



Surveys of Consumers



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CONSUMER SENTIMENT LANGUISHES AT LOW LEVELS

Sentiment Index Unchanged

The Index of Consumer Sentiment was 67.5 in the January 1992 survey. Following the sharp declines from September to November, consumer sentiment has languished at depressed levels since then, showing only small and insignificant additional declines. Overall, the year-end declines reversed the entire improvement recorded during 1991. At the start of 1992, the Index was barely above the level recorded at the start of 1991 (67.5 vs. 66.8).

The January 1992 survey, completed before the President's State of the Union address, was dominated by greatly heightened concerns with income and job prospects, and a record low level of confidence in government economic policies that would remedy those concerns. It is unlikely that the plans announced by the President to stimulate the economy will substantially change these views, as the proposals were more modest than many consumers were led to expect.

Interest rate declines remain the most important source of renewed strength for the year ahead. Aside from the housing market, however, that strength continues to be dissipated by the weakened financial situation of consumers, as well as their heightened apprehensions about future income and job prospects. As a result, consumers will continue to restrain their spending plans during the first half of 1992. While the trough in spending may be at hand, the road to recovery is likely to be long and the pace of improvement slow.

Year-end Reversal in Confidence Widespread Among All Subgroups

The improvements in consumer sentiment recorded during 1991 among income and age subgroups were all reversed by year-end. Among families with incomes of \$40,000 or more, the Index of Consumer Sentiment rose slightly in January 1992 to 73.9 from 71.1 in December 1991, but remained well below the 79.2 recorded in November. Overall, the strong gains among higher income families recorded during 1991 were completely reversed by year-end, with the January 1992 Index reading (73.8) nearly identical with the January 1991 level (73.9).

Among respondents under age 35, the Index of Consumer Sentiment fell to 72.5 in January 1992, from 78.9 one month earlier, and 75.9 at the start of 1991. Among respondents 35 to 44 year old, the January Index fell to 64.8 from 65.2 in December, and remained barely above the 63.4 recorded in January of 1991. Only among respondents 55 years or older was a slight, but insignificant, gain recorded, with the Index rising to 64.2 in January 1992 from 60.5 one month earlier and 61.1 one year earlier.

The Index of Consumer Sentiment inched upward among Southern residents, to 73.5 in January from 69.9 in December and 67.9 in January 1991. The Index fell slightly in the West, to 68.9 in January from 70.6 in December, but remained ahead of the 65.7 at the start of 1991. Residents of the Midwest posted the largest declines, falling to 62.5 in January from 68.3 in December 1991 and 68.7 in

January 1991. Sentiment in Northeast remained the lowest of all regions, unchanged from the prior month (61.5 in January versus 61.6 in December), and just below the year earlier reading (63.3).

Leading Indicator Dips Slightly

The Index of Consumer Expectations slipped to 59.1 in the January 1992 survey, insignificantly below the 61.5 recorded in December. From September to November of 1991, the Expectations Index lost a total of 14.5 Index-points, and since then has remained largely unchanged. The extent of that decline, however, was sufficient to return the Expectations Index to near the level recorded at the start of 1991 (55.2).

Economy in Recession Job Prospects Top Concern

The national economy was reported to be in recession by 83 percent of all households in the January 1992 survey, just ahead of the 81 percent recorded last January, and the highest level recorded since the early 1980s. For the year ahead, 66 percent expected bad times financially in the economy as a whole, a sharp reversal from the 39 percent recorded in September 1991, rising to just below the 70 percent recorded in January of 1991.

Job prospects represent the primary and overwhelming concern of consumers. Moreover, worries about future job opportunities continued to escalate in the January survey. When asked to specify what news they had heard of recent developments, 59 percent of all respondents in the January survey spontaneously mentioned worsening employment conditions, just above the prior all-time record of 54 percent set in December 1991. For the year ahead, 57 percent of all consumers expected the national unemployment rate to increase in the January 1992 survey. This represents a substantial increase from the 38 percent recorded in September, reversing nearly all the improvement since January 1991 when 62 percent expected increases in unemployment.

Confidence in Government Policies Falls to All-Time Low

Confidence in government economic policies continued to fall in the January 1992 survey. Among all families, 50 percent reported unfavorable evaluations of government economic policies in January, up from 45 percent in December, and equal to the all-time peak recorded in November 1980. Favorable evaluations of government economic policies were given by just 7 percent of all households in the January 1992 survey.

Personal Finances Weaken, Income Declines Widespread

Consumers' evaluations of their personal financial situation remained very unfavorable. Among all families in the January 1992 survey, 40 percent reported that their financial situation had worsened during the past year, compared with 30 percent that reported improvement. These readings have remained largely unchanged since November, and represent the worst assessments since the early 1980s. In explaining how their financial situation had changed, declines in incomes were reported by 28 percent of all households in January, the highest proportion recorded in more than 30 years.

