

# THE HAVES AND THE HAVE-NOTS

Consumers have clear ideas about what's necessary — and what's a luxury

by SUSAN REDA, EDITOR

Last year ended on a high note when The Conference Board released its assessment of consumer confidence in December. The index hit 78.1 — up from a revised figure of 72 just one month earlier — and sentiment regarding current conditions increased to a nearly six-year high with consumers attributing the improvement to more favorable economic and labor market conditions.

The data suggests that 2013 was a year of financial healing, spurred by less fiscal restraint, a bump in the housing market and a rise in the manufacturing sector, which has been on the upswing since mid-summer.

The unemployment rate, while lower than a year ago, is holding at around 7 percent — a number many analysts say remains too high. A growing swath of workers continue to feel discouraged about job prospects, and another group of long-term unemployed have dropped out of the system. With the Federal Reserve raising interest rates — a move that could dampen home sales — and predictions of a “healthy correction” for the stock market, it’s no wonder former Fed chairman Ben Bernanke recently said “the recovery remains incomplete.”

Bernanke’s outlook is in sync with the findings of STORES’ latest round of consumer research conducted by Prosper Insight &

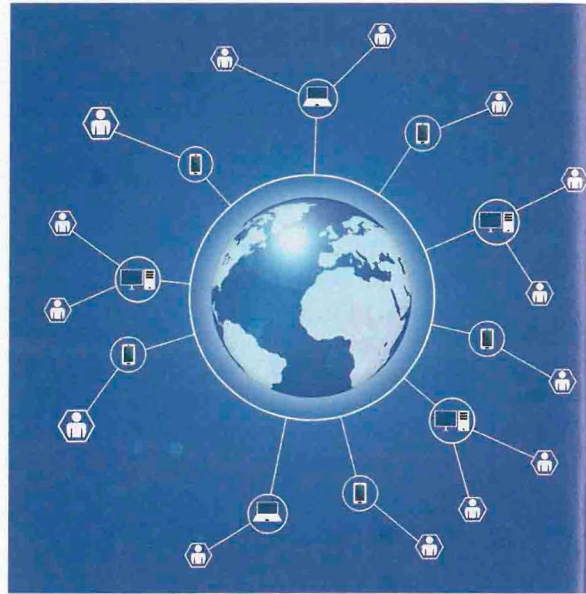
Analytics. The data finds that shoppers are still cautious about spending: 55 percent of all adults ages 18 and older say they’re spending less overall, 41 percent are shopping for sales more often and 76 percent plan to save the same or more than they did last year.

## Consumer Confidence

Percent of adults 18 and over “confident/very confident” about the chances for a strong economy during the next six months

12/1/2008	20%
12/1/2009	30
12/1/2010	27
12/1/2011	27
12/1/2012	37
12/1/2013	38

Source: Prosper, Monthly Consumer Survey, Dec. 2013



## INCOMPLETE RECOVERY

A solid indicator of how consumers feel about the economy is research measuring what shoppers consider to be untouchable (suggesting they cannot live without it) and what they perceive to be expendable (meaning they can live without it). This year’s findings — the sixth consecutive year of tracking shoppers’ attitudes this way — reveal that Internet service and mobile/cell phone service (basic or smartphone) are considered untouchable, while luxury handbags and high-end jewelry are the most expendable.

“After six years of recession, we’re seeing some easing of the tight hold shoppers have had on their budgets, but it still falls short of a return to normalcy,” says Chrissy Wissinger, director of communications for Prosper.

Thirty-eight percent of all adults describe their feelings about the chances for a strong economy during the next six months as “confident or very confident,” with those earning more than \$50,000 (42 percent) feeling more confident than average and those making

under \$50,000 (35 percent) feeling less sure. That 38 percent is a “vast improvement from 20 percent in December 2008,” Wissinger says, an 89 percent change over six years.

