

January 16, 2008

The “Decade of Excess” Has Trended Away

by John Catalano

How’s business? Pretty good, eh? Well, don’t get too comfortable just yet. My research indicates that a major change in consumer trends has begun.

We’ve just finished what I term the “Decade of Excess,” characterized by a sharp rise in consumer spending and consumption. Because of a change in mindset, consumer spending is about to contract. The next few years will wring out many of the excesses built up during the last 10 years. It will be a rubber band effect - reducing to the mean.

Let’s look the core theme of the Decade of Excess: In short, people became very consumed with themselves. This was reflected in larger and larger homes, home theaters, 200 square-foot baths, 4-6 car garages, outdoor kitchens, expensive vacations, etc.

The “wealth effect” thought process spread across the nation: everyone “became” the upper class - or thought they were and lived like it. Expensive gifts and vacations became the norm. Everyone was a high-roller in Vegas. Stocks and real estate always went up. It was chic to live large. This worked for a while because as spending rose, perceived wealth in the form of assets rose more.

The national housing and stock contraction is changing all of that. Do you have (or want) customers in California or Illinois? Because of the housing crash, the total value of San Diego’s homes shrank by nearly \$1 billion in 2007 and is projected to drop by at least that much this year. As a reflection of that, taxable sales in the area shrunk by 2.4% in the last half of 2007. RIP, the “wealth effect.”

Units in Phase 2 of an Illinois condo development will be 25% smaller than those in Phase One. The developer recently said that smaller homes are what his buyers, such as young families and retiring empty nesters are asking for. The bottom-line is that he has decided not to build larger homes for growing families because he sees greater demand elsewhere. This scenario is being repeated all across the U.S. Contractors in California are already building smaller and “greener” homes.

We’re talking about a national trend, one that will last at least three to five years. As more boomers retire in the next few years, they will realize don’t need the space and don’t want to spend excess mortgage, taxes, maintenance, heat, electricity or furniture dollars. Young families, too, will be more efficient - squeezing

more people into smaller space, using rooms as double uses and looking more toward their children's future than to the parent's present.

That said, let's think about how to benefit from these changes. Here are some areas where I see growth:

- People are going to move less often, and that means more business for home remodelers and such products.
- With the values of the dollar low, take steps now to "internationalize" your business. A good start is to export your products. You can do it on eBay tomorrow.
- As consumers try to save money, any green industry - solar, xeriscaping, recycling, etc. - will benefit. In fact, eco-friendly homes are expected to grow from 2% of all homes built in 2005 to about 10%, by 2010, according to the National Association of Home Builders and McGraw-Hill Construction.
- Recreational travel will be minimally affected, but deals must abound, and will be more tied into eco-travel.
- As interest rates continue to drop, mortgage re-financing in our traditionally sub-jumbo market will pick up again, but will have reduced cash-outs, i.e., people will be less inclined to take on more debt.

Remember, this downsizing will not be constrained to housing. Be prepared for people learning how to get by with less; they will pull their horns in and simplify their lives. Soon it will be chic to live smart, small and efficient - much like the European or Japanese style.

Now is the time to plan to meet the new demands.

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