love money. I love everything about it. I bought some pretty good stuff. Got me a $300 pair of socks. Got a fur sink. An electric dog polisher. A gasoline powered turtleneck sweater. And, of course, I bought some dumb stuff, too.

But, while the multi-decade trend toward more, more, more may turn out to endure, things have been less wild and crazy since the financial bust. Six years after the stock market reached its harrowing bottom and five years after unemployment reached its peak, consumers remain cautious.

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Several measures reveal more tentative behavior...

Gallup tracking data shows daily spending still lingering below 2008 levels. We calculate the 2014 average at $90 per day. That was up from the 2009 low ($64) but still 6% behind the $96 laid out each day in 2008.

Interestingly, and perhaps critically for marketers, Gallup shows a striking spending divide between upper income households as compared to lower and middle income households. Gallup delineates “upper income” at $90,000 annually. A look at census data suggests that captures the top quartile, or about 30 million households.

Upper income spending was at $158 daily in 2014, 36% above the 2009 low ($116) and 8% above 2008 levels ($147). Meanwhile, lower and middle income spending came in at $77 daily for 2014, up 35% from 2009 and 2010 ($57), but still 10% behind 2008. Looked at differently, upper income spending was 1.7 times that of other households in 2008; in 2014, it was 2.1 times higher.

Retail sales are up, but not by much when adjusted for inflation. Mirroring wages, to a degree, dollar sales have been in a wheel spin.
Aggregated monthly data from the US Department of Commerce Retail Sales report shows sales across the economy at $5.3 trillion in 2014, up 4% from 2013, up 28% from 2009 and up 19% from 2007. When accounting for inflation, however, the numbers are much less impressive: down 2% from 2013, up 2% from 2009 and down 8% from 2007. While it is impossible to attach volume to any single category, the data suggests that Americans are not really buying all that much more “stuff” than they were before the recession.

Closer to where the dairy industry lives, the numbers are better. Food service has outperformed overall retail. Sales totaled a record $571.8 billion in 2014, or roughly $90 per household per week. In gross dollar terms, that was up 6% year-over-year, 29% versus 2009 and up 25% versus 2007. Using the Bureau of Labor Statistics consumer price index for “food away from home” to account for inflation, sales gained 3% from 2013, 11% from 2009 and 7% from 2007.

Not surprisingly, the National Restaurant Association Restaurant Performance Index was in optimistic territory for the eleventh straight month in January. Recent readings are comparable with those last seen in 2004.

Company data shows strength, as well. A look at 32 restaurant chains tied to publicly traded companies shows 21 notching better performance in Q4 2014 when compared to Q4 2013.

A recent Rasmussen poll found that only 36% of American adults “rarely or never” go out to a restaurant, down from 43% in 2013 and 47% in 2012. The same survey saw 61% say they eat out at least once a week, with 20% eating out two or more times weekly.

To the extent that dairy products demand is channeled through restaurants, the news has been good.

Things have not been as robust in the other major consumption funnel: grocery stores. Government data showed sales at $594.4 billion in 2014, up 3% versus 2013, and up 16% when compared to both 2007 and 2009. On an inflation-adjusted basis, sales were down 1% in 2014 when compared to 2013 and up only 2% when measured against 2007 and 2009. As with the overall spending situation, data simply suggests that consumers are not buying much more in the grocery store, a fact that explains a lot of retailer fretting over the past few years.

Based on retail sales, 10.9% of consumer spending
moved through restaurants in 2014, with 11.3% spent in grocery stores. That compares to 9.7% and 11.2%, respectively, in 2005.

**Credit appetites are not voracious.** Bad debt — mostly tied to housing, but plenty elsewhere — brought the economy down in 2008/2009. People overextended themselves in myriad, almost unfathomable ways...and the lending community blithely threw fresh logs on the fire.

Naturally enough, things cooled considerably in the aftermath. Consumers sobered up, either involuntarily or by choice. Lending institutions failed or pulled back, with the survivors facing tighter regulation and enhanced scrutiny. Simply put, the credit environment changed radically.

Six years later, the landscape remains pockmarked. But we certainly are not paying all cash, either.

**People overextended themselves in myriad, almost unfathomable ways...and the lending community blithely threw fresh logs on the fire.**

Data from the US Federal Reserve showed total consumer credit outstanding at $3.31 trillion on an annualized, seasonally-adjusted basis as of December 2014. That was an all-time record high, and up 6.9% from December 2013.

