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Forget the house, treat yourself!

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It's amazing how profoundly the "wealth effect" works on the psyches of homeowners.

When people saw the value of their houses climbing at a dizzying pace, they lavished money on their prized asset - treating the living room to silk drapes, say, or the bedroom to a new chaise.

But as soon as house prices in many North American cities dropped or stagnated, consumers with any extra money to spend became inclined to treat themselves. To hell with that dusty pile of bricks dragging down my net worth, they said.

Sageworks Inc. is a firm in Raleigh, N.C. which collects financial numbers from businesses throughout North America. They drill down into the numbers and convert the data into plain language reports.

The numbers they've tallied in recent months show that consumers in North America have been making allowances for small indulgences throughout the recession.

Spending has risen on luxuries such as gym memberships, hobbies, haircuts, massages, manicures, dining out and drinking in bars. Online shopping has taken a big jump, with sales growth of 8.6 per cent in the past 12 months.

Self-improvement seems to be the common theme here, except for the drinking, which speaks for itself.

Meanwhile, stores selling furniture and other home decorating items have seen their sales drop 4 per cent in 2009 after a down year in 2008 as well.

Sageworks chief executive officer Brian Hamilton says the furniture merchants rank among the worst of all the industries that Sageworks tracks.

"I don't think I've seen the furniture industry in such a bad state as it is now in the past 20 years," he says.

Hamilton also hears lots of anecdotes from business owners. A friend of his, for example, has been struggling at the helm of a furniture making operation in Hickory, N.C., where sales have been dismal.

Hamilton thinks that people are spending money on things like hobby supplies because the price of those tickets is relatively low. Buying a piece of furniture can cost thousands.

The overall economic recession has been driven by a severe downturn in real estate, he adds, which means that homeowners who used to think prices only go up can no longer make that assumption.

In the past, a homeowner who saw the value of his or her house rise by, say, \$15,000 a year, could more easily justify drawing down \$5,000 against the home equity line of credit for a new bedroom suite.

"That's a psychological shift," he says.

Hamilton says spending on grooming and preening may have gone up for another reason: The unemployed heading to job interviews need to look polished.

And while some recent statistics have signalled that the housing industry in the United States may have started to turn around, Hamilton says he doesn't buy that yet.

There was so much overbuilding south of the border, he believes, that any improvement could quickly flame out.

"I think the real estate sector in the U.S. will be the last to recover."