

March 25, 2011

Rising Prices and Slowing Economic Growth

Index of Consumer Sentiment				
Mar '11	Feb '11	Mar '10	M-M Chng	Y-Y Chng
67.5	77.5	73.6	-12.9%	-8.3%
Index of Consumer Expectations				
57.9	71.6	67.9	-19.1%	-14.7%
Current Conditions Index				
82.5	86.9	82.4	-5.1%	+0.1%

Surveys of Consumers chief economist, Richard Curtin



“The proximate cause of the sharp drop in confidence was the rise in gas and food prices. The more damaging cause, however, was that the fewest consumers in more than a half century expected income increases, and many fewer anticipated gains in their inflation-adjusted incomes. The data clearly indicate that the rate of real consumer spending will diminish, but the data do not indicate a renewed downturn is now on the horizon. Continued job gains are essential as even modest job losses could quickly shift consumers toward retrenchment. For now, consumers find discounts attractive, and remain willing to modestly increase their spending.”

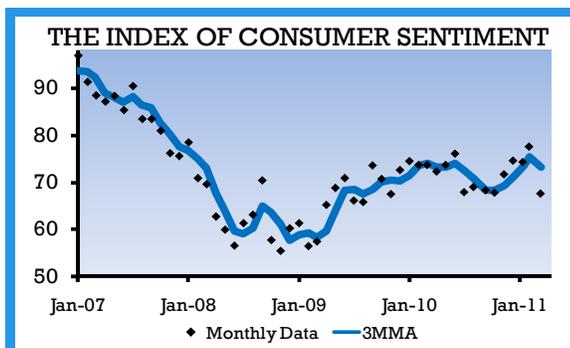
ANN ARBOR. Consumer confidence declined sharply in March due to rising gas and food prices. While further declines may well occur in the months ahead, consumers have not adopted the same deep pessimism that was prevalent a few years ago. Nonetheless, the March drop was record setting; it was the 10th largest monthly change ever recorded. Most of the decline was in the Expectations Index, which recorded its 5th largest monthly decline. Although references to employment gains still exceeded mentions of job losses, three-quarters of all consumers expected no additional declines in the unemployment rate in the year ahead. Perhaps the most significant countervailing trend was that there was no decline in buying plans despite all the widespread economic gloom.

Rising Prices and a Slowing Economy

Just one-in-four consumers expected their financial position to improve during the year ahead, returning to near the lowest level ever recorded of 20%. Scarce income gains as well as rising food and gas inflation were responsible for these dismal financial expectations. Only 38% of all households expected income increases in the year ahead, the smallest proportion ever recorded. Just 11% of all households expected inflation-adjusted income gains during the year ahead, barely above the all-time low of 8% in 1980. The largest declines were in prospects for the economy. The proportion of consumers who expected the economy to improve during the year ahead dropped to 21% in March from 40% in February, the largest one-month decline ever recorded in the history of the surveys. What was the greatest concern for consumers about the slowdown in the pace of economic growth was that they no longer anticipated the unemployment rate to decline.

Consumer Sentiment Index

The Sentiment Index was 67.5 in the March 2011 survey, down from 74.2 in January and last February's 73.6. The March reading reversed the gains recorded in the prior four months. The March losses were concentrated in the Expectations Index, a component of the Index of Leading Economic Indicators, which fell to 57.9 in March from 71.6 in February, the lowest level since March 2009's 53.5. The Current Conditions Index fell to 82.5 in March from 86.9 in February and nearly equal to last March's 82.4.



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 minimum monthly change required for significance at the 95% level in the Sentiment Index is 4.8 points; for Current and Expectations Index the minimum is 6.0 points.