

DAILY GLOBAL COMMENTARY

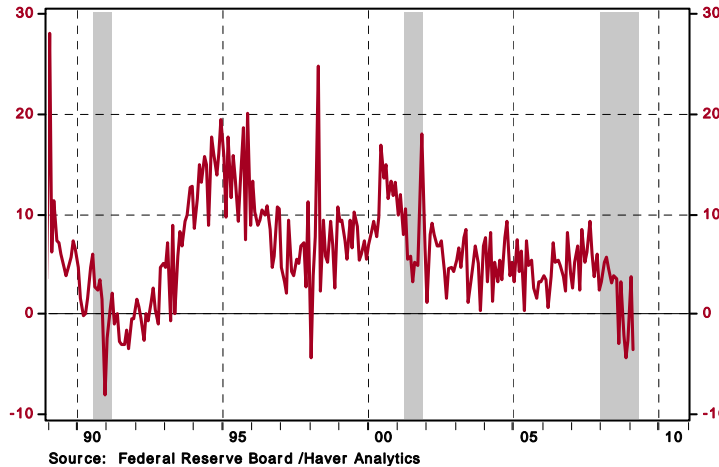
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Households are Parsimonious, Not a Surprise
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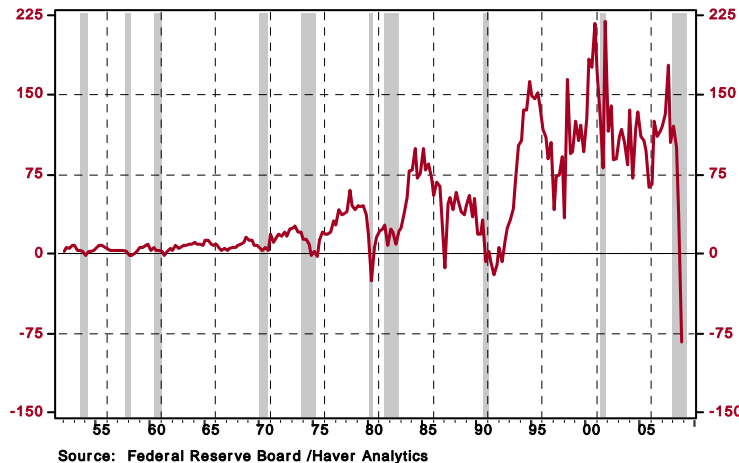
Consumer credit fell at an annual rate of 3.5% in February, after a 3.8% increase in January. This is not a surprise because households are financially strapped and employment conditions are bleak. With the exception of a decline in January 1998, consumer credit has risen every month from April 1993-July 2008 (see chart 1). In other words, a fifteen-year stretch of consumer borrowing that has stopped abruptly.

Chart 1
Consumer Credit
EOP, SAAR, %Chg



Total consumer credit fell \$83 billion in the fourth quarter of 2008, the largest on record (see chart 2). A significant decline is likely in the first quarter also, based on January-February estimates of consumer credit.

Chart 2
Households: Liabilities: Consumer Credit
SAAR, Bil.\$



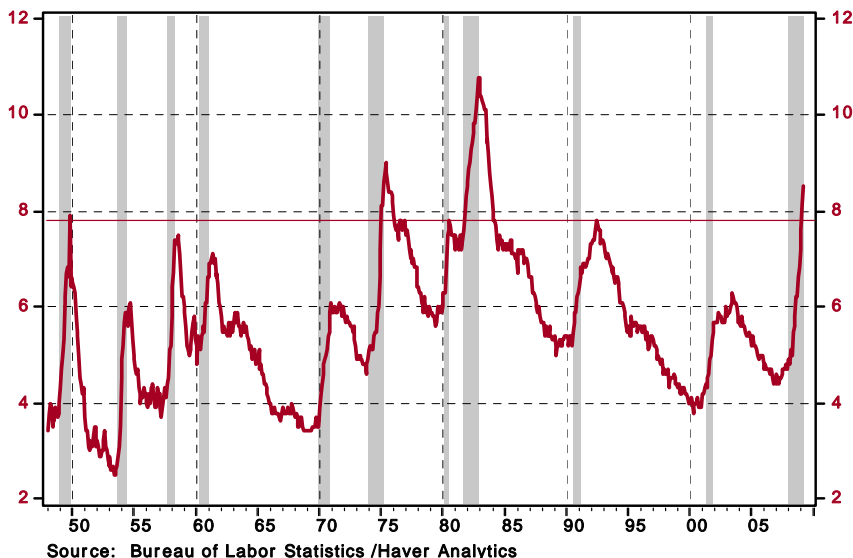
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Historically, the longest span of time when consumer credit posted declines was during December 1990 – March 1993 (15 monthly declines). The February 2009 drop in consumer credit is the fifth monthly decline since August 2008. The cycle high for the unemployment rate in the 1990-91 recession was 7.8% which was recorded in June 1992. The recession ended in March 1991, fifteen months prior to the peak of the unemployment rate. The jobless rate was 8.5% in March 2009 and an unemployment rate of 10% is the projected high for the current downturn. Therefore, it should not be surprising to see a further contraction in consumer credit. The parsimonious behavior of households needs an offset to rejuvenate consumer spending. This is another aspect that justifies the fiscal stimulus put in place.

Chart 3

Civilian Unemployment Rate: 16 yr +

SA, %



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