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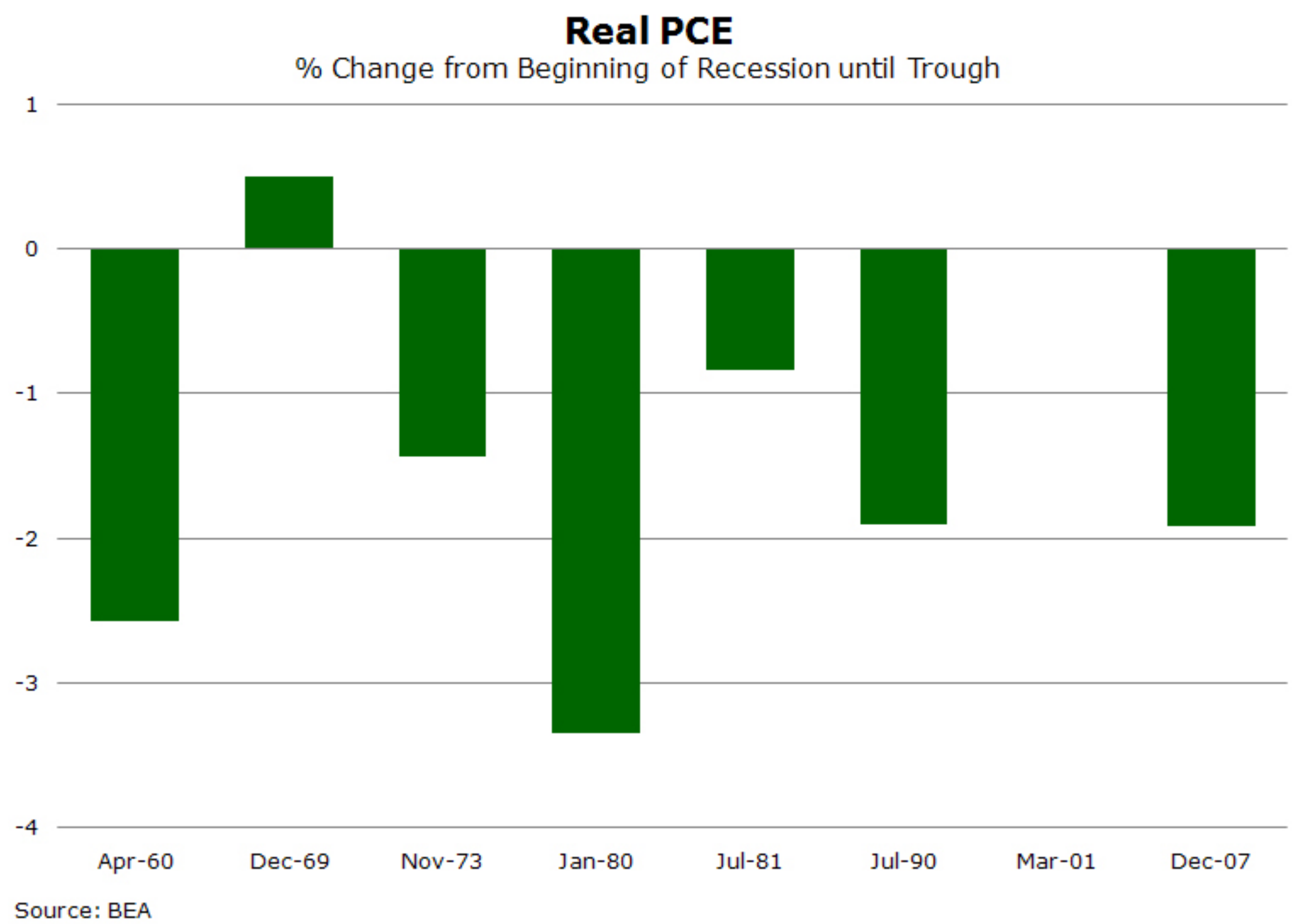
Abnormal consumer spending—not quite

I was struck by this headline which led a Tuesday post in Economix, the economics blog of the *New York Times*—"Consumer Spending Declines: A Historical Oddity."

Sometimes these sorts of teasers are not great indicators of a more nuanced analysis that follows, but in this case the headline synopsis pretty well captured the plot.

> "That the American consumer is cutting back spending is blindingly obvious these days, but it is still hard to overemphasize this central feature of the current recession. Americans borrowed like crazy for years against their home values, which have now fallen and are dragging consumption down with them.
>
> "The sustained decline in consumer spending is also—as the European Central Bank points out in a tight piece of work synthesizing features of past recessions—a historical oddity of the first order."

That analysis is not, I think, quite so tight. Here's a chart that measures the cumulative percent change in real personal consumption expenditures from the beginning of each U.S. recession since 1960 to the lowest point of those expenditures over the recession's course:



The first very obvious feature of this picture is that there is nothing like a typical recession pattern when it comes to consumer spending. The second obvious feature is that the fall in household consumption in the current downturn looks entirely unremarkable when stacked up against past episodes.

For those of you still reading, it would be fair of you to remind me that the current recession is not over, so the record is yet incomplete. Though personal consumption expenditures actually increased in January and February, the most recent retail sales report might warrant caution. In fact, Economix has followed up with a cross-recession comparison of retail sales that definitely puts the current recession in a relatively bad light. That's fine, though I would note that retail sales are only a piece of overall personal consumption expenditures, a piece that does not really capture the increasing share of spending on services that has occurred over the postwar period.

But even if the turnaround in overall consumer spending proves durable, it is not entirely clear that there is much solace to be taken from such a development. If you are inclined to look to the darker side of things, the fact is that a turnaround in consumption generally comes well before a recession ends. In the long and relatively severe recessions of 1973–75 and 1981–82, consumer spending bottomed out a full year before the economy turned around in general. (The bottom was eight months before the end of the recession in the 1969–70 and 2001 recessions and two months before the end in the 1960–61, 1980, and 1990–91 recessions.)

For lots of reasons, then, I wouldn't want to overweight good (or even benign) news from the consumer spending front. But historical oddity? I don't believe so—yet.

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