

THE CONSUMER IS BACK TO PULLING HIS WEIGHT

RESEARCH REPORT - WEEKLY ECONOMIC UPDATE

A Cushman & Wakefield Research Publication



AUGUST 25, 2015

- Consumer confidence continues to trend upward, pointing to faster growth in household spending and solid demand for retail, industrial, and hospitality real estate.
- Consumer spending has accelerated over the past 18 months after three years of tepid growth.
- An important driver has been the improvement in confidence. The overall level of confidence in the economy has been consistently high throughout 2015, suggesting that households will be comfortable increasing spending this year.
- Consumers' views of the current situation are particularly healthy, suggesting that most of their trepidation is a result of uncertainty about the future.
- Current conditions are the most important driver of consumer spending. Consistently high levels of confidence about current conditions suggests that consumer spending will remain healthy in the second half of the year.



The U.S. consumer has under-spent in the current economic expansion. In the 72 months since June, 2009, when the expansion officially began, consumer spending, adjusted for inflation, has increased only 14.0%, or 2.2% per year. In the four previous economic expansions (which began in 1975, 1982, 1991 and 2001) consumer spending increased an average of 3.5% per year over the same 72 month period. The consumer is the most critical driver of U.S. economic growth, accounting for approximately 68% of gross domestic product (GDP). To get a sense of the impact of this underperformance, if consumer spending growth in the current cycle matched the average of the preceding four expansions, U.S. GDP growth during the expansion would have averaged a very respectable 3.0% per year instead of the anemic 2.1% per-year growth the economy has actually recorded.



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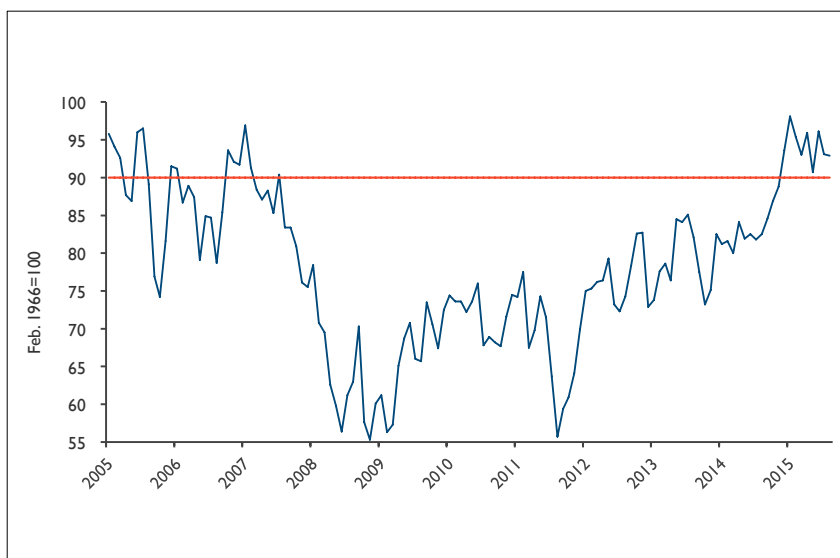
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UNIVERSITY OF MICHIGAN INDEX OF CONSUMER SENTIMENT



Source: University of Michigan Survey Research Center

Recently, consumer spending has begun to grow more strongly. After increasing at an average annual rate of 1.9% in the first three years of the expansion, real consumer spending has expanded by 2.8% per year over the past year and a half.

This acceleration in spending has coincided with rising consumer confidence. In the first four years of the expansion there was very little improvement in consumer confidence as measured by the University of Michigan's Index of Consumer Sentiment. To be sure, confidence rose and fell with economic and political changes over that time, but in October 2013, the Index stood at 73.1, not much higher than the 70.1 reading recorded four years earlier in October 2009 just after the recession ended. Since October 2013, confidence has jumped sharply. Today's reading of 92.9 is 26.9% above the level of October 2013.

Consumers' improving view of the current situation has been an important reason for the rise in confidence and spending. When consumers are surveyed for this index they are asked two kinds of questions, those related to the current situation (Is your income higher than a year ago? Do you think the economy is better today than a year ago?), and those related to expectations about the future (Do you expect your income to rise in the next 12 months?). Consumers are much more optimistic today about the current situation than the future. Basically the attitude can be summed up as "I am a little worried about where things are going, but I am doing fine."



