

VAKIFBANK GLOBAL ECONOMY WEEKLY

Household spending, deleveraging
and cash experiments

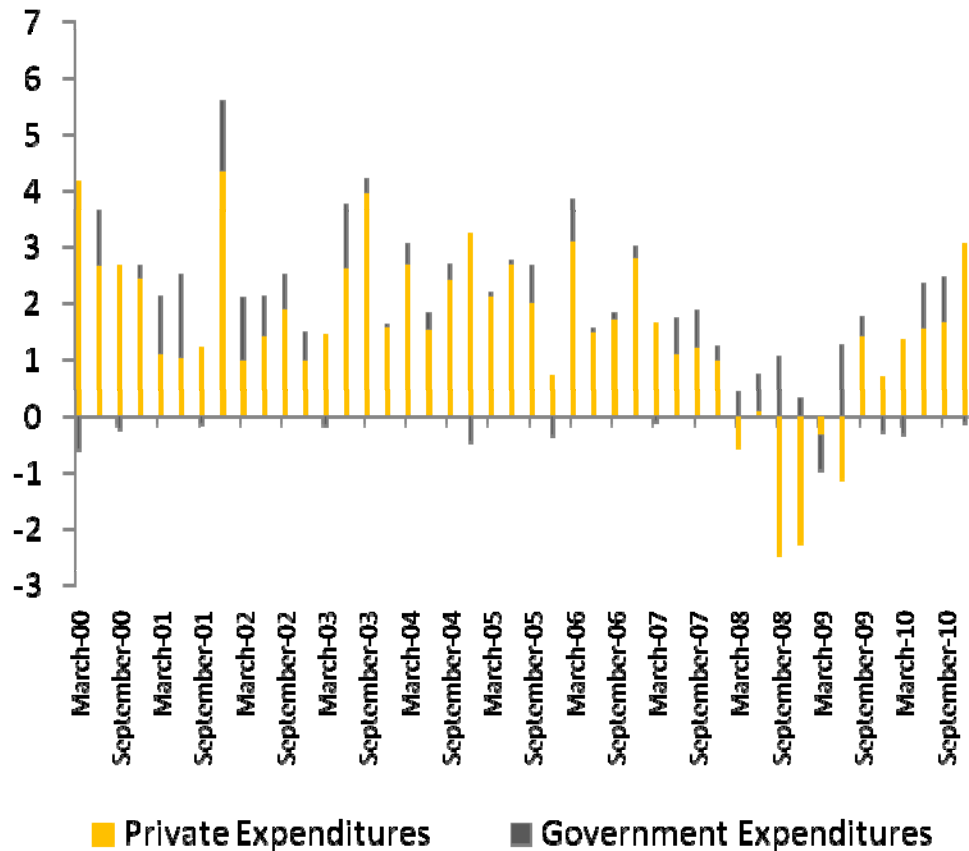


T. Vakıflar Bankası T.A.O







The desired contribution of consumer expenditures to US growth seems to become more pronounced...

