

August 27, 2010

Consumers Expect Very Slow Growth

Index of Consumer Sentiment				
Aug '10	Jul '10	Aug '09	M-M Chng	Y-Y Chng
68.9	67.8	65.7	+1.6%	+4.9%
Index of Consumer Expectations				
Aug '10	Jul '10	Aug '09	M-M Chng	Y-Y Chng
62.9	62.3	65.0	+1.0%	-3.2%
Current Conditions Index				
Aug '10	Jul '10	Aug '09	M-M Chng	Y-Y Chng
78.3	76.5	66.6	+2.4%	+17.6%

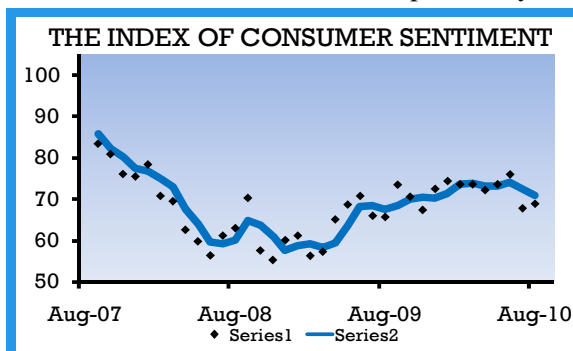
ANN ARBOR. The overall level of confidence remained largely unchanged in August as consumers did not panic in the face of slowing economic growth and the media's double-dip drumbeat. The bad news is that consumers expect lackluster income and job growth for an extended period of time. This "new normal" outlook has encouraged consumers to pare down their debts and increase their reserve funds. While the data indicate a slowdown in the pace of growth in consumption that will last into 2011, outright declines in consumer spending are very unlikely. Nonetheless, the finances of consumers remain quite weak, and any additional erosion could quickly reduce their spending even more.

Lackluster Income and Job Prospects

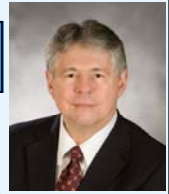
Just one-in-four households reported that their finances had recently improved in the August survey, and just one-in-four expected any improvement in their finances in the year ahead. While income gains were reported by one-fifth of all households in August, the highest proportion in two years, those gains were still less than half as common as ten years ago. Moreover, half of all households not only anticipate no increase in their income, but also expected their inflation-adjusted incomes to decline during the year ahead. Job prospects remained grim as well. Eight-in-ten consumers did not expect any decline in the unemployment rate in the year ahead. While unemployment expectations were twice as positive as two years ago, the entire gain was due to a shift from anticipating additional increases to the expectation that unemployment would remain unchanged at high levels. Consumers attributed the lack of employment gains to the ongoing slowdown in economic growth. While consumers did not expect renewed declines in the economy in the year ahead, just one-in-three anticipated that the economy would be characterized by uninterrupted growth over the next five years.

Consumer Sentiment Index

The Sentiment Index was 68.9 in the August 2010 survey, slightly above the 67.8 in July and last year's 65.7. The Current Conditions Index improved by 17.6% from a year ago, due to more favorable personal finances situation as well as improvements in the economy. More importantly, a decline of 3.2% was recorded in the Expectations Index, a component of the Index of Leading Indicators.



Surveys of Consumers chief economist, Richard Curtin



"Optimism has been the primary characteristic of American consumers during the past half century. To be sure, consumers repeatedly suspended that optimism around recessions, but the suspension was always considered temporary. Now economic uncertainty reigns. It is far too early to declare that consumer pessimism has become the new default outlook of consumers. Nonetheless, the economic uncertainty that now exists has caused consumers to reduce their spending and increase their precautionary saving. The lesson of the financial crisis for consumers was that their best defense against economic adversity was to reduce their own debt."

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.