

# Wall Street Journal

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### Evidence Grows That Consumers Are Pulling Back

**Latest Industry to Feel Pinch:**

**Plastic Surgery; Debating a Recession**

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The latest sign that growth in consumer spending, the mainstay of the U.S. economy, is slowing? A nip and tuck in spending on cosmetic surgery.

The slowdown was a hot topic at the meeting of the American Society of Plastic Surgeons in Baltimore this fall. One breast-implant maker sees hints of a slowdown in demand. The number of vision-correction surgeries appears to be falling as well. "This whole mortgage credit crisis is making people think twice," said J. Peter Rubin, a Pittsburgh plastic surgeon. "It's something I've noticed and some colleagues have noticed as well."

While anecdotal, the industry chatter is the latest worrying hint of a broader slowdown in consumer spending, which accounts for 70% of the U.S. economy -- and fodder for a broader debate on how deep such a slowdown might bite. The big question is whether the triple whammy of falling home prices, still-high energy prices and a credit crunch will crimp consumer spending so much that the nation slides into recession.

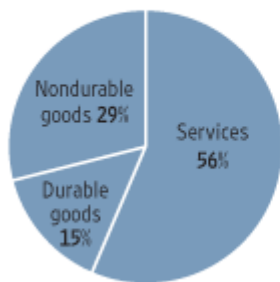
Consumers spend more on housing, health care, education, travel, restaurants and other services -- \$4.6 trillion last year -- than they do on food, gasoline, clothing, electronics, cars and other goods -- \$3.6 trillion. Spending on services such as education and housing tends to be less sensitive to economic swings. But discretionary spending, such as elective medical procedures or airline tickets, is susceptible to cyclical pressures.

Consumers sound pessimistic. On Friday, the Reuters/University of Michigan's index of consumer sentiment reported a decline in early December to a level lower than any month since 1992 -- except for the month following Hurricane Katrina. Gloom among lower-income households more than offset gains in better-off households. The Conference Board's survey is similarly weak.

Besides rising mortgage delinquencies and home foreclosures, delinquencies in the auto-loan market are ticking up to the highest level in several years, and lenders are tightening terms. Student loans are weakening too. After Moody's Corp. cited rising default rates in

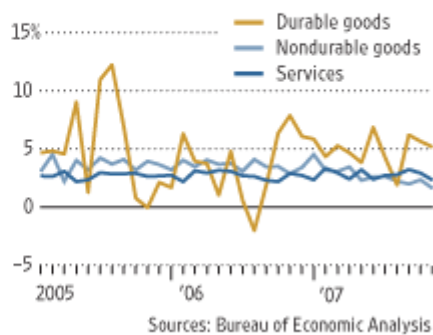
## Weakening

Share of real personal consumption expenditures by type, 2006\*



\*Chained dollars; seasonally adjusted at annual rates

Change in expenditures from a year ago\*



Sources: Bureau of Economic Analysis

student loans as reason to consider downgrading notes created by First Marblehead Corp., the student-loan packager on Friday halved its dividend and said it wouldn't do another offering of bonds backed by student loans this quarter. (See [related article](#).)

Also Friday, Federal Reserve data suggested credit-card spending has slowed. Consumer credit increased at an annual rate of 2.3% in October, faster than September's 1.6%. But that was less than half the pace of earlier in the year, and the acceleration in the growth of credit-card debt offset a second month of declines in the category that includes auto loans. Credit-card issuers have been pulling back, with approval rates across the industry dropping to 33% from 41% a year ago, said Robert Hammer, chief executive of R.K. Hammer, a bank-card advisory firm. Many are raising fees and interest rates.

Brad Tober of Buffalo, N.Y., recently got a notice that Capital One Financial Corp. was replacing the 9.9% fixed rate on his credit card with a variable rate of about 19%. The 21-year-old college student said he hadn't paid a bill late or done anything that he anticipated would lead to a higher rate. A spokeswoman for Capital One attributed the change to "business and economic" factors.

