

September 30, 2011

Economic Stagnation Expected by Consumers

Index of Consumer Sentiment				
Sep '11	Aug '11	Sep '10	M-M Chng	Y-Y Chng
59.5	55.8	68.2	+6.6%	-12.8%
Index of Consumer Expectations				
Sep '11	Aug '11	Sep '10	M-M Chng	Y-Y Chng
49.4	47.6	60.9	+3.8%	-18.9%
Current Conditions Index				
Sep '11	Aug '11	Sep '10	M-M Chng	Y-Y Chng
75.2	68.5	79.6	+9.8%	-5.5%

Surveys of Consumers chief economist, Richard Curtin



“Although the small September gain still left consumer confidence at low levels, the more troublesome finding was that consumers have come to anticipate economic stagnation as the most likely outcome over the longer term. Whether it’s their own diminished income expectations, the inability of the economy to generate a sufficient number of jobs, or uncertainty about future taxes, spending and entitlements, the most probable outcome expected by consumers is a prolonged period of economic stagnation. Rather than spending more and taking on new debt, consumers are intent on rebalancing their finances to prepare for a new economic era.”

ANN ARBOR. Consumer confidence improved in September, although it is still quite weak and remained below the year earlier reading. Most of the gain was due to consumers shifting from anticipating an even worse economy to expecting the economy to stagnate at its current depressed level. The majority of consumers expected their personal finances to remain unchanged, the same dismal

pace of economic growth, and no improvement in the unemployment rate during the year ahead. The Expectations Index still points toward the likelihood of a renewed economic downturn at worst, and at best, indicates growth in consumer spending that will be too slow to enable any improvement in the jobs situation.

Stagnant Finances Expected

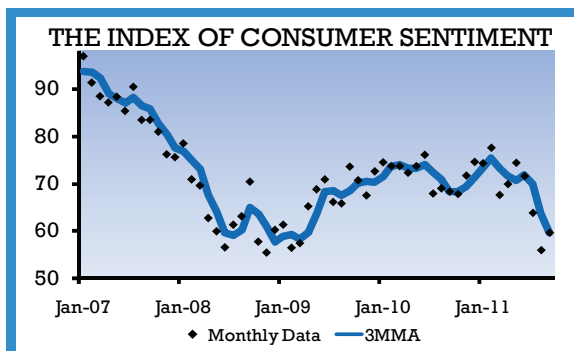
The majority of consumers in September reported that their finances worsened during the past year, twice as many as reported improved finances. When asked about their financial prospects for the year ahead, fewer consumers reported that they would either be better or worse off financially. Instead, the proportion that expected stagnating finances jumped to 60% in September, from 50% in August, reaching the highest level ever recorded.

Stagnant Economy Expected

Two-thirds of all consumers reported that the economy had recently worsened, and three-quarters thought that economic conditions would remain unchanged at best during the year ahead. When specifically asked how they expected the unemployment rate to change, 89% expected the unemployment rate to remain unchanged at its current high level or to increase during the year ahead.

Consumer Sentiment Index

The Sentiment Index rose to 59.5 in the September 2011 survey, up from 55.8 in August, but below the 68.2 recorded last September. Most of the September gain was in the Current Conditions Index, which rose to 75.2 in September from 68.5 in August. The Expectations Index, a component of the Index of Leading Economic Indicators, rose to 49.4 in September from 47.6 in August. The gain still left the Expectations Index virtually identical with the 2008 recession low (49.4 versus 49.2 in June 2008).



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.