Moreover, consumers viewed prospects for the year ahead no more favorably at the start of 1992 than at the start of 1991. In the January 1992 survey, 32 percent expected improved finances during the year ahead, compared with 13 percent that expected a worsening financial situation. Fully half of all families expected their financial situation to remain essentially the same, considering changes in both incomes and prices. Most consumers expected very meager income increases, balanced by lower rates of inflation.

The financial implications of the recent sharp declines in interest rates will have a mixed impact on consumers, depending on their asset and debt positions. Lower interest rates on savings and investment accounts mean less income for some, mainly older, more affluent households. For others, the reduced payments on refinanced and variable rate mortgages and other loans will increase their spendable income.

Inflation Expected To Remain Low

In the January 1992 survey, consumers expected the annual rate of inflation to average 3.5% during the year ahead. This represents a substantial decline from the 4.0% recorded one month earlier, and the 5.1% recorded one year earlier. Indeed, in only three surveys during the last twenty years has an expected inflation rate of less than 3.5% been recorded, and those readings have only been marginally lower (3.2% was the lowest, recorded in March 1986).

Interest Rates Expected To Continue to Decline

The proportion of consumers that expected declines in interest rates rose sharply in the second half of 1991, nearly doubling from July to December of 1991 (from 21 to 39 percent). Following the interest rate cuts announced by the Federal Reserve Board in December, consumers still expected further declines more frequently than increases in the January survey (36 versus 29 percent), although by a narrower margin than in December (39 versus 25 percent).

Mortgage Rate Declines Improve Home Buying Attitudes

Home buying attitudes posted a strong improvement in early 1992. Favorable assessments of home buying conditions were reported by 77 percent of all families in the January 1992 survey, the highest level since the mid 1980s.

The primary reason for this improvement has been declines in mortgage rate, cited by two-thirds of all consumers in the January 1992 survey. While references to lower mortgage rates more than doubled during the past year, favorable references to home prices fell. The proportion that favorably cited home prices fell to 39 percent in January 1992, from 47 percent two months earlier.

Vehicle Buying Attitudes

By the start of 1992, vehicle buying attitudes regained the December loss, but still remained at the lower levels recorded in the Fall of 1991. Among all families, 59 percent rated vehicle buying conditions favorably, up from 52 percent one month earlier, and 48 percent one year earlier.

The January improvement in vehicle buying attitudes was due to lower interest rates on vehicle loans, reported by 24 percent of all families. While this provided some welcome relief, interest rate declines on vehicle loans were reported by consumer only one-third as frequently as reports of mortgage rate declines (24 versus 66 percent).

Consumers' concerns about their current and future economic situation continue to temper the favorable impact of lower interest rates---reported by 24 percent of all families in the January 1992 survey, the highest level recorded during the past year.

Buying Attitudes for Household Durables Remain Weak

Attitudes toward buying conditions for furniture, appliances, home electronics, and other large household durables remained at depressed levels. Among all families in the January 1992 survey, 55 percent held favorable attitudes toward buying conditions, barely above the recent low of 53 percent recorded both one month and one year earlier.

These buying attitudes continue to be dampened by heightened concerns about future income and job prospects. One-third of all families in the January 1992 survey cited their currently weakened financial situations as well as apprehensions about the future as the primary reason for their negative views.

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The January 1992 survey included 510 completed interviews conducted between January 2 and January 28, 1992.

New Era in Consumer Expectations

The problems that are now being expressed by consumers are not just related to the current twists and turns in the economy. To be sure, a robust recovery would be the best antidote in the near term, but it would not provide a complete cure.

To understand the importance of the more basic, underlying changes in consumer expectations, we must place the current situation in perspective. In the post World War II period, there have been three distinct eras.

The first was an era of optimism and confidence, lasting from the end of World War II through the 1960s; the second was a period of uncertainty and discontent, which dominated the decade of the 1970s. The third period, starting in the early 1980s and continuing to the present, can be characterized as one of diminished expectations.

Optimism and Confidence. The decades of the 1950s and 1960s were characterized by consumer optimism and confidence. Rapid and sustained economic growth was translated into rising affluence for most American families. To be sure, the economy did occasionally experience recessions during those decades, but they were few in number. More importantly, recessions were increasingly viewed as preventable. Indeed, by the mid 1960s, confidence in the government's ability to utilize fiscal and monetary policy tools led many to believe that cyclical downturns in the economy were a thing of the past. Economic growth came to be seen as the inevitable course. The only policy issue was how to maximize growth, that is, how to "fine-tune" the economy so as to achieve its full potential.

