

## Clothes, food could get smaller slice of rebates

### Economists see consumers paying down debt; card issuers could benefit

By [Laura Mandaro](#), MarketWatch

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**SAN FRANCISCO (MarketWatch) --** The nation's clothing stores and restaurant chains, two beneficiaries of the 2001 tax rebates, may get short shrift from the delivery of the government's tax-rebate checks, with Americans looking to pay down credit cards and fill up their fuel tanks.

As for retail, "whatever effect we would see would be insignificant and of no duration," according to Bernard Hastings, economic adviser for the Federation of Credit and Financial Professionals, which represents risk managers at consumer-goods companies and other businesses.

Michael Niemira, chief economist with the International Council of Shopping Centers, is similarly skeptical that retailers will get a noticeable boost from the individual tax-rebate checks under discussion in Congress.

"You'll be hard-pressed" to see purchases from the potential rebate checks show up in retailers' results, he said. "I assume a lot will go into debt reduction." 📺 [See what some people say they'll do with the money.](#)

On Tuesday, the House passed a \$150 billion stimulus plan backed by the Bush administration that would send \$300 to \$600 rebate checks to qualified earners. Senate lawmakers are now preparing to debate a \$156 billion economic-stimulus plan that would write \$500 tax-rebate checks to any American making at least \$3,000 in qualifying income, including Social Security benefits. [See story on House passage.](#)

#### What happened last time

When U.S. taxpayers opened their mailboxes to a combined \$38 billion in rebate checks during the 2001 recession, a lot first went

into the piggy bank or to pay off bills, and then went to malls and eateries.

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## High gasoline prices and greater credit-card debt, not to mention higher mortgage payments, are likely to chip away at the expected rebate dollars.

Studies of what happened after the U.S. government mailed \$300 to \$600 rebates to households between July and September 2001 found that Americans first socked away about two-thirds of the windfall.

During the three-month period during which they received the checks, they spent the remaining third of the money -- with the biggest portion on food, apparel, health and personal-care items, according to a 2006 study by David Johnson, Jonathan Parker and Nicholas Souleles.

By the end of six months, recipients of the tax rebates had spent even more -- about two-thirds of their total checks, on average. The industries on the receiving end were apparel, with 23% of rebate checks; health, 19%; and grocery and restaurant food, 16%.

But this time, high gasoline prices and greater credit-card debt, not to mention higher mortgage payments, are likely to chip away at the expected rebate dollars.

"I could see families of four taking their entire check and paying down credit-card bills," said Brit Beemer, chairman of consumer marketing firm America's Research Group.

U.S. consumers are more indebted today than they were in 2001, he added. Gasoline prices are more than double mid-2001 levels.

Of course, consumers may use some of the rebate to pay down credit cards or make mortgage payments -- at first. Then, when they are feeling more confident about their finances, they may increase their purchases.

That's what happened in 2001. A study of credit card payments in the wake of those rebates found consumers initially saved some of the rebate by increasing card payments. But soon afterwards, their purchases jumped, rising over \$200 on their favorite credit card in the nine months after receiving the rebate, said the Dec. 2007 report by Sumit Agarwal, Chunlin Liu and Nicholas Souleles.

The nation's restaurant chains and apparel stores, which have blamed weak December and January results on the flagging consumer, could use any extra discretionary dollars they can get.

Target Corp. ([TGT](#))

) said last week that January sales are tracking to the low end of its forecast, the latest in a string of disappointments from the discount retailer. Clothing retailers including American Eagle Outfitters Inc. ([AEO](#))

) and Kohl's Corp. ([KSS](#))

) have scaled back profit forecasts after holiday promotions failed to drive expected sales. [See related story.](#)

Credit-card issuers, on the other hand, are likely to see delinquencies and charge-offs improve thanks to rebates. That's good news for an industry that surprised investors earlier this month with word of sudden worsening in consumer-credit quality.

If consumers use their rebate checks to pay off some credit-card debt, "it will help in the short term," said Sanjay Sakhrani, an analyst who covers credit-card companies for Keefe, Bruyette & Woods. These outlays will likely have a bigger impact on card companies that are more sensitive to changes in credit quality, such as Discover Financial Services ([DFS](#)) .

Still, a short-term burst of plastic payments won't derail what is shaping up to be a consumer-led slowdown or recession, he commented.

"There's a small benefit to credit quality, but it doesn't change the view that credit quality is likely to deteriorate in lockstep with unemployment," Sakhrani said.

Card issuer American Express Co. ([AXP](#))

) said late Monday that fourth-quarter net income fell 10% as its provisions for charge-card and lending losses jumped 70%, to \$1.5 billion.

"We have seen greater deterioration in geographic areas where the housing market has contracted more severely, such as California and Florida," American Express Chief Financial Dan Henry said in a statement.

Economists, including Fed Chairman Ben Bernanke, generally agree that the most effective stimulus plans gets money out into the economy quickly, where it in theory stimulates more demand for jobs and business investment. Saving the money for a rainy day won't give the economy the wanted boost.

"From an economic perspective, the most important part is how much they spend," said Jason Furman, senior fellow in economic studies at the Brookings Institution. "That's the paradox of economic policy right now -- what's good for the economy in normal times can be bad for the economy in recession." ■

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