

April 29, 2011

Rising Prices Seen as Temporary

Index of Consumer Sentiment				
Apr' 11	Mar' 11	Apr' 10	M-M Chng	Y-Y Chng
69.8	67.5	72.2	+3.4%	-3.3%

Index of Consumer Expectations				
Apr' 11	Mar' 11	Apr' 10	M-M Chng	Y-Y Chng
61.6	57.9	66.5	+6.4%	-7.4%

Current Conditions Index				
Apr' 11	Mar' 11	Apr' 10	M-M Chng	Y-Y Chng
82.5	82.5	81.0	+0.0%	+1.9%

Surveys of Consumers chief economist, Richard Curtin



“The good news is that consumers do not expect rising gas and food prices to lead to a new era of inflation. They anticipate the increases will be temporary. The bad news is that the combination of high prices and small income gains has meant that the financial position of consumers remains quite dismal. Without the payroll tax cut, spending cut-backs would have been quite likely. A stronger forward momentum will be required for spending growth to withstand the end of the payroll tax cut at the close of this year as well as uncertainty about federal tax liabilities in the coming years, especially among higher income households.”

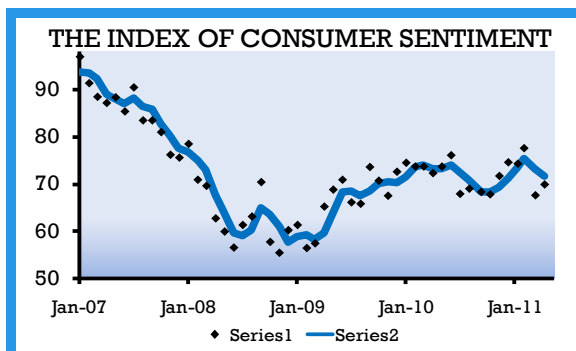
ANN ARBOR. Confidence inched upward in April as consumers thought that fuel prices would not rise enough to cause an economic downturn. While consumers still expect continued increases in gasoline prices, the April data indicated that consumers thought the rapid price run-up had largely ended. Nonetheless, half of all households reported that high fuel and food prices had significantly worsened their financial situation. More importantly, consumers viewed their future financial prospects as no better than their current dismal situation. Just 7% of households expected continuous improvement in their finances in April, barely above the half-century low of 6%. 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 combination of higher inflation, scarce jobs, and lackluster income growth will continue to restrain consumer spending during the year ahead.

Rising Prices Seen as Temporary

While consumers anticipated a much higher inflation rate during the year ahead, the majority of consumers thought that the surge in prices would be temporary. Expected gas price increases were much lower in April than in March, although consumers still anticipated another twenty-five cent increase during the months ahead. Long term inflation expectations declined in April as consumers increasingly anticipated that the rise in fuel and food prices would end. Consumers were somewhat more optimistic about prospects for the overall economy in April. Consumers views on jobs, perhaps the single most important indicator, stabilized in April. The unemployment rate, rather than posting further declines, was expected to remain largely unchanged at its current level due to a slower overall pace of economic growth.

Consumer Sentiment Index

The Sentiment Index was 69.8 in the April 2011 survey, between the 67.5 recorded in March and last April's 72.2. The April gains were concentrated in the Expectations Index, a component of the Index of Leading Economic Indicators, which rose to 61.6 in April from 57.9 in March. The gain was due to a somewhat more favorable outlook for the economy during the year ahead. The Current Conditions Index was unchanged at 82.5 in April and March and slightly above last April's 81.0.



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.