Where Will All The Rebates Go?

By KELLY EVANS and SUDEEP REDDY

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Government rebate checks have begun landing in bank accounts. So what will people do with the money, and how will it affect the stumbling economy?

With food and energy prices soaring, and house-price declines accelerating, consumers are under even more financial pressure than they were in January, when the economic-stimulus plan was developed. As a result, more of the $110 billion in rebates is likely to be spent on basics like gasoline, groceries and paying down debt -- and less on gadgets or fancy vacations -- than was expected a few months ago. Even as retailers like Sears Holdings Corp. and RadioShack Corp. have come up with new marketing initiatives to get a piece of the rebates, some potential customers are backing off.

"I would love to go buy a flat-screen TV, but there are things you have to take care of first," says
Jennifer Loza, a 37-year-old receptionist in Riverside County, Calif. She says she plans to use most of her family's rebate to pay off some of the $12,000 in credit-card debt she and her husband owe. Mrs. Loza was unemployed for about eight months before getting her current job. Her husband, who operates heavy equipment, has had only six months of work over the past year.

Raquel Jacobo, 47, a Chicago hairstylist and mother, expects to use almost all of her $900 rebate check to pay overdue energy bills. "It's going directly to the light bill and gas company," she says, adding that her electric and heating bills have jumped 50% in the past 18 months. "There's no money left for me."

The rebate program provides for payments of as much as $600 for individuals, or $1,200 for married couples who file jointly, plus $300 for each eligible child younger than 17. The amount of the payment begins to phase out for those with adjusted gross incomes over $75,000, or $150,000 for joint filers. The government began depositing rebates electronically in people's bank accounts on Monday. Paper checks will start going out May 9.

Much of the money will go straight into consumers' fuel tanks. "Half of it is literally going to go to gas," says Joseph LaVorgna, chief U.S. economist at Deutsche Bank. He estimates consumers' gasoline expenses have shot up $64 billion since the stimulus bill passed in mid-February.

For a typical motorist -- someone who drives 15,000 miles a year and gets 25 miles to the gallon -- the cost of gasoline has gone up $600 in the past year -- the exact amount of the rebate. Of course, without the stimulus, people would have squeezed spending elsewhere to pay for gas.

Overall, economists say, the rebates are likely to help the ailing economy -- but they don't agree on how much. To the extent that people go shopping with their stimulus checks, rather than using them to pay down debt or build savings, consumer spending will be higher than it would have been. To the extent that Americans spend the windfall on things the U.S. imports, like gasoline or imported apparel, the economic oomph will be shared by overseas economies.

The stimulus is likely to make economic growth two percentage points higher than it would otherwise have been in the second and third quarters, according to Macroeconomic Advisers, a St. Louis forecasting firm. Other analysts say the effect will be smaller. In any case, there's no guarantee the U.S. will avoid a recession or a decline in gross domestic product. On Wednesday, the government will release its estimate of first-quarter GDP. Economists expect growth to be just above zero.

Recent surveys suggest that many Americans will use the money to pay off bills or increase savings. In a recent Associated Press-Ipsos poll, only 19% of respondents planned to spend their checks, while 45% said they will use the money to pay bills, and 32% planned to invest it.

A recent study of the rebates distributed during the 2001 recession shows that the impact of such payments can go on for several months. Economists Sumit Agarwal, Chunlin Liu, and Nicholas Souleles wrote in the Journal of Political Economy that while Americans initially used some of the money to pay
down debt, credit-card spending picked up in the nine months that followed.

This time, retailers are coming up with offers pegged to the rebates. Sears will give gift cards that add a 10% bonus to the value of the stimulus checks to customers who convert their checks to gift cards redeemable at any Sears, Kmart, or Lands' End store. Starting on Friday, Kroger Co. and Supervalu Inc. will also add 10% to the face value of the checks if customers convert them into store gift cards, up to a $120 bonus per household. RadioShack will convert customers' rebate checks into prepaid MasterCards if they make a purchase. They'll also get a 10% discount on purchases over $50.

Expedia has launched an online store, open through May 13, that encourages Americans to use their rebates for travel and includes a variety of packages in the $600 range. Some hotels, such as the Palms Casino Resort in Las Vegas, are offering discounts of up to 30%.

But the retailers' efforts might not be enough to boost consumers' moods. The Conference Board, a New York-based business research group, said its index of consumer confidence on Tuesday dropped to 62.3 in April from a revised 65.9 in March, the lowest level in five years. The percentage of respondents intending to take a vacation in the next six months fell to a 30-year low.

Ted Schillinger, a 42-year-old freelance documentary filmmaker who lives in Brooklyn, says he and his wife will probably put their check into savings. "If in fact the economy is going into a downturn, this is an insurance policy," he said.

--Sara Murray and Conor Dougherty contributed to this article.

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