



# Surveys of Consumers

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## RISING CONCERNS VOICED BY CONSUMERS ABOUT FUTURE ECONOMIC PROSPECTS

### Repeated Pattern of Unsustained Gains

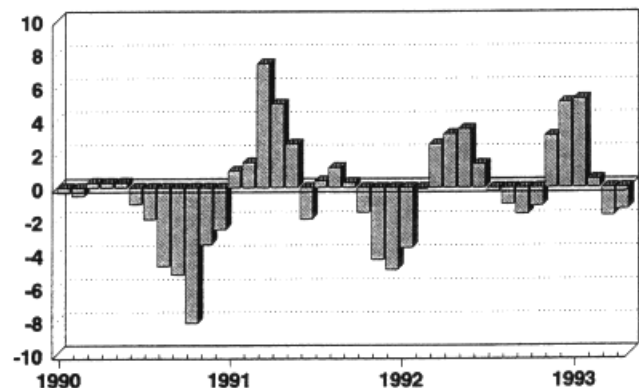
The overall level of consumer sentiment has remained virtually unchanged during the past three months. The Index of Consumer Sentiment fell slightly in the April 1993 survey to 85.6, remaining within 1.0 Index-point of the February and March readings--a decline too small to be significant. The cumulative decline since December, however, now totals 5.4 Index-points, leaving the Index only 8.4 points above the year earlier figure.

The overall level of consumer sentiment remains at a much improved level compared with the 1990 recession low. From April to October of 1990 the Index plummeted by a total of 30.0 Index-points; by the April 1993 survey, two-thirds of that decline (21.7 Index-points) had been recovered. The problem, however, is not that confidence failed to rebound from the recession lows. Rather, the problem has been that the gains have failed to be sustained over time. The repeated pattern of raised expectations and subsequent losses is shown in the chart at right.

In each case, the renewed losses reflected rising apprehensions among consumers that the economic gains they had anticipated would not materialize. The gains recorded in late 1992 as well as the subsequent declines since the start of 1993 reflect that same pattern. Rather than a revitalized economy that would substantially improve job and income prospects, consumers now expect the economy to flounder during the year ahead, and thus provide

little if any of those anticipated gains in income and employment.

**INDEX OF CONSUMER SENTIMENT**  
(Change in 3 month moving average)



Overall, the results are neither very discouraging nor very encouraging. The data do not indicate that sustained and cumulative declines in consumer spending are on the horizon, nor do the data indicate the strength to support a sustained and rising growth rate in sales. Rather, the current level of consumer confidence is only sufficient to support a slow and uneven pace of improvement.

Moreover, consumer confidence is now more vulnerable to further declines in the near term than a resurgence in optimism. The same two factors that propelled rising optimism in late 1992 have already begun to diminish confidence: the robust growth in the economy has been replaced by a dismal first quarter performance, and the anticipation of new economic policies has shifted from the expectation of shared gains to shared sacrifices.

### **Greater Declines Among Higher Income Households**

Consumer sentiment among higher income households posted relatively greater declines since the start of the year. Among households with incomes of \$30,000 or more the Index of Consumer Sentiment fell 9.0 Index-points from December to April. In comparison, among households with incomes of less than \$30,000, the Index fell just 3.2 Index-points.

A small improvement was recorded in the Index of Consumer Sentiment among residents of the Western region (87.1 in April, up from 83.4 in March