

August 26, 2011

Economic Downturn Expected by Consumers

Index of Consumer Sentiment				
Aug '11	Jul '11	Aug '10	M-M Chng	Y-Y Chng
55.8	63.7	68.9	-12.4%	-19.0%

Index of Consumer Expectations				
Aug '11	Jul '11	Aug '10	M-M Chng	Y-Y Chng
47.6	55.9	62.9	-14.8%	-24.3%

Current Conditions Index				
Aug '11	Jul '11	Aug '10	M-M Chng	Y-Y Chng
68.5	75.7	78.3	-9.5%	-12.5%

Surveys of Consumers chief economist, Richard Curtin



“The recent surge in pessimism was due to lost confidence in the ability of the government to enact policies that would counteract the growing threat of a renewed recession. Consumers have shifted from being optimistic about the potential impact of monetary and fiscal policies to a sense of despair and pessimism about the role of the government. The only more common expectation than the government plays a positive role in promoting economic growth is the expectation that government can be a potent and successful force. That presumed effectiveness has been lost. The result is that consumers have become more cautious spenders.”

ANN ARBOR. Consumer confidence plunged in August as consumers became increasingly convinced that a renewed recession was likely to occur. The majority of households reported worsened finances, expected no income gains, and were more likely to anticipate a rising unemployment rate during the year ahead. Consumers have shifted from being optimistic about the potential impact of monetary and fiscal policies to a sense of despair and pessimism about the role of the government. Never before in the history of the surveys have so many consumers spontaneously mentioned negative aspects of the government’s role in the economy, and never before have consumers rated economic policies so unfavorably.

Stagnant Income Expected

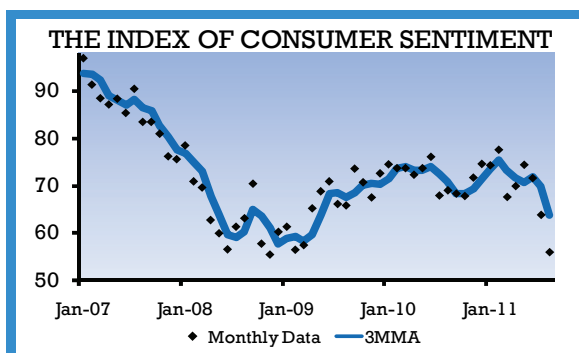
For the third consecutive year, one-third of all households reported income declines in the August 2011 survey. Perhaps more distressing, was that the majority of consumers in the August 2011 survey, for the third consecutive year, anticipated no increase in their household’s income during the year ahead.

Spending Plans Decline

Buying plans for household durables declined in August, falling back toward their recession lows. The primary reason given for postponing purchases was job and income uncertainty, reported by one-third of all consumers. Vehicle buying plans also suffered from income uncertainty, mentioned by more than one-in-four consumers. Vehicle buying faced stiff resistance from rising prices, especially among higher income households. The sinking economy has made consumers more defensive, favoring spending cutbacks rather using savings or debt.

Consumer Sentiment Index

The Sentiment Index fell to 55.8 in the August 2011 survey, down from 63.7 in July and 74.3 in March. The 25% decline in the last three months was the second largest on record. The August decline was especially sharp in the Expectations Index, a component of the Index of Leading Economic Indicators, which fell to 47.6 in August from 55.9 in July and 69.5 three months ago, recording its lowest level since 1980. The Current Conditions Index fell to 68.5 in August from 75.7 July and 81.9 three months ago.



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.