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A holiday spending budget can help avoid debt hangover

By Kathy Chu, USA TODAY

The holiday sales have started. But don't blow that wad of hard-earned cash on gifts and other holiday spending without having a budget.

Creating one is probably as exciting as washing dishes. You'll thank yourself for doing so, though, after the Christmas sales have passed and everyone, except you, is moaning about spending money they didn't have.

This holiday season, the average consumer expects to shell out \$763 on gifts, up 4.5% from the same time last year, according to a November Gallup Poll.

Overall, retailers expect to ring up a healthy \$439.5 billion in sales, with today coming in as one of the year's busiest, according to the National Retail Federation.

Come January, though, the number of people seeking credit counseling because of those spending habits is likely to climb 40% compared with other months, according to Dave Jones, president of the Association of Independent Consumer Credit Counseling Agencies.

High energy prices are eating into consumers' disposable income this year.

Holiday spending, however, will be relatively strong, because while "a lot of low-income people will spend less this season, that will be more than offset by the people who are doing well in this economy" and opening up their wallets, says Dennis Jacobe, chief economist of the Gallup Organization.

An October survey conducted by Gallup and Experian credit bureau found that 68% of consumers expected to spend the same or more this holiday season compared with last year.

Half of those who planned to cut back cited oil and gas prices as a factor behind the decision.

The best way to stay out of trouble during the holiday season is to sit down and figure out how much you can spend without going into debt. Do this before you hit the shops.

"You can't go to the store with a credit card and just buy what you want," says Sherri Stephens, a Flint, Mich., financial adviser at Raymond James Financial Services. "Try to set a dollar amount and see if you can spend reasonably."

Realistically, your spending could end up varying 10% from this number, but at least you'll have a goal to work toward, says Scott Kahan, a New York financial planner.

You might also want to look at how much last year's festivities cost you, then add any extra expenses — such as higher gas prices for traveling — that you are likely to face this time.

Spending likely to exceed savings? Plan ahead. Cutting down on those twice-weekly runs to Starbucks could mean an additional \$40 in your pocket by the time Christmas arrives. Also, if you're strapped for cash, consider scrapping that extra mortgage payment this month rather than racking up credit card debt for gifts, says Stephens.

The hard part is sticking to the budget. But a little preparation can make the task a lot easier.

Make a list, check it often.

Once you know how much you can spend overall, set a specific dollar limit for each person's gift.

If the perfect item for your spouse costs a little more than you planned for, pare back on someone else's gift.

Compare prices at websites such as PriceGrabber.com and Shopping.com.

Shop early.

This will prevent that panic attack on Dec. 24 that leads you to grab the first acceptable gift you find — possibly blowing the budget.

Also, if you wait, that popular Dora the Explorer toy could sell out.

Breaking down the numbers

Holiday sales account for a significant portion of annual retail sales. Data based on 2004 sales:

Store type or segment	Holiday sales (in bil ions)	Total sales (in bil ions)	Pct.
Jewelry	\$8.8	\$27.4	32%
Department stores	\$23.8	\$90.5	26%
Clothing and accessories	\$45.6	\$190.0	24%
Sporting goods, book, hobby and music stores	\$19.3	\$80.1	24%
Discount stores	\$29.5	\$128.3	23%
Electronics & appliances	\$21.9	\$94.5	23%
Warehouse clubs & superstores	\$50.8	\$247.3	21%
Online shopping & mail-order houses	\$31.5	\$148.3	21%
Furniture & home furnishings stores	\$20.4	\$103.8	20%
Food & beverage	\$88.6	\$498.2	18%
Health & personal care	\$36.8	\$205.4	18%
Building equipment & supplies	\$48.7	\$303.1	16%

Source: National Retail Federation

Some items may be hard to find because retailers haven't built up as much product inventory as in the past, Jacobe says.

If you've finished your holiday shopping, congratulations. Just don't undo that good work by hanging around the mall.

"The key is to avoid impulse spending," says Jones. "The best thing to do is to be resolute. Check off your lists" and get out of the store.

Consider gift cards.

These cards, issued by retailers and banks, have gained popularity among busy shoppers. This season, consumers will spend an average of \$88 on them, according to the National Retail Federation.

Gift cards can keep your spending in check because they are available in various amounts. Also, instead of braving the holiday crowds, "You can sit down in the calm of your home and budget how much you're going to spend on Grandma vs. cousin Vinny," says Mallory Duncan, a senior vice president at the retail trade group.

Before you buy, however, ask about gift card restrictions. Some expire after a year or two, while others lose value if you wait to use them.

Leave your credit card at home.

That's so you're not tempted.

The exception: When buying big-ticket items such as televisions or stereos, credit cards could make sense. You can dispute the purchase amount if what you ordered is not what you got. Just make sure that you can pay off the purchases within a month or two.

This year, most consumers expect to tap available funds to cover holiday spending rather than adding to their credit card debt, according to Gallup.

Get a head start on budgeting for next year.

Set up a savings plan, such as a Christmas Club account offered by some banks, to sock away money.

You can automatically transfer money into this account every few weeks and typically get access to the funds in November. If you withdraw money before then, you may forfeit some of the interest earned.

If your bank doesn't offer this program, opening a separate savings account to build up holiday funds can work just as well.