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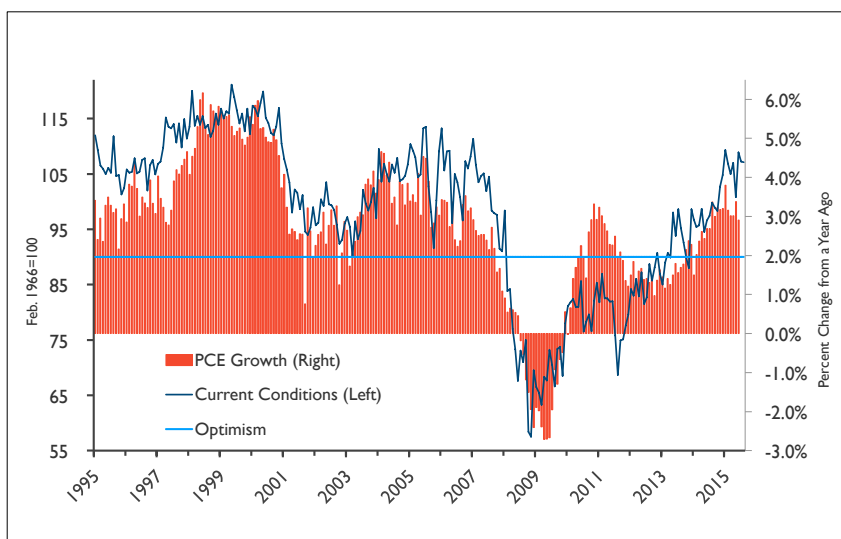
Current conditions are the “pocketbook” issues and when this index is high, consumer spending is usually growing at a healthy pace. Today, the current conditions index is hovering near its highest level since 2007, and consumer spending is rising at the healthiest sustained rate since 2006.

The persistence of high levels of optimism about current conditions points to continuing solid growth in consumer spending in 2015 and 2016. Consumers’ personal financial situation is healthy and improving; strong spending will follow.

Continuing growth in consumer spending will contribute to a stronger economy in the second half of the year. This trend is great news for the economy and for retail and industrial real estate.

Consistently high levels of confidence about current conditions suggests that consumer spending will remain healthy in the second half of the year.

UNIVERSITY OF MICHIGAN INDEX OF CONSUMER SENTIMENT Current Conditions vs. Consumer Spending Growth



Source: University of Michigan Survey Research Center, U.S. Bureau of Economic Analysis



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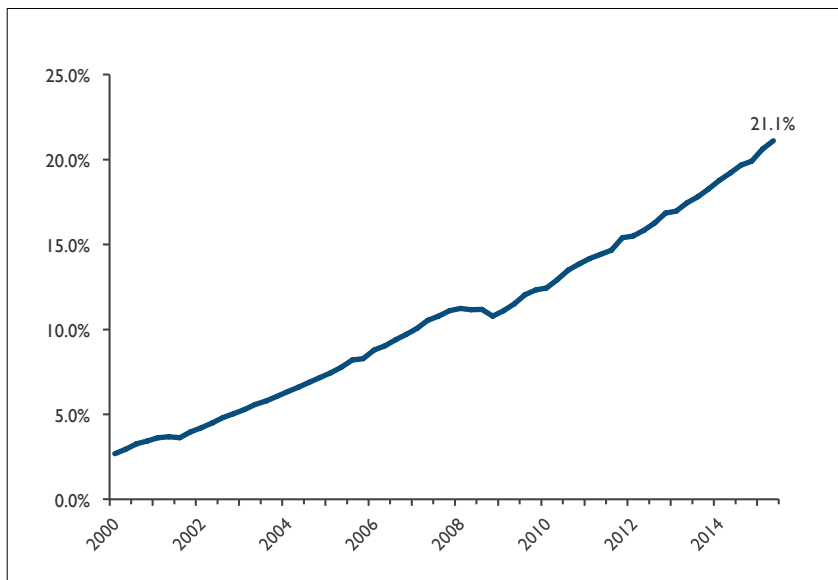
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- Demand is growing at a healthy pace. Retail sales, adjusted for inflation, were up 4.8% from a year ago in July and sales at GAFO stores (General, Apparel, Furniture and Other) have increased at an annual rate of 8.3% from the weather-induced February decline through June. As sales increase, retail tenants will increase demand for space to meet the growing need from consumers.
- More of the growth in retail sales is being met via the Internet. At the end of the second quarter, e-commerce sales represented 21.1% of total GAFO plus Internet sales, a record high. This trend is expected to continue and it will inevitably lead to more growth in demand for warehouse and distribution space.

One of the reasons we are optimistic about the outlook for the U.S. economy over the coming year is the high level of confidence in current conditions. If sustained, it will lead to faster growth in consumer spending and the economy as a whole. This will have a positive impact on the demand for both retail and industrial real estate over the coming year.

E-COMMERCE AS A PERCENT OF GAFO PLUS INTERNET SALES



Source: U.S. Bureau of the Census

