Bye Bye Bling Bling: Middle Class New Poor Struggle To Cope With Recession

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From New England to Madrid and Tokyo, many consumers now have less money in their pockets after losing their jobs, moving from permanent to temporary positions, taking pay cuts, foregoing bonuses or losing overtime.

While many remain relatively comfortable in terms of their overall standard of living, this loss of income has been keenly felt, both materially and psychologically, forcing them to re-evaluate their consumption choices.

Key trends
- The cracks are widening;
- Poverty stalks the middle class;
- Great expectations get a reality check;
- Value for money becomes a priority;
- Generazione Mil Euro struggles to build a future;
- A lament for â€œTokyo Manâ€•;
- Necessity breeds resourcefulness.

Commercial opportunities

The sectors benefitting from this trend include
- Discounters, such as Aldi, Lidl and Wal-Mart;
- E-commerce;
- Private labels;
- High street and discount fashion chains, such as Zara and H&M;
- Domestic travel;
- Low-cost airlines.

Background
The rate of unemployment has risen sharply over the past year in both the USA and the EU. In the latter, it grew from 7.3% to 9.2% between October 2008 and September 2009, while in the former, it increased from 6.6% to 9.8%, according to Eurostat.

Those who have managed to hold onto their jobs are also being affected. In Japan, while the overall rate of unemployment remains lower, many of those lucky enough to still have jobs are working shorter hours and losing out on overtime: In September 2009, non-scheduled work hours were down 14.1% year-on-year, according to the Japanese Statistics Bureau.

More broadly, in many developed economies, there are now large numbers of temporary workers who can be made redundant with a minimum of notice and very little severance pay. In Spain, over 30% of workers fell into this category in 2008.

The cracks are widening
All of these trends add up to reduced incomes and a heightened sense of insecurity, as consumers fret that they too may join the ranks of the new poor.

This insecurity is particularly acute in the US, where social welfare provision is often inadequate, particularly in comparison with many parts of Europe.

According to one US internet forum poster,
â€œThe difference between those who are able to make it and those who aren't is a thinner line than many would like to believe. An illness, job loss, or decline in business revenue is enough to push many people over the edge. For many the support structures (savings, friends with financial security, family) simply don't exist.â€•

This heightened uncertainty is reflected in the Conference Board's consumer confidence index, which has struggling to recover from the shock of the financial crisis.

Poverty stalks the middle class
The least well off are normally the hardest hit by recession, but the current downturn is very much a middle class phenomenon due to the financial and housing market crises.

Having binged on credit during the boom years as the value of their homes and stock portfolios rose, many middle class

households, particularly in the USA and the UK, are now facing up to a major debt hangover.

According to Ann Chih Lin, a public policy and political science professor at the University of Michigan, a large number of middle class people are â€œone pay check away from hard times.â€•

According to one US blogger,
â€œmy husband just got a job, but he will be making much, much less than he used to. Our mortgage is behind, the bank is on us about that, our credit cards are behind and they want even MORE bloodâ€¦ How can we stop the madness that has engulfed us?â€•

Great expectations get a reality check
Recession has hit middle class households harder than their more affluent counterparts, widening the gap between the two.

This has helped to crystallise middle class fears that they are being cut adrift, as they can no longer realistically aspire to the luxurious lifestyles that appeared to be within their grasp during the heady 'bling' years of the mid-noughties (2000s), when McMansions and sport utility vehicles increasingly appeared to be the normal accoutrements of a middle class lifestyle.

According to Dr Clive Hamilton, a visiting scholar at Cambridge University, the "suffering rich" feel poor: "In earlier eras people set their aspirations for their standard of living byâ€¦ people around them. Television and other media have broken down those barriers, and people are increasingly setting their aspirations by people who lead a luxurious life." Manufacturers have also played a role by creating 'entry level' luxury products at relatively affordable prices (for example a Jaguar car costing less than US$20,000), giving people a taste of decadence.

In New Zealand, Mangere Budgeting Services chief executive Darryl Evans cites the case of a married couple earning almost US$150,000, where both were made redundant within the space of nine weeks: â€œThey have a home, leased vehicles and two children at private schools, and are so heavily mortgaged, indebted and over-committed; they struggle to put food on the table.â€•

Value for money becomes a priority
As a result of these trends, many middle class consumers have become more value conscious.

They are cutting coupons, buying more private label groceries, only using credit cards for essentials, shopping at discounters and online and utilising online price comparison web sites in an effort to stretch their incomes.

Some have taken second jobs, while others are selling their cars or choosing to holiday at home, rather than abroad.

However, 'the new poor' are not abandoning branded and designer goods completely, with many making their money go further by purchasing them at discounters, rather than Barneys or Saks, for example.

According to Linda Humphers, editor of Value Retail News,
"Just because people are spending more carefully doesn't mean they become Walmart shoppers overnight. They still want the brand-name merchandise; they just want to pay less for it."

Generazione Mil Euro struggles to build a future
In some ways, the current economic downturn has only served to exacerbate a trend that has existed for at least a decade.

A book called â€œGenerazione 1,000 Euroâ€• (The 1,000 Euro Generation), published online earlier this decade, chronicled the lives of a group of young Italians struggling to survive on monthly salaries of no more than â‚¬1,000. Striking a note with a generation, it quickly achieved cult status and has now been made into a film.

One US blogger describes the plot succinctly:
â€œYou're young, you speak several languages, you have one or more degrees and you want to get ahead in life. Not just in France, but especially in Spain and Italy, this gets more difficult by the day. Hardworking highly educated people in their twenties and thirties, generation 'Low Cost', can't afford a house, a family and fun things to do. They get stranded in low paid and temporary jobs. They feel like disposable commodities.â€•

A lament for â€œTokyo Manâ€•
Thousands, maybe even millions, of Japanese and American university graduates are in the same boat.

A November 2009 Japanese newspaper editorial bemoaned the fate of 'Tokyo Man,' â€œin his 30s, a university graduateâ€¦ He works himself ragged delivering packages or sorting warehouse inventory, and takes home Â¥6,000-7,000 (US$66-77) at the end of each gruelling day. He wants to get married and start a family some day, but knows that is pure

fantasyâ€¦ 'When I don't even know if I'll have work tomorrow, how can I make plans for my future?'.â€•

Necessity breeds resourcefulness
Nonetheless, these young consumers are resourceful.
Thanks to shops like H&M and Zara, they can still buy trendy cloths, while low budget airlines provide them with the opportunity to travel occasionally, and persistent price deflation means that they can afford consumer electronics like laptops, smart phones, games consoles and MP3 players, as well as internet subscriptions.

According to one blogger,
â€œThe makeup counter at my favorite department store used to be my sanctuaryâ€¦ The salespersonâ€¦ could pretty much sell me anythingâ€¦ With the economy in a mess, I didn't want to go into more debt... I hit the ground running toward the nearest drugstores to find comparable products that were budget-friendly.â€•

Outlook
Even though GDP is once again expanding again in many developed economies, the financial pain that many households are now feeling is likely to persist for some time.

As a result, there is unlikely to be a quick return to pre-crisis consumption patterns.

Burdened by debt and uncertain of their job prospects, consumers will continue to seek out value by shopping at discounters and online, while limiting their expenditure on discretionary items like foreign travel and luxury goods.

The psychological impact on consumption attitudes and aspirations is also likely to be significant: According to one US blogger, â€œit won't have the generation-defining impact of the Great Depression.

Butâ€¦ the dislocation and redefining of goals [will be] long term and massive in scale.â€•

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