Generally speaking, consumer credit is divided into two big buckets: revolving and non-revolving. Revolving credit includes credit cards and home equity lines. Non-revolving credit covers automobiles and student loans. The US Federal Reserve measures mortgages separately. As credit has expanded over the past few years, all the growth has happened on the non-revolving side.

At year-end in 2014, revolving credit outstanding was at $887.9 billion, up 3.5% from 2013 but down 11.6% from the 2008 peak ($1.00 trillion). Meanwhile, non-revolving credit was at $2.42 trillion, up 8.2% from 2013 and up 47.3% when compared to 2008. Indeed, after dipping some between 2008 and 2009, non-revolving credit has expanded at a compound annual rate of 6.8% while revolving credit has contracted by 0.5%.

Think of the divide this way: revolving credit can drive near-term, day-to-day spending, while non-revolving credit...
is more structural. Accordingly, the softer revolving credit environment extant since 2009 comports with retail sales data showing modest traction, at best. Consumers are less willing to spend money they don't have to buy something they want (or, in some cases, need) today.

Shrink in the home equity arena is a big factor in lighter revolving credit deployment. Separate government statistics show outstanding lines at $457.3 billion in December 2014, down from $611.1 billion at the peak in May 2009 (-25.2%). Before celebrating this as a temperance movement, understand that what happened from roughly 2002 to the peak was crazy and unsustainable. Through the 1990s, outstanding lines grew at a compound annual rate of 5.3%. Then, from 1999 to 2009, balances nearly sextupled (up 595%). Anecdotal reports from the era suggest a lot of that HELOC money was used on goods such as large screen televisions, furniture or even more mundane items. Balances are way down from 2009, but they are still way up when compared to 1999 (+351%).

As for credit cards, data from the Federal Reserve Bank of New York shows outstanding balances at $700.0 billion as of the fourth quarter of 2014, up 2.5% from the same period in 2013 and down 19.2% from the fourth quarter 2008 peak ($866.0 billion).

If revolving credit is not doing much to spur ongoing spending, rapid expansion in non-revolving credit may be chipping away in spending potential down the road.

Student loans are the big deal in the equation. Lending has exploded over the past several years. According to the New York Federal Reserve, outstanding debt in that space stood at $1.16 trillion at the end of the third quarter of 2014. That was up 60.8% from the fourth quarter of 2009. At least three things are behind the boom. First, a lot of unemployed workers went back to school during the recession, borrowing money to go. Second, access to credit has expanded in the wake of what has essentially been a government takeover of the process. Third, likely intertwined with the second, tuition inflation has skyrocketed. According to data published by the College Board, tuition at a four-year private university averaged $42,419 for 2014/15, up 21% from 2009/10 and up 91% from 2000/01. Prices for public universities, while lower, have advanced at a faster rate: $18,943 in 2014/15, up 24% from 2009/10 and up 124% from 2000/01.
With those kinds of prices, it’s no wonder that graduates are wrestling with big debt. According to The Project on Student Debt, nearly 70% of graduates from the class of 2013 left with student debt, averaging $28,400.

Numerous studies and articles cite the knock-on effects from the student debt load. One lengthy article the Fort Worth Star-Telegram noted that student debt was likely a reason that a record number of 25-to-34 year olds are still living at home (11.7% of women and 17.7% of men in 2014 according to US Census Bureau data). The same article claimed, “Before the recession, young student loan borrowers were likelier than non borrowers to have a home or car loan. That trend reversed by 2011, and now borrowers are less likely to have a home or car loan.” About 30% of respondents to a Trulia survey at year-end 2014 said that inability to pay off existing debt was the biggest obstacle to home ownership.

Auto loans have grown at a fairly rapid clip, too. The New York Fed data shows a record $955.0 billion outstanding in Q4 2014, up 10.7% year-over-year. New car sales totaled 16.5 million units in 2014, up 6.1%. Sales in 2014 topped depressed 2009 levels by 58%.

The unloved term “sub-prime” has moved into the auto lending conversation. A recent article in The Wall Street Journal noted that lenders are re-widening the credit score doorway for car buyers. According to the article, “Almost four of every 10 loans for autos, credit cards and personal borrowing in the US went to subprime customers during the first 11 months of 2014...” Car loans made up 68% of the total, or $129.5 billion of originations.

