

December 22, 2011

## Political Deadlock Hurts Consumer Spending

Index of Consumer Sentiment				
Dec '11	Nov '11	Dec '10	M-M Chng	Y-Y Chng
69.9	63.7	74.5	+9.7%	-6.2%

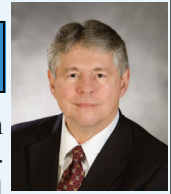
  

Index of Consumer Expectations				
Dec '11	Nov '11	Dec '10	M-M Chng	Y-Y Chng
63.6	54.9	67.5	+15.8%	-5.8%

Current Conditions Index				
Dec '11	Nov '11	Dec '10	M-M Chng	Y-Y Chng
79.6	77.4	85.3	+2.8%	-6.7%

### Surveys of Consumers chief economist, Richard Curtin



“Given the continued weakness in consumers’ assessments of their personal finances, the Congressional stalemate on extending the payroll tax holiday could easily reverse the recent gains. To be sure, consumers have come to expect last minute action by the Congress, not inaction on such a vital issue. If the payroll tax holiday is not extended, it would be a significant drag on economic growth, and would increase the likelihood that weakness in consumer spending would again put the economy at risk of a renewed downturn. Even a month long delay would heighten uncertainty and cause consumers to begin to take precautionary actions.”

**ANN ARBOR.** Consumer confidence continued to improve in December for the fourth consecutive month. The December gain primarily reflected more positive expectation for the economy in 2012. Importantly, consumers more frequently reported hearing news about employment gains in the December survey. Unfortunately, consumers did not assess their personal finances more positively, with

recent income declines being reported twice as frequently as income increases. While the December survey recorded the most optimistic expectations for the national economy since August, income changes were reported to be the worst since last Spring. Assuming the payroll tax cut will be passed and made retroactive to the start of 2012, the data indicate that inflation-adjusted personal consumption expenditures will rise by 1.8% during 2012.

### Economy Expected to Improve

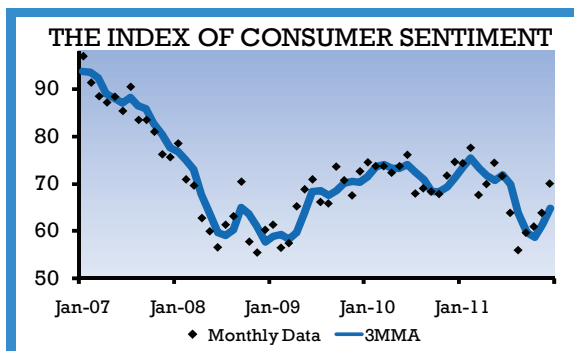
The improvement in the economic outlook was large, but still left the overall prospects for the economy at low levels. Good times economically were expected in 2012 by 29% in December, up from 19% in November and the recent low of 14% in August. While more consumers heard news of employment gains in December, they didn’t expect that those gains would have much impact on the national unemployment rate in the months ahead.

### Personal Finances Still Dismal

The majority of consumers reported that their finances worsened during 2011, and just one-in-four households anticipated that their financial situation would improve in 2012. Only one-in-ten families anticipated an increase in the living standards during 2012. These assessments have been largely unchanged over the past two years.

### Consumer Sentiment Index

The Sentiment Index rose to 69.9 in the December 2011 survey, between the 63.7 in November and last December’s 74.5. Importantly, this was the fourth consecutive month that the Sentiment Index increased from its August low of 55.8. Most of the December gain was in the Expectations Index, which rose to 63.6 in December from 54.9 in November, but still below last December’s 67.5. The Current Conditions Index was 79.6 in December, slightly above the 77.4 in November and below last year’s 85.3.



### 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.