This year STORES worked with Prosper to provide a more nuanced view of consumers’ perceptions of the economy and future spending. The research, based on feedback from more than 6,000 consumers, reveals that women are generally more pessimistic than men about the economy, and young people are focused on savings more than other generational cohorts.

### TAPERED EXPECTATIONS

**M**ore than half of all shoppers (53 percent) are focusing more on what they need rather than what they want: 48 percent believe they have become more practical and realistic in their purchases, and 39 percent say they’ve become more budget conscious. Over the next three months, 33 percent plan to pay down debt, 32 percent intend to decrease overall spending and 29 percent want to increase savings.

Those in the youngest age cohort (18 to 34 years old) plan to use their smartphone more often than in previous months to compare prices and products. Thirty-seven percent of this age group hope to increase savings — well ahead of the average consumer (29 percent); 48 percent are confident or very confident about chances for a strong economy during the next six

### Life Changes

Percent of adults 18 and over who have made any of the following changes

	I focus more on what I NEED rather than what I WANT	I have become more practical and realistic in my purchases	I have become more budget conscious
12/1/2008	57%	50%	44%
12/1/2009	57	50	44
12/1/2010	53	46	41
12/1/2011	52	47	40
12/1/2012	54	48	40
12/1/2013	53	48	39

Source: Prosper, Monthly Consumer Survey, Dec. 2013

**35%** of all shoppers regard upgraded mobile devices as must-haves. Among 18- to 34-year-old consumers, nearly half — 47 percent — consider these tools untouchable.

months. Six percent are eyeing home refinancing and 9 percent are looking to buy stocks.

Men and women are on the same page when it comes to most — but not all — economic perspectives: Men are more likely to buy or sell stocks in the next three months while women intend to steer clear of the market. Women are more likely to eat home-cooked meals, shop at discount stores more frequently and use more coupons than their male counterparts.

There is a striking financial bifurcation among United States consumers. When asked to describe their feelings about the statement, “I am saving enough to meet my future needs,” 40 percent of higher wage earners agreed or strongly agreed, compared with just 21 percent of lower wage consumers. Moreover, 61 percent of households earning \$50,000 or less say they’ve cut back on products and services, compared with 47 percent of those bringing home paychecks in excess of \$50,000.

### WHO WINS ...

**W**hat items can retailers place their bets on? A commanding 79 percent of all adults deem Internet service untouchable. Still, that figure slipped from 82 percent in 2011,



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suggesting that change may be brewing.

Keep an eye on the younger cohort as drivers of change: 69 percent consider Internet service untouchable. It's also apparent how important Internet service has become for the 55-and-older crowd: 88 percent describe the "connection" as untouchable.

It's interesting to note that consumers are more likely to consider services untouchable rather than goods (and the reverse for ex-

pendables). What we're witnessing is a shift away from amassing piles of stuff toward services that enable experiences. Retailers find themselves in a unique niche — trying to sell goods while raising the bar on in-store experiences.

Two categories where shifts are afoot include mobile phone service (providing text, pictures and video) and upgraded

mobile devices like smartphones, tablets and e-readers.

Six years ago, mobile was still an emerging category. In 2008 just 23 percent of all adults thought advanced mobile services were indispensable. That number has climbed steadily; today 42 percent can't live without texting and taking photos and video on their mobile phones.

Meanwhile, shoppers' appetite for electronics is growing. Upgraded mobile devices like the iPad mini, Kindle Fire and Chromebooks were in demand during the past holiday season and are quickly gaining untouchable status. Five years ago, only 12 percent of all consumers deemed these devices untouchable; now 35 percent of all shoppers regard these mobile tools as must-haves.