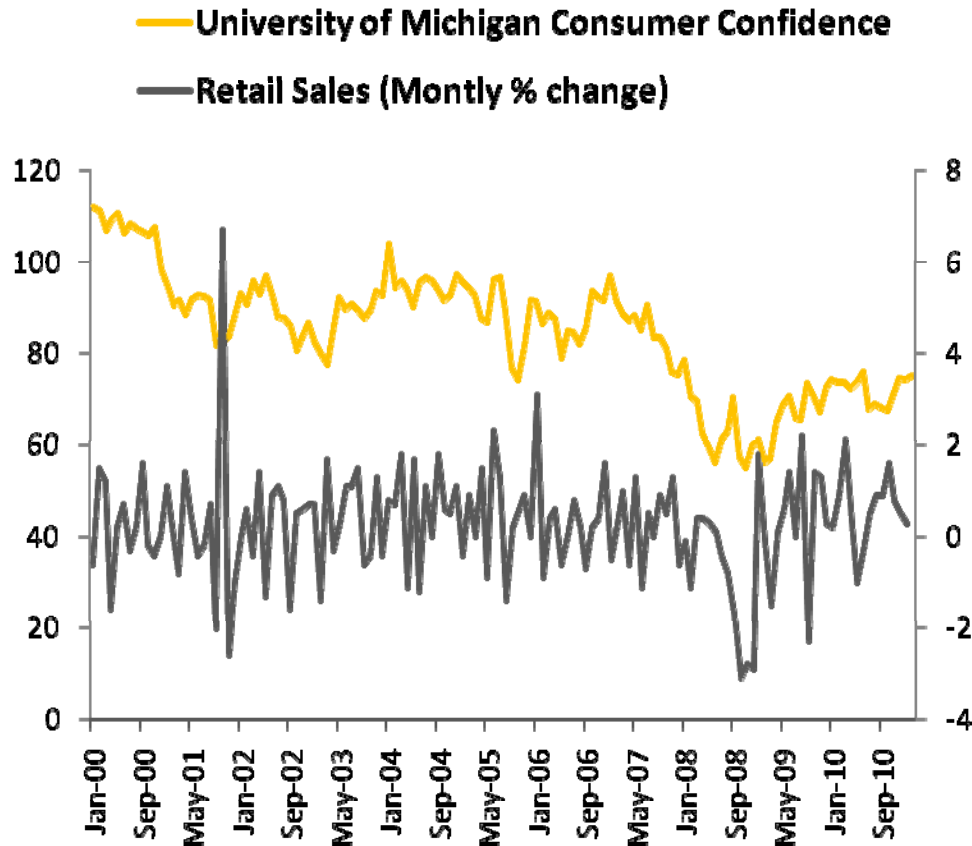
Expenditure Contribution to GDP (%)



Source: Bloomberg

-  US personal incomes began growing parallel to the economic recovery. This increase has been supported by income tax refunds and unemployment benefits.
-  Aforementioned increase is directly reflected in consumer spending. Consumption expenditure tax cuts also support this increase
-  Investment spending is also increasing thanks to the tax cuts and incentives.
-  Private expenditures contributed 3.04% to GDP growth in Q4 2010.

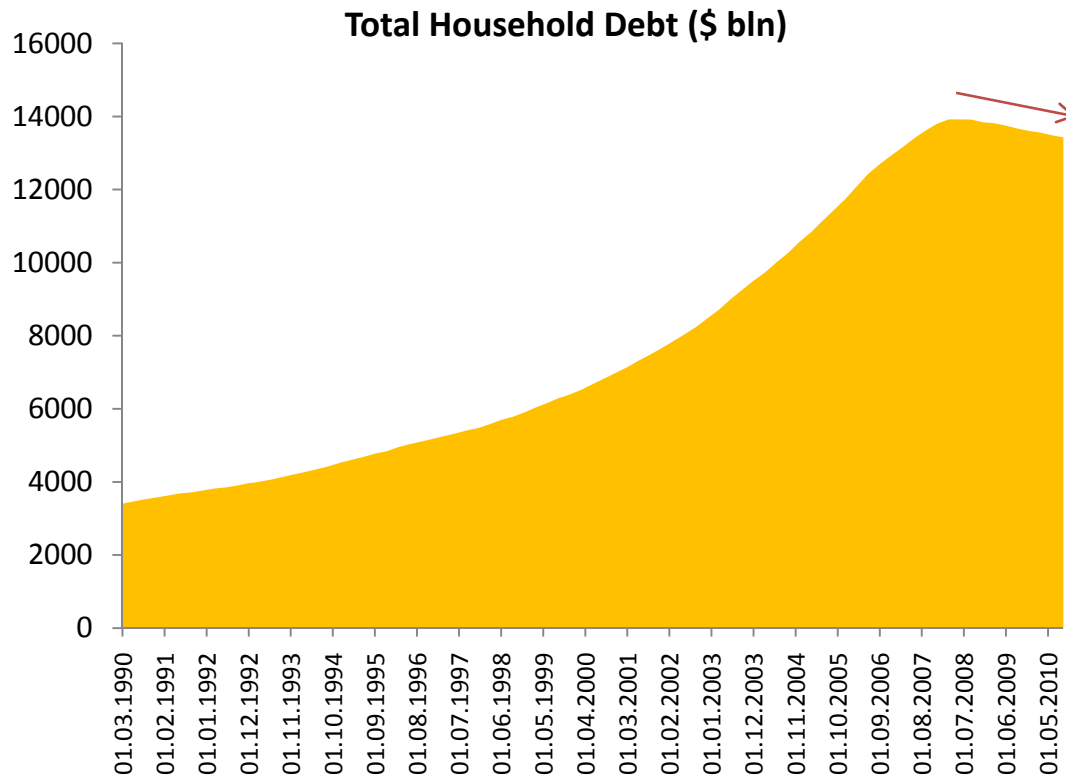
In 2011, the positive contribution of consumer confidence to growth will continue...