Notional subprime auto loan totals were higher in 2006 in both absolute and relative terms, however. And, sub-prime activity on the consumer front pales in comparison to the pre-recession activity on the housing side. The Journal report noted only 0.3% of mortgage originations fell into the subprime category in 2014, down from 20% at the peak (which was at $625 billion in 2005). Finally, the Journal reports.

\[\text{Borrowers with a FICO credit score of less than 650 owed roughly $48,000 on average across all debt obligations, including mortgages, as of October 2014, according to San Jose, Calif.-based Fair Isaac Corp., whose FICO credit scores, which range from 300 to 850, are used in most consumer-lending decisions.}\]
That figure was roughly $55,000 in October 2012 and about $61,000 in October 2008.

Various headlines have brought more attention to subprime auto lending over the past week. Over the weekend, The New York Times reported, Amid signs that the market is overheating, Wells Fargo has imposed a cap for the first time on the amount of loans it will extend to subprime borrowers. The bank is limiting the dollar volume of its subprime auto originations to 10 percent of its overall auto loan originations, which last year totaled $29.9 billion, bank executives said.

On Wednesday, Mike Jackson, the CEO of Auto Nation told CNBC he was not especially worried about the lending environment. “Think about that. $3.5 trillion of sales and the outstanding balance went from $800 billion to $900 billion. The point being people pay for their car loans," he said.

Our belief: while the subprime situation merits monitoring, the present situation does not seem to threaten the overall economy.

Any assessment of credit conditions would be incomplete without an accompanying discussion around ability to pay. What are debt loads relative to income? What do delinquency rates look like?

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Historically, we have looked at outstanding credit as a percentage of personal income for insight on manageability. The latest figures there don’t suggest retrenchment: 22.1% in December 2014, a record high. That compares to 21.4% in December 2007 and an average of 16.9% in the 1990s. As the forgoing discussion implies, the mix between revolving and non-revolving credit has changed. In December 2014, revolving debt outstanding was at 5.9% of personal income, with non-revolving debt at 16.2%. In 2007, those ratios were at 8.2% and 13.2%, respectively.

The US Federal Reserve publishes data on debt service
The latest figures are less concerning: a reading of 9.9% for the third quarter of 2014 compared to 10.0% in Q4 2013 and the high-water mark of 13.2% in Q4 2007.

Delinquency rates seem to be in check with one exception — student loans. According to New York Fed data, 11.3% of student loans were 90 days or more past due as of the fourth quarter of 2014. That was up from 8.7% in Q4 of 2009. Auto, credit card and mortgage rates were all well below recession levels. Auto loans delinquency was at 3.5% compared to 5.3% at its worst during the recession; credit cards came in at 7.3% (versus 13.7%) and mortgages at 3.1% (versus 8.9%).

The Gasoline Dividend

During the first week of March, regular unleaded gasoline averaged $2.473 per gallon in the United States. While that is off recent lows ($2.044 for the week ending January 26), prices are still about $1.00 per gallon lower than was the case a year ago.

Estimates vary, but gasoline accounts for about 5% of household spending. A $1.00 per gallon break equates to something close to $100 billion in savings over the course of a year. That translates to nearly $800 per household annually, or $16 per week.

As prices were coming down during the fourth quarter, analysts began to salivate over the prospects for consumer spending. The questions were not about “whether” consumers would spend the money; they were about “where?” and “how much?” and “how fast?”

Equity market performance reflects the buoyant mood. The XLY, a consumer discretionary ETF, is up 17% since the beginning of the fourth quarter. The PBJ, a food service and beverage ETF, is up 12% over the same period. Both are outpacing the S&P500, which is up 8% since October 1.

Strong food service sales during the first quarter suggest that some of the money saved at gas stations is finding its way into restaurant cash registers. Other sectors seem to be benefitting as well.

The January Retail Sales report from the US Department
of Commerce showed spending at gasoline stations down $10.9 billion when compared to January 2013, or about $88 per household. Spending in other outlets, not including automobile dealers, increased by $16.9 billion, or about $137 per household. Food service got the biggest lift, with spending up $42 per household. “Non-store retailers” — mostly online venues — picked up $26, with building/garden centers up $15 and food/beverage stores gaining $14.

