

October 1, 2010

Consumers Expect Very Slow Growth

Index of Consumer Sentiment				
Sep' 10	Aug' 10	Sep' 09	M-M Chng	Y-Y Chng
68.2	68.9	73.5	-1.0%	-7.2%

Index of Consumer Expectations				
Sep' 10	Aug' 10	Sep' 09	M-M Chng	Y-Y Chng
60.9	62.9	73.5	-3.2%	-17.1%

Current Conditions Index				
Sep' 10	Aug' 10	Sep' 09	M-M Chng	Y-Y Chng
79.6	78.3	73.4	+1.7%	+8.4%

Surveys of Consumers chief economist, Richard Curtin



“The delay in the decision to extend the tax cuts has negatively affected economic expectations. While top income households had already expected higher taxes, the stalemate has caused upper-middle income households to adopt more cautious spending plans as well. It is hardly a surprise that potential reductions in after-tax incomes in a few months will curtail current spending. Such a spending pullback may not be quickly reversed after November, as consumers become increasingly aware of the need to prepare for higher future tax rates.”

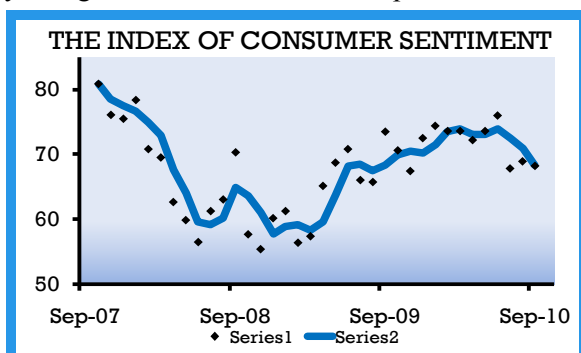
ANN ARBOR. The overall level of consumer confidence remained largely unchanged in September from August due to offsetting movements in its two components. Current economic conditions were judged somewhat more favorably while consumers judged future economic prospects more negatively. Moreover, among households with incomes above \$75,000, confidence declined significantly while among lower income households, confidence increased. Such a divergence is unusual, and may be related to the delay in the extension of the tax cuts. Without the extension, upper-middle income households would face substantial increases in their taxes in a few months.

Rising Concerns Among Upper Income Households

Households with incomes above \$75,000 reported less favorable financial prospects and were less likely to voice positive purchase plans than lower income households in the September 2010 survey. To be sure, financial prospects among all households remained quite weak, as only one-in-four expected their finances to improve during the year ahead. Among higher income households, however, just 22% expected their finances to improve in the September survey, down from 30% in August. In comparison, 28% of households with incomes below \$75,000 expected an improved financial situation during the year ahead, up from 24% in August. The same unusual pattern occurred in buying plans. Vehicle buying plans, for example, fell more sharply among high income consumers, the core of the new vehicle buyer market. Among households with incomes above \$75,000, favorable views of vehicle buying conditions fell by 13 percentage points, to the lowest level in two years. When asked to explain their views on vehicle buying, upper income households much less frequently mentioned the availability of discounted prices and interest rates on vehicle purchases.

Consumer Sentiment Index

The Sentiment Index was 68.2 in the September 2010 survey, insignificantly different from the 68.9 in August and the 67.8 in July, but well below last year's 73.5. The Current Conditions Index improved by 8.4% from a year ago, due to more favorable personal financial situation. More importantly, a year-to-year decline of 17.1% was recorded in the Expectations Index, a component of the Index of Leading Indicators. The Expectations Index was at its lowest level since the March 2009 survey.



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.