

# One Scary Headline: “Consumers Spend It All”

**W**e're blasted constantly with commercial messages urging us to have more, buy more, be more. Spending is good for the economy; it creates and sustains jobs. But spending without saving robs futures—no money for investment, for growing a business, achieving higher education, buying a house, or securing a retirement.

In June 2005, the Commerce Department reported that consumer spending grew 0.8% against a 0.5% income gain for the month. One headline read, “Consumers spend it all.” The savings rate, already low in the past several years, fell to 0% for the first time since 2001—and for only the *second* time since the Great Depression—as Americans spent as much as they earned in a month.

In July, the savings rate was a *negative* 0.6%. That's the lowest mark since 1959 when the government began tracking that number.

The article about “affluenza” on p. 4A says that Americans spend beyond their means—to the tune of \$8.2 trillion (trillion!) in 2004, a 67% increase from 1995. In the same time period, personal income rose 58%.

Sure, you can borrow for many of your goals (retirement—don't bet on it!). But it's just not a good idea to put all your disposable income into paying off debts. And without establishing a savings cushion, you'll have no alternative but to borrow if you hit any of life's bad patches—loss of job or reduction in hours and overtime, a divorce, serious medical situation, for example.

Several articles about the 0% savings

rate explained that most of the spending was coming from home equity loan proceeds. On one hand, that's good news: It means consumers have appreciating assets—their homes—and are tapping some of that money. But at some point (and we may be closer to that point than we want to admit), interest rates will rise enough to make home equity borrowing less attractive—and/or home values will plateau or fall, and the equity will shrink. Consumers won't be able to fall back on that built-up home equity to stay afloat, and to fuel spending.

What then? How many consumers have the recommended two to three months' income set aside in liquid funds for emergencies? Do you? If everyone is counting on home-equity borrowing to finance life's low spots, we're all in trouble.

It all comes back to financial fitness. Credit unions exist for one core reason—to move members along the continuum of financial fitness to a point where they have economic stability, security, and—maybe the ultimate in financial fitness—freedom to make financial decisions based on personal choice, not necessity.

I've said before that credit unions are the financial services experts with a difference.

We're America's credit unions, where people are worth more than money.

That says it all.



**by Dick Ensweiler,**  
**CUNA Chairman**

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