

May 27, 2011

## Stagnant Incomes Growing Concern

Index of Consumer Sentiment				
May '11	Apr '11	May '10	M-M Chng	Y-Y Chng
74.3	69.8	73.6	+6.4%	+1.0%
Index of Consumer Expectations				
69.5	61.6	68.8	+12.8%	+1.0%
Current Conditions Index				
81.9	82.5	81.0	-0.7%	+1.1%

### Surveys of Consumers chief economist, Richard Curtin



“Consumers no longer anticipate a rising standard of living in the next several years. Consumers now give just one chance in three that their income will outpace the inflation rate. It is not that consumers expect escalating inflation. Indeed, the May survey recorded a significant decline in inflation expectations. It is that most consumers do not anticipate higher incomes in the years ahead. While fuel and food inflation is not much of a concern for monetary policy, rising wages would need to be dealt with more seriously as an indicator of higher future inflation.”

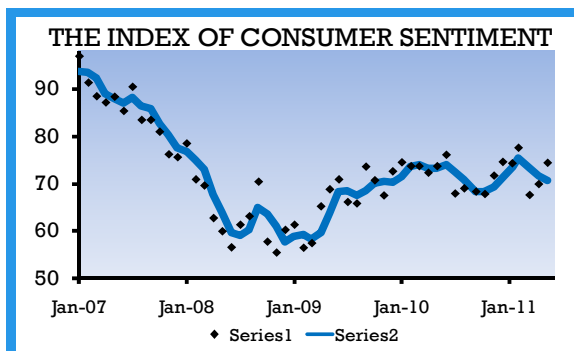
**ANN ARBOR.** Confidence improved in May as news about job gains more than offset concerns about higher prices. While more optimistic about future changes in employment, the current finances of consumers remain quite bleak. Stagnant incomes and higher prices have meant that consumers judged their inflation adjusted income expectations worse than anytime since the early 1980's. Moreover, record numbers of consumers thought that their incomes would lag inflation over the next five years. The combination of higher inflation, scarce jobs, and lackluster income growth will continue to restrain consumer spending during the year ahead. Without the payroll tax cut, spending cutbacks 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.

### Longstanding Trend Toward Diminished Finances

Consumers' evaluations of their current finances have improved over the recession lows, but the proportion who expected gains in their finances has declined. When asked to explain this situation, consumers were more pessimistic about future income gains. Indeed, the majority of consumers have expected no income increase in every survey since the start of 2009—29 consecutive surveys. Prior to 2009, no survey ever recorded a majority of consumers who anticipated no income gain during the year ahead. Although consumers now expect the inflation rate to ease, they nonetheless anticipate declines in their living standards. Just one-in-ten consumers anticipates that their income will rise faster than the inflation rate during the year ahead.

### Consumer Sentiment Index

The Sentiment Index was 74.3 in the May 2011 survey, up from 69.8 in April and last May's 73.6. The May gains were concentrated in the Expectations Index, a component of the Index of Leading Economic Indicators, which rose to 69.5 in May from 61.6 in April and last May's 68.8. The gain was due to a more favorable jobs outlook despite concerns about rising prices. The Current Conditions Index was 81.9 in the May 2011 survey, down from 82.5 in April and just above the 81.0 recorded last May.



### 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.