



This copy is for your personal, noncommercial use only. You can order presentation-ready copies for distribution to your colleagues, clients or customers [here](#) or use the "Reprints" tool that appears next to any article. Visit [www.nytreprints.com](http://www.nytreprints.com) for samples and additional information. [Order a reprint of this article now.](#)

July 16, 2010

# Wealthy Reduce Buying in a Blow to the Recovery

By MOTOKO RICH

The economic recovery has been helped in large part by the spending of the most affluent. Now, even the rich appear to be tightening their belts.

Late last year, the highest-income households started spending more confidently, while other consumers held back. But their confidence has since ebbed, according to retail sales reports and some economic analysis.

“One of the reasons that the recovery has lost momentum is that high-end consumers have become more jittery and more cautious,” said Mark Zandi, chief economist for [Moody's Analytics](#).

That cautious attitude stems in part from concerns about global instability, especially in Europe, and in part from the volatility of the stock market in recent months. Major stock indexes fell sharply on Friday, after several big companies announced disappointing earnings. Bank stocks were the biggest losers as investors wrestled with the twin issues of lower trading profits from Citibank and [Bank of America](#) and the prospect that new [financial regulation](#) would further crimp their businesses.

Though stock performance has a bigger psychological and financial impact on high-income households, consumers of all income levels are fretting more about their financial future, perhaps

bracing for the possibility of another economic contraction. Consumer confidence slumped in July to its lowest point since August 2009 in the Thomson Reuters/University of Michigan index released on Friday.

The Dow Jones industrial average slipped 261.41 points to 10,097.9 on Friday, for a loss of 2.52 percent. For the year, broad-based stock indexes in the United States all show losses of more than 3 percent.

Even Federal Reserve policy makers have acknowledged that the recovery is losing steam and suggested that should conditions worsen further, additional stimulus may be needed, according to minutes of their last meeting, released on Wednesday.

Especially at this stage of a recovery, businesses and economists want to see people of all incomes spending more, because the demand for goods and services would in turn encourage companies to hire workers. The American consumer accounts for an estimated 60 percent of the country's economic activity.

But the Top 5 percent in income earners — those households earning \$210,000 or more — account for about one-third of consumer outlays, including spending on goods and services, interest payments on consumer debt and cash gifts, according to an analysis of Federal Reserve data by Moody's Analytics. That means the purchasing decisions of the rich have an outsized effect on economic data. According to Gallup, spending by upper-income consumers — defined as those earning \$90,000 or more — surged to an average of \$145 a day in May, up 33 percent from a year earlier.

Then in June, that daily average slid to \$119. "I think a lot of that feeling that the worst was over has sort of abated," said Dennis J. Jacobo, Gallup's chief economist.

Although real estate brokers in Manhattan and the Hamptons report that buyers at the high end have returned, and Mercedes sales in the United States are up 26 percent this year, other indicators suggest a slowdown.

At the high end, luxury hotel chains like the Four Seasons and Ritz Carlton said bookings were much stronger earlier this year but had recently slowed. And upscale retailers, including Saks and Neiman Marcus, said sales growth eased in June. Overall retail sales slid in June from May, the government said this week.

To the extent that the wariness of the affluent is driven mainly by nerves and sentiment, economists hope that it will be temporary. "If growth is actually solid, those fears will dissipate," said Dean Maki, chief United States economist at [Barclays Capital](#) and a former senior economist at the Federal Reserve Board.

The worry, of course, is that consumers will stop spending because of their concerns about a slowdown, and that economic growth will slow because consumers have stopped spending.

After virtually shutting down during the financial collapse in late 2008, the wealthy began to open their wallets wider last year, in part because a stock market rally helped them feel better off financially.

By spring of last year, the savings rate — which represents the percentage of after-tax income not spent — of the top 5 percent of income earners had turned negative, according to the analysis by Moody's Analytics. That meant the group was spending more than it made.

Less well-off consumers remained more frugal, most likely constrained by unemployment, declines in home values and the disappearance of easy credit. So the savings rate actually rose last year for those in middle-income brackets as they cut spending.

Job losses have disproportionately hit those at the lower end of the wage scale. According to the Labor Department, the unemployment rate among people in management, business or financial occupations was 4.8 percent in June, compared to 9.5 percent over all, 18.2 percent in construction and 12.1 percent in production.

As a result, the affluent generally maintained their spending power at a time when others were losing

it. "High-income households drove the economy out of [recession](#) into recovery and powered the recovery through its first year," Mr. Zandi concluded. He added that although the incomes of the richest people might have been affected by swings in dividend payments or bonuses, the change in their savings rate was most likely driven by increased spending.

Affluent spenders "began to come out of the bunker about this time last year," Mr. Zandi said, "and part of it was related to the revival in the stock market."

Other economists suggest that while Mr. Zandi's conclusions make some sense, the data is hazy on the precise role that the rich have played in consumer spending. "We have tried to do other things like look at consumer expenditures on products mainly purchased by the rich and could never get anywhere," said Barry P. Bosworth, a senior fellow at the [Brookings Institution](#).

On the ground, those whose sales depend on affluent buyers have seen definite patterns. Last year and early this year, when the major stock gauges were rising, "everybody seemed to be a little bit more optimistic," said Tom Hauswirth, general manager and partner of Moritz Cadillac, [BMW](#) and Mini in Arlington, Tex., near Dallas.

"Then I think everybody was affected when they saw the stock market go below 10,000," he said. "Even though it may not affect their ability to buy or not, it affects their thinking."

Mr. Hauswirth said that those who had recently bought new cars were sometimes fearful of being labeled as conspicuous consumers. A few, he said, insisted on buying new cars in the same color as their old models.

"They didn't want their employees to know they bought a new car," he said. "It doesn't look good during a wage freeze or when they're cutting people."

Moritz laid off about 15 percent of its sales staff last year, and Mr. Hauswirth said that he did not yet feel comfortable hiring back until sales improved more.

Linda Dresner, the owner of a clothing boutique for women that carries designers like Dries van Noten and John Galliano in the upscale suburb of Birmingham, Mich., has reduced her inventory and says customers often say their husbands have asked them to rein in spending.

“They are wealthy people who live well,” Ms. Dresner said. “But their businesses have suffered some, and they are pulling back.”

Policy makers are divided on what may be needed to spur economic growth, with a current debate raging over whether to extend unemployment benefits, payments that are usually spent immediately. .

Sam Pizzigati, associate fellow at the Institute for Policy Studies, a left-leaning research center, cautions against simply boosting the spending power of the rich through tax cuts or other measures.

“Otherwise, we find ourselves in an ‘Alice in Wonderland’ world,” he said, “and the solution to the hard times that the economy is going through is to help the people that are not going through hard times.”

For now, some affluent spenders are getting thrifty. Linda Stasiak, who sells high-end skin care products to retailers like Whole Foods, said that her biggest sales increase had been for a \$15.95 tube wringer, made to get every last drop out of a bottle of lotion.

“During peak time, I don’t even really remember selling them,” Ms. Stasiak said.



More in Economy (8 of 28 articles)

OPEN

## Off the Charts: When Being Out of Work Becomes a Chronic Condition

[Read More »](#)