The broadest measure of consumer spending, one which includes food, energy and all other goods services, grew at a 2.7% annual pace in the robust third-quarter. Still, forecasters expect a substantial slowing in the current quarter, an important one to retailers depending on holiday sales. Economists at Macroeconomic Advisers, a St. Louis forecasting firm, expect consumer spending to grow a mere 1.1% seasonally adjusted pace in the current quarter.

To be sure, some economists expect the economy to keep rolling, despite what consumer-confidence surveys show. "The surveys are useful for telling you the mood of consumers...but they're not that useful for forecasting how much consumers are going to spend," said Dean Croushore, a University of Richmond economist whose research suggests declines in confidence don't regularly foreshadow downturns in spending. "Pay attention to what people do, not what people say. As long as people's incomes are doing fine and they have money to spend, they'll spend it."

The labor market has held up, a good sign since most Americans' incomes come from their jobs. The government said yesterday that employers added 94,000 jobs in November, roughly the average for the past six months. The unemployment rate held steady at 4.7%.

But even here there are some signs of weakening. Initial claims for unemployment benefits are running at a four-week moving average of 340,000, the highest since October 2005. Fed policymakers' latest forecast shows the jobless rate rising to between 4.8% and

4.9% next year, and the outlook has darkened since those projections were made in late October.

The Christmas season will fill in some blanks. Consumer purchases of big-ticket items, such as cars and furniture, are far more volatile than purchases of services. When times get tough, spending that can be deferred often is.

That's where plastic surgery comes in. Last year, Americans spent an estimated \$11.4 billion on plastic surgeon fees and probably close to \$4 billion more when facility fees and anesthesia are included, according to the American Society of Plastic Surgeons.

Breast jobs and tummy tucks aren't covered by insurance, so patients need a chunk of cash -- or a healthy credit line. So far, the slowdown in some plastic surgeons' offices appears to be affecting big-ticket surgeries rather than less costly procedures such as anti-wrinkle facial injections.

Some surgeons say business didn't pick up this fall as much as usual. Others say they have been busy but have lighter bookings for next year. Patients typically go under the knife in January and February to allow time to recuperate before bathing-suit weather arrives.

Breast-implant maker [Mentor](#) Corp. in Santa Barbara, Calif., says the surgeons who are its customers have noticed a drop in patient interest. Since last November when the Food and Drug Administration returned silicone implants to the cosmetic market after a 14-year partial ban, Mentor's sales have been strong. But the company detected some disturbing signs at the end of the quarter ended Sept. 30. In a conference call with analysts, Mentor Chief Executive Joshua Levine, sounded a cautionary note. Some plastic surgeons, he said, are seeing a drop-off in patient consultations, which is "usually a little bit of a precursor to lighter surgical calendars maybe 45 to 60 days out." He said he wasn't sure if a significant slowdown was on the way, but warned, "If we're going to have a real problem in the broader economy, we won't escape that."

Investors treated his remarks as an inflection point. The impact was heightened because it followed laser maker [Cutera](#) Inc.'s announcement that it would discontinue giving financial guidance to investors. Cutera, of Brisbane, Calif., said that "a number of factors, including recent signs of a slowing market growth rate, have made it more difficult to accurately predict our future financial performance." Cutera lasers are used for hair removal and skin rejuvenation among other aesthetic therapies.

Companies that lend money to consumers for such procedures say the business has been growing so quickly that it's nearly impossible to detect cyclical swings. "We haven't noticed a change in cosmetic surgery," said Mike Testa, president of [General Electric](#) Co.'s Care Credit unit, which specializes in consumer loans for dental and medical procedures. But people generally commit to cosmetic surgery and take out a loan months later, so it may be too early to see a trend, he said.

Care Credit has, however, noticed a downturn in another popular procedure -- laser vision-correction surgery. Volume dropped 10% in October, the sharpest decline the firm has ever seen in such procedures, Mr. Testa said.

Over the past five years or so, the volume of such surgeries has closely tracked the Conference Board's consumer confidence index, said Dave Harmon, president of Market Scope LLC, a market-research firm in Manchester, Mo. Last month, Mr. Harmon cut his 2007 estimate of vision-correction surgeries by 2.6% to 1.38 million. In recent years, he says, 80% of the change of volume in such surgeries can be explained by changes in consumer confidence.

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