**WHO LOSES, OR THEN AGAIN...**

Discount shopping for apparel ranks among the top 10 items thought to be untouchable, but it may be losing some of its panache as the U.S. moves further away from the 2008 fiscal debacle and ensuing recession. In 2010 and 2011 more than half of the consumers

**Most Untouchable 2013**

Internet service	79%
Mobile/cell phone service (basic)	60
Cable/satellite TV (basic)	55
Mobile/cell phone service (text, picture, video)	42
Hair cut/color	40

Source: Prosper, Monthly Consumer Survey, Dec. 2013

**Most Expendable 2013**

Luxury handbag	89%
High-end jewelry	89
Maid service	88
Club/social memberships (country club, golf club, etc.)	88
High-end cosmetics	88
Gourmet foods	88
Costume jewelry	87
Specialty shopping for apparel	87
Fine dining sit-down restaurant	86
Facial	86

Source: Prosper, Monthly Consumer Survey, Dec. 2013

**Is the current state of the U.S. economy affecting your household spending plans in any of the following ways?**

	Adults 18+	Men	Women
Spending less overall	55%	51%	58%
Shopping for sales more often	41	35	45
Using coupons more often	37	34	41
Dining out less frequently	33	30	36
Comparative shopping online more often	30	30	31

Source: Prosper, Monthly Consumer Survey, Dec. 2013

## Shifting Priorities, 5 years and counting

	2013	2012	2011	2010	2009
<b>Mobile/cell phone service (basic)</b>					
Expendable	40%	39%	33%	36%	38%
Untouchable	60	61	67	64	62
<b>Mobile/cell phone service (text, picture, video)</b>					
Expendable	58	61	67	69	77
Untouchable	42	39	33	31	24
<b>Upgraded mobile device (smartphone, iPad)</b>					
Expendable	65	68	74	77	88
Untouchable	35	32	26	23	13
<b>Fine dining sit down restaurant</b>					
Expendable	86	87	89	90	91
Untouchable	14	14	11	10	9
<b>Casual sit down (Applebee's, Olive Garden, etc.)</b>					
Expendable	72	68	69	68	71
Untouchable	28	32	31	32	29
<b>Fast casual restaurant (Panera, etc.)</b>					
Expendable	78	77	76	74	76
Untouchable	22	24	24	26	24
<b>Fast food restaurant</b>					
Expendable	67	65	65	61	64
Untouchable	33	35	35	39	36

Source: Prosper, Monthly Consumer Survey, Dec. 2013

With “binge-watching” of Netflix or Amazon Prime entertainment trending upwards, this is a segment consumers are clearly growing more enamored with.

polled regarded shopping at discount stores for apparel to be indispensable; today just 38 percent express that sentiment, compared with 62 percent who identify it as expendable.

The research continues to show that luxury handbags, high-end jewelry, maid service, golf and country club memberships and high-end cosmetics are the items shoppers are most inclined to give up. In each instance, more than eight in 10 consumers believe they can do without these products and services.

On-demand video streaming has ranked high on the expendable list for the past three years. While 77 percent still say they could live without this service, it represents a decline from 84 percent in 2010. With “binge-watching” of Netflix or Amazon Prime entertainment trending upwards — and both now developing exclusive content — this is a segment consumers

are clearly growing more enamored with.

There is also a blip of interest in satellite radio. Fifteen percent of those surveyed now consider satellite radio untouchable, compared with 9 percent in 2008. In many new cars, satellite radio is included for the first six months — which may be just enough time to convince consumers that they don't want to give it up.

It's clear from the data that consumers in the 18-to-34 cohort are feeling most optimistic — and more inclined to buy in the coming months. There are numerous instances where this group displays a greater-than-average propensity to describe items as untouchable: 20 percent deem gourmet foods untouchable, compared with 12 percent overall; 18 percent think a luxury handbag is an untouchable purchase (11 percent of all adults); and 27 percent of this younger shopping crowd regard a new pair of jeans as untouchable (20 percent for all adults).

“Consumers faced many challenges throughout 2013 that colored their view of the U.S. economy and spending, including uncertainty about the new Affordable Care Act and government sequesters,” Wissinger says. “It's fair to say they appear to be in better spirits today than a year ago, and that could have a positive ripple effect on retail in 2014.” **STORES**