The psychology of prosperity that evolved became deeply ingrained. Consumers not only expected their own living standards to rise continuously, but thought that their children and grandchildren would prosper as well. Importantly, consumers felt confident that their current income and employment situation were secure, and they looked toward their retirement years with a sense of security as well.

When recessions did occur, they were viewed as only a temporary pause in the otherwise rising tide of affluence. To cope with the downturns, some spending plans had to be put on hold, but the postponement was expected to be brief. Their aspirations remained unchanged, since consumers saw little reason to revise them because of what was viewed as a temporary aberration in the economy.

Uncertainty and Discontent. In the decade of the 1970s, rather than a source of satisfaction and confidence, the economy became a source of uncertainty and discontent. Economic instability was the dominant characteristic of the 1970s, as the economy moved rapidly from boom to bust, and back again.

The high levels of economic aspirations that were built in the earlier decades were not quickly abandoned. In part, the persistence reflected what was thought to be the special, and transitory, impacts from the initial oil shocks to the economy. More importantly, the persistence of the psychology of prosperity reflected its deep roots in the psyche of the American public.

Economic aspirations are not easily modified by the twists and turns of current economic conditions. Indeed, in the short-term they are used as a standard from which to judge current performance. When accomplishment meets or exceeds aspirations, a sense of satisfaction results, when accomplishment falls short, dissatisfaction results. Over time, satisfaction promotes increases in aspirations, as it did in the 1950s and 1960s. It is only after prolonged frustration and non-fulfillment that aspirations are reduced. Thus, for much of the decade of the 1970s, the American public expressed widespread discontent as they still held the economy to the high performance criteria of the earlier decades.

Diminished Expectations. Ultimately, however, high aspirations gave way to persistent economic adversities. An important component of the process

was the growing belief that economic policies that could effectively deal with the problems were lacking. Moreover, public confidence in economic assessments and forecasts that were provided by an ever increasing army of experts, sharply eroded. It was in this sea of uncertainty and confusion that aspirations sank. It was not that the current storms were too severe to find safe harbor, it was that such a harbor was no longer present anywhere on the horizon.

By the mid 1980s, the standards consumers used to judge economic performance had changed. Consumer assessments did not so much depend on whether the economy was meeting its potential for growth, but whether the economy could avoid the catastrophes of the prior decade. These changed standards affected performance evaluations across a broad range of economic measures, including overall assessments of economic growth, as well as progress toward the goals of price stability and full employment. Perhaps the clearest example of the change in consumers' evaluations involved inflation: when the rate of inflation fell below 5 percent in the 1980s, it was viewed by consumers as a cause for celebration; when it rose to that level in 1971, it created a crisis of confidence and resulted in the imposition of wage and price controls.

Earlier, consumers confidently expected improvement in their living standards. By the start of the 1980s, however, consumers realized that it would be a struggle to keep living standards from declining. The long expansion in the 1980s did little to cause consumers to change these views; rather, it acted to confirm them. By 1990, median family income adjusted for inflation was not appreciably higher than the level recorded twenty years earlier. And to achieve even this dismal outcome, it required a growing number of two-earner families, since the real earnings per worker declined. At present, the long standing stagnation of income has focused consumers simply on the struggle to keep living standards at yesterday's levels.

The 1980s also witnessed a dampening of consumption aspirations, as the cost of homes and new vehicles rose much more than incomes. As a result, a growing number of families have been

excluded from making those purchases. For example, the average price paid for a new car rose from just over one-third of median family income twenty years ago, to just under half of median income currently.

Perhaps the most important aspect of the changed structure of consumer expectations and aspirations involves consumers' assessments of future employment prospects. As I have already noted, during the decade of the 1980s, and continuing into the early 1990s, there has been a growing and widespread concern about vitality of the American economy and its ability to compete in international markets. A new sense of insecurity has spread among workers of all skill levels, in all occupations. Moreover, the heightened sense of insecurity also extends to concerns about the adequacy of retirement incomes. In sharp contrast to earlier times, when the longer the horizon the more favorable the outlook became, at present the further people look into the future, the more concerns they express about their own situation as well as for their children and grandchildren.

It is of course true that a resurgence in the economy could well reverse these changes in consumer expectations and aspirations. Even if the economic resurgence was quick and complete, it would still take much of the decade for the reestablishment of the same sort of optimism and confidence that existed in the 1960s. Unfortunately, however, we have to admit that a reasonable assessment of the economic prospects for the decade ahead does not indicate such a rapid and complete resurgence in the economy. It is likely that in the years ahead growth in real disposable incomes will remain at relatively low levels, and that the economy will remain below its full employment potential.

These are not new nor startling predictions about future developments in the economy. Such a future economic course, however, will continue to confirm and reinforce the changed structure in consumer expectations and aspirations. As a result, the diminished expectations, the greater accommodation to economic constraints, and an increasing emphasis on income and job security likely to prevail during the decade ahead.