Food service got the biggest lift, with spending up $42 per household.

Analysts seemed disappointed by the data, focusing on the 0.2% month-over-month decline in overall sales rather than the year-over-year differentials. Government consumer spending data published this week elicited a similar response. According to this report, personal spending declined 0.2% from December to January. With income up some (+0.3% month-on-month), the savings rate ran up to 5.5%, up from 5.0% in December and 4.9% in January 2014.

The New York Times quoted Bank of America Merrill Lynch economist Michael Hanson on the matter,

There is a little head-scratching going on. You can’t deny that everyone on Wall Street has been looking for better data. The pickup in the savings rate is a little bit of a surprise and it is an indication that people are still cautious.

Moody’s economist Mark Zandi suggested to CNBC that it will just take a little time for consumers to ramp it up, saying,

My sense is that it takes a little bit of time for savings to kind of build up into checking accounts before they decide, ‘Wow, I’ve got money, I can spend and go out and buy something”. It takes at least a few months for that to occur. I think it’s just a matter of time before we start seeing it in the data. A couple caveats: One is that how quickly people spend their savings depends on how sure (they are) this is going to last. If it’s a temporary decline in gasoline prices and they go right back up ... they’re not going to spend.
In our estimation, consumers are already picking up the pace. If food service spending for the balance of 2015 resembles that in January, restaurant companies are going to see the best dollar volume growth in at least a decade. That cannot be bad news for their suppliers, including cheese makers and other dairy products manufacturers.

The gasoline story may not be all good news, though. Gas is cheaper in large part because the domestic energy sector has been booming. “Fracking” technology has tapped huge, previously unreachable crude oil and natural gas supplies in several states, including big ones such as Texas. All the exploration, extraction and affiliated activity has meant jobs, lots of jobs. Since March 2010, 17% of payroll expansion has come from Texas, Pennsylvania and North Dakota. Unemployment in those states is quite low, clocking in at 4.6%, 4.8% and 2.8%, respectively, in December, all below the national rate. With crude oil trading at $50 instead of $100, activity is slowing. Several oil and oil services firms have announced layoffs and/or capital expenditure cutbacks. One of those firms, Baker Hughes, counted 986 rigs drilling for oil in the US for the week ending February 27. That was down 25% on the month and down 31% year-over-year to the fewest since June 2011. With that in mind, exuberance about lower gasoline prices might well be tempered by the recognition that unemployed oil field workers don’t have much money to spend.

**Summary**

What is the state of the American consumer? Core data, combined with numerous anecdotal observations, paints a mixed picture of the current scene:

1) Even if the pace has been fitful and slow, the overall economy continues to improve.

2) Employment continues to increase and, importantly, signs of broader, more meaningful wage growth are beginning to emerge.

3) Many households continue to struggle, though...and it will likely take time for families to find better situations and leave the SNAP rolls.

4) Key structural sectors such as housing and finance are stable.
Overall consumer spending has not yet returned to 2008 levels, with the shortfalls attributable to lower- and middle-income families. It is difficult to be too excited about growth prospects when roughly 75% of the nation’s households are constrained by either choice or circumstance.

Adjusted for inflation, retail sales data shows muted appetite for owning more “stuff” — though food service sales have been a consistent bright spot.

Aggregated data shows solid credit expansion, but it is more structural than stimulative. And, student loans threaten growth down the road.

Outside of the student loan arena, consumers do not appear stretched by their current credit obligations.

Less expensive gasoline offers potential for consumer spending to be directed elsewhere. Several signs say this is already happening, though Wall Street was apparently hoping for more.

Overall, consumers seem to have more horsepower available, but they remain reluctant to put the pedal to the metal.

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So What?

Weighing all the factors, we think the American consumer is positioned in a way that could spur additional economic growth. The January Retail Sales data is, in our estimation, foretells acceleration in the months ahead. And, its possible that things could get a little peppier once all the miserable weather gives way to Spring. If we are correct, early evidence points to restaurants performing at top-of-the-heap levels. That would be a net positive for dairy product demand.

We doubt, however, that growth will be massive or without risk. The global geopolitical situation strikes us as especially volatile. Tragedy or war could send consumers back into their shell. We also look at the US equity market and wonder whether it is due for a setback. Any major correction would threaten upper income spending which, as noted, has so far carried the day. •