

October 29, 2010

Long Term Expectations for Economy Weaken

Index of Consumer Sentiment				
Oct' 10	Sep' 10	Oct' 09	M-M Chng	Y-Y Chng
67.7	68.2	70.6	-0.7%	-4.1%

Index of Consumer Expectations				
Oct' 10	Sep' 10	Oct' 09	M-M Chng	Y-Y Chng
61.9	60.9	68.6	+1.6%	-9.8%

Current Conditions Index				
Oct' 10	Sep' 10	Oct' 09	M-M Chng	Y-Y Chng
76.6	79.6	73.7	-3.8%	+3.9%

Surveys of Consumers chief economist, Richard Curtin



“Confidence in government economic policies has fallen to the lowest level since the closing months of the Bush presidency, with just 11% of consumers holding favorable evaluations of Obama’s policies. Although mid-term elections primarily respond to local rather than national issues, residents of nearly all local areas expressed economic discontent. It would not be surprising for confidence to rebound after the election; it would be surprising if those gains proved to be more than temporary. If the lame duck Congress does not immediately pass an extension of the Bush tax cuts, not even deep discounts will secure modest gains in holiday sales.”

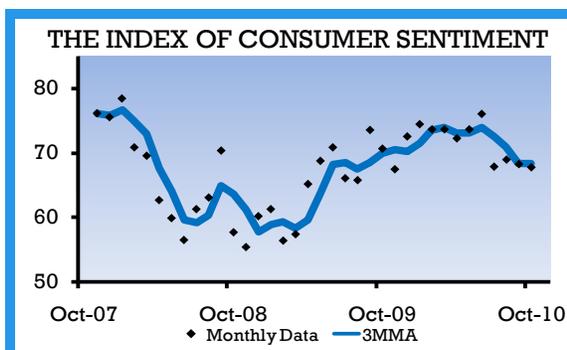
ANN ARBOR. There has been no discernable change in the overall level of consumer confidence during the past four months. At its current level, the Sentiment Index is about 20 index-points below its all-time mean, ranking barely above the bottom decile of all monthly surveys. Not only has the Sentiment recovery been slow and shallow, confidence has declined since the start of 2010 mainly due to a weaker outlook for economic growth during the years ahead. Consumers never anticipated that economic growth would be strong enough to quickly improve their job and income prospects, but they did think that they had already weathered the worst of the declines. Long term economic prospects are now less favorable than anytime since the recession lows in late 2008 and early 2009.

Rising Concerns about Long Term Economic Prospects

The majority of consumers reported that the economy had recently weakened, as consumers have increasingly reported hearing news of job losses over the past several months. Importantly, consumers were more likely to anticipate improvement in the year ahead rather than a renewed economic downturn. Nonetheless, nearly six-in-ten consumers thought that overall conditions in the national economy would still be unfavorable. While positive economic growth was anticipated, it was expected to be so slow that consumers anticipated that the unemployment rate was more likely to rise than fall during the year ahead. Overall, just 17% expected a declining unemployment rate. A turnaround in this grim jobs outlook was not expected anytime soon. Indeed, when asked about growth prospects for the economy over the next five years, the largest proportion of consumers (59%) since the start of 2009 anticipated a renewed economic downturn sometime during the next five years.

Consumer Sentiment Index

The Sentiment Index was 67.7 in the October 2010 survey, slightly below the 68.2 in September, but below last year’s 70.6. The Current Conditions Index improved, while future expectations for the economy worsened. A year-to-year decline of 9.8% was recorded in the Expectations Index, a component of the Index of Leading Economic Indicators. The decline in the Expectations Index compared with a year ago was due to less favorable prospects for both personal finances as well as for the overall economy.



About the survey

The Survey of Consumers is a rotating panel survey based on a nationally representative sample that gives each household in the coterminous U.S. an equal probability of being selected. Interviews are conducted throughout the month by telephone. The 95% confidence interval individual months for most percentages are plus or minus 4.7 percentage points.