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# 4 Reasons Consumers Brush Off Bad News

By Rick Newman

Shouldn't holiday shoppers be in a bit of a panic?

After all, there's grim news all around. Gasoline and heating-oil prices are about 35 percent higher than they were a year ago. The housing meltdown that was mostly theoretical in 2006 is quite real in 2007, with a third-quarter drop in home prices that's the biggest in 21 years. The dollar is so low that big investors might bail out of U.S. securities, which would raise mortgage rates and cause other havoc. Wall Street's biggest banks are swooning from bad bets, and if you ask consumers, they seem blue, too: Consumer confidence has fallen four months in a row to its lowest level in two years.

Yet shoppers keep spending, seemingly unfazed by the headlines—or their own diminishing expectations. The all-important holiday shopping season is off to a decent start, as consumers continue a spending binge that drove gross domestic product growth up nearly 5 percent in the third quarter.

Now, it might be tempting to say that all those people who wait in line for stores to open at 5 a.m. are shopping addicts oblivious to economic forces about to drown them. And our minuscule savings rate doesn't exactly radiate financial wisdom.

But despite the gloomy headlines, there are solid reasons for consumers to be comfortable spending. These forces don't directly deposit money into consumers' pockets or guarantee job security, and many people aren't even aware of them. But here are four powerful trends helping to offset bad news and keep the economy buoyant:

**The surge in U.S. exports.** The weak dollar causes some problems, but it also makes U.S. goods cheaper overseas, leading to a boom in sales of heavy machinery, aircraft, and other big-ticket products. Economist Kristin Forbes at MIT's Sloan School of Management says the boost in exports, which rose 16 percent in the third quarter, has now created enough growth in the U.S. economy to offset declines caused by the housing crunch. And that in turn helps create jobs—about 100,000 per month for the economy as a whole so far this year—and keep incomes stable. There may be even a bigger boost from exports on the way, says Forbes, since big buying decisions overseas tend to lag behind the actual fall in the dollar by six or nine months.

**A strong global economy.** The dollar is just one reason other countries are buying lots of American stuff; another is that they have money to spend. "All those positive developments in the rest of the world are what drives demand for U.S. exports," says Matt Slaughter of Dartmouth's Tuck School of Business. The Chinese economy is famously robust, but demand from places like Russia, Brazil, other Latin American countries, and even Africa is growing, too. In addition to manufactured goods, consumers there buy our banking and financial services, they invest in U.S. companies, and they travel here. That all helps keep Americans employed.

**Globalization.** Yes, trends like offshoring threaten U.S. jobs, and for all the winners there are losers, too. But the ability to hire cheap overseas labor, slash information-technology costs, and spread risk around the world has made U.S. companies stronger and more competitive. The carry-through to workers and consumers is usually indirect but still meaningful: Companies stay healthy, with more consistent performance, which helps attract overseas investors, too.

**Cheap imports.** Headlines fixate on rising prices for oil and gas, but the cost of many other products has gone down by more than the price of these linchpin products has gone up. As anybody shopping for a sweater or DVD player knows, the real cost of everyday items like clothing, appliances, toys, electronics, and even food has gone down over the past decade. Stuff is cheap, largely on account of a tidal wave of imports from China and other low-cost countries. Even if consumers spend a little less this Christmas, they'll end up getting a little more.

There are still plenty of risks that could hamstring consumers. The housing bust could get far worse and cut deeply into Americans' disposable income. If oil prices rise enough, they could force serious cutbacks in corporate spending, along with layoffs and wage cuts. But for now it looks as if we're getting enough help from spenders overseas to get through the holiday season just fine, and then some.