Source: Bloomberg

-  The role of consumers in growth has been increasing. In the coming periods, consumer behaviors will shape a more important part of growth.
-  On a monthly basis, retail sales increased by 0.3% below market expectations. In 2011 consumer spending is conjectured to increase rapidly.
-  Since various leading indicators regarding production and spending came in stronger in recent months, the near-term forecasts for the real GDP growth rate has been revised up.

US households are fixing their balance sheets...



Until the beginning of the recent financial crisis, US households were accumulating debt at a rapid pace.

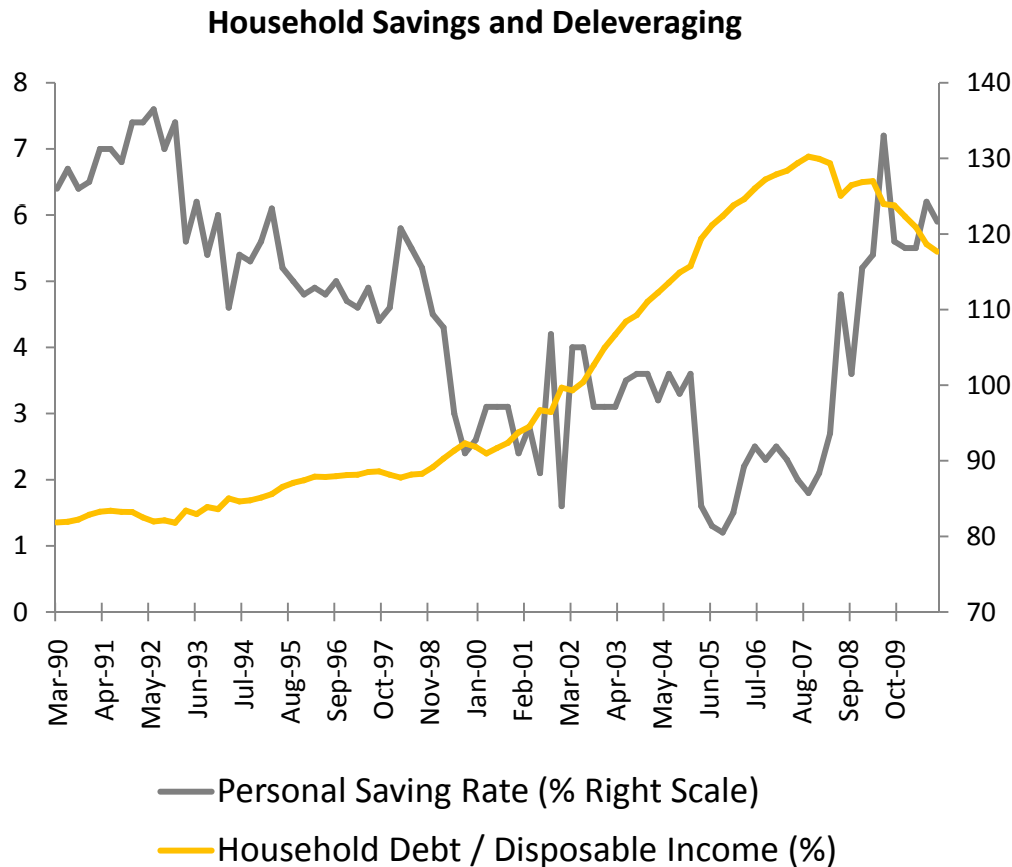
Since the start of the US recession in the third quarter of 2007, household debt has been declining with a rather slow pace.

It currently stands at \$13.4 trillion.

Source: Federal Reserve (Flow Of Funds)

Household deleveraging continues...

