

November 23, 2011

## Political Deadlock and Consumer Spending

Index of Consumer Sentiment				
Nov'11	Oct'11	Nov'10	M-M Chng	Y-Y Chng
63.7	60.8	71.6	+4.8%	-11.0%

Index of Consumer Expectations				
Nov'11	Oct'11	Nov'10	M-M Chng	Y-Y Chng
54.9	51.7	64.8	+6.2%	-15.3%

Current Conditions Index				
Nov'11	Oct'11	Nov'10	M-M Chng	Y-Y Chng
77.4	74.9	82.1	+3.3%	-5.7%

### Surveys of Consumers chief economist, Richard Curtin



“What will translate a political riff into an economic calamity for many families is if the payroll tax cut and unemployment benefits that are scheduled to expire at the end of December are not extended. Consumer confidence is now quite vulnerable to setbacks due to any number of adverse domestic and international economic developments. Doing nothing is not an option for Congress, the President, or the Federal Reserve since the lack of action will significantly raise the likelihood of a renewed recessionary downturn, which is already uncomfortably high.”

**ANN ARBOR.** Consumer confidence continued to improve in November from its August low when pessimism was dominated by negative reactions to the Congressional debate on the debt ceiling. The failure of the super committee to reach an agreement comes at a time when consumers had anticipated a slowly improving economy, and more importantly, slow gains in employment. While it is too early to determine how the failure will influence consumers' economic expectations, the lack of an extension of the payroll tax cut and unemployment benefits will have an immediate negative impact on consumers and, unless extended, could further dampen holiday spending.

### Stagnant Personal Finances

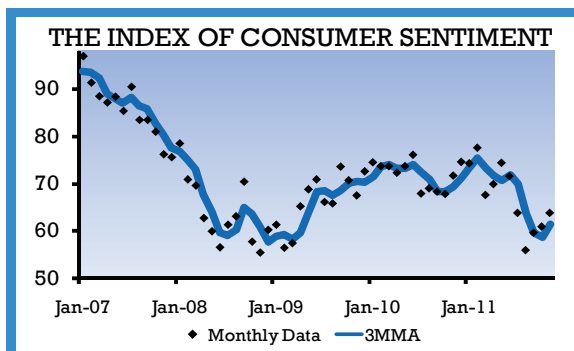
More households reported that their finances had worsened rather than improved for the 48<sup>th</sup> consecutive month, and income declines were spontaneously mentioned more frequently than income gains as the primary reason. When asked about prospects for the year ahead, just 22% of consumers expected their finances to improve. And even with the lower level of anticipated inflation, half of all families expected falling living standards in 2012.

### Confidence in Fiscal and Monetary Policies at Record Lows

In each of the past four months, the majority of consumers unfavorably rated the policies of the Obama administration, and in the past two months, the majority voiced less confidence in the Federal Reserve. Consumers who lost confidence in both the administration and the Fed were extraordinarily pessimistic about the outlook for the national economy—half as optimistic as those who remained confident in both fiscal and monetary policies.

### Consumer Sentiment Index

The Sentiment Index rose to 63.7 in the November 2011 survey, up for the third consecutive month from the August low of 55.8, but it was still well below the 71.6 recorded last November. Most of the November gain was in the Expectations Index, a component of the Index of Leading Economic Indicators, which rose to 54.9 in



November, up from 51.7 in October, but still below last November's 64.8. The Current Conditions Index was 77.4 in November, up from 74.9 last month but below last year's 82.1.

### 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.