

What If They Hand Out Stimulus Checks, And Nobody Shops?

by Sarah Mahoney, Thursday, Apr 17, 2008 5:00 AM ET



With the dreaded Tax Day safely behind them, consumers can now focus on the first happy news from the Internal Revenue Service in ages: the \$1,200-ish payment Uncle Sam is about to send them, hoping they'll stop worrying and start shopping for the goods and services you're selling.

But many experts are predicting that the economic stimulus payments, which the IRS says will start going out to an estimated 130 million households May 2 and will be completed by July 11, are more likely to wind up paying off debt or buying gas than funding any shopping sprees.

Back in February, the National Retail Federation polled consumers, and estimated that about \$43 billion of the program—which totals about \$115 billion—would wind up in store cash registers. But since then, gas prices have been climbing steadily, stealing share-of-mind from the government's stimulus plan: A new report from Nielsen finds that while gas represented between 12 and 16% of consumer's weekly spending in 2007, it will likely soon be 19%.

And if gas prices reach \$4 per gallon during the April-July period, as many expect, Citibank estimates that consumers "will be burdened with approximately \$70 billion in additional gas expenditures compared to the same period a year ago," amounting to "more than half of the \$115 billion of tax rebates expected to be realized during these months."

Even consumers doubt the checks will do much good. A recent Zogby poll found that two in three likely voters (67%) don't think the rebate checks will give the U.S. economy a boost, and overall, 36% are in the "strongly disagree" category. While Democrats and younger voters are among the most skeptical, overall, only 28% of the public believes the government's economic stimulus rebate plan will help.

Affluent shoppers are planning on being extra prudent. A new poll from Unity Marketing, a luxury marketing company, reports that only 11% of affluent consumers plan to spend that money on a shopping splurge—26% say they intend to save it, 16% will invest it, and 27% will use to pay down debt. The poll included more than 1,200 people earning \$100,000 or more, and about 60% of them expect a rebate check.

"The affluent luxury consumers are the 'heavy-lifters' when it comes to consumer spending," the poll report says. "The top 20% of households based upon income spends about twice as much the typical U.S. household across the board. When they choose to hold back on their spending, the effects are felt far and wide," it says. "Unfortunately, the tax rebate is unlikely to have much effect on retail spending among these shoppers."

Of course, the paycheck-to-paycheck crowd might disagree. The Zogby poll found that 41% of those who shop weekly at Wal-Mart are optimistic about the government's plan, compared to just 15% of those who never shop at the nation's largest retailer