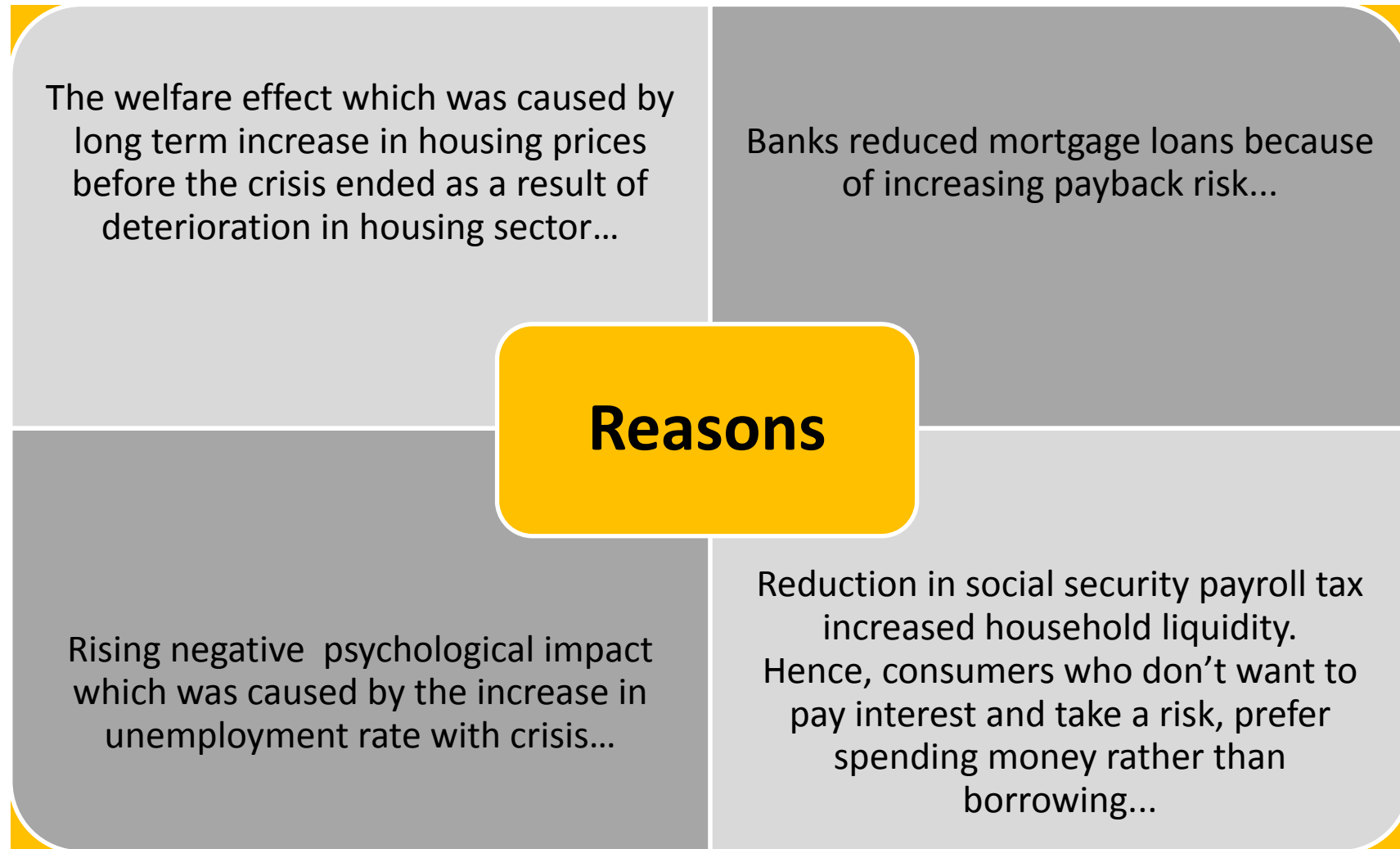
HOUSEHOLD LEVERAGE RATE = HOUSEHOLD DEBT / DISPOSABLE INCOME



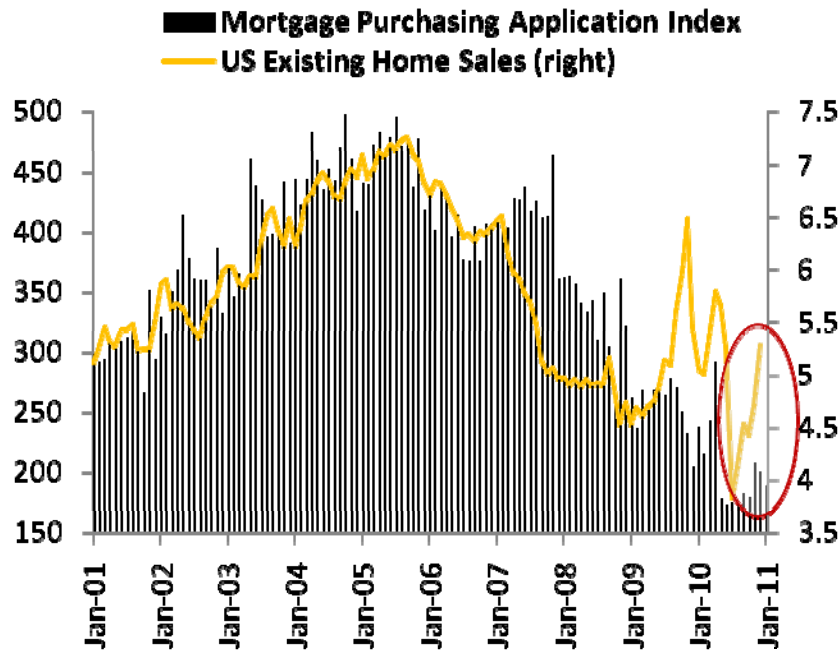
- US household leverage is measured by the ratio of debt to disposable income.
- Household deleveraging continued at a steady speed in the third quarter of 2010 .
- Household leverage which saw its peak of 130.2 in Q3 2007, fell to 117.6 in Q3 2010.
- The decline in the personal saving rate from 5.9% to 5.4% in Q3 2010, indicates that the US consumer has been feeling relatively relaxed.

Source: Federal Reserve (Flow Of Funds)

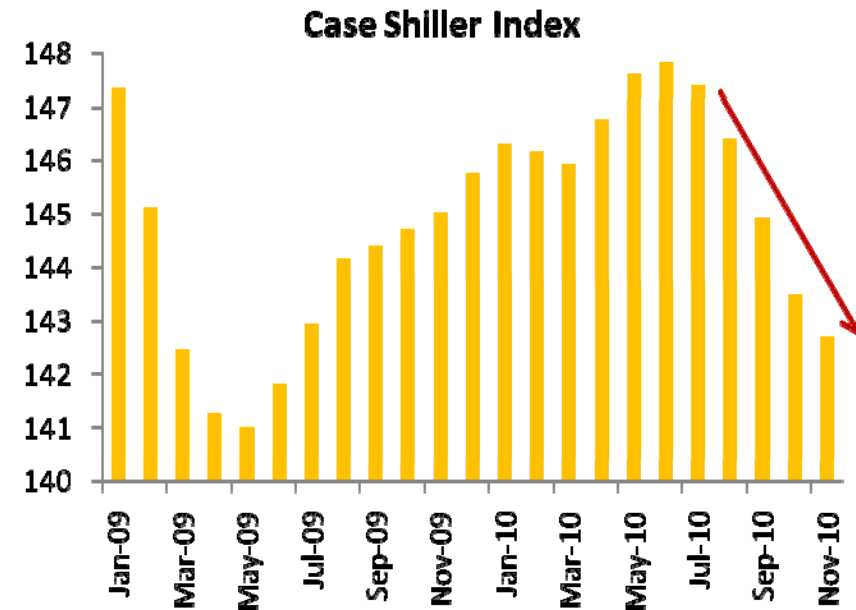
While the US economy is in the period of overcoming the crisis, consumers show an increasing tendency towards the cash experiments...



Housing sector is the significant example of consumers' cash experiments...



Source: Bloomberg



Source: Bloomberg

- One of the most important reasons for the increase in cash spending is the sharp fall in house prices especially in the second half of the 2010. (Case-Shiller house price index declined by 8.4% yoy in the last quarter of 2010.)
- Increasing spread between mortgage purchasing application index and US existing home sales despite the fall in house prices explains the consumer behaviors turning in favor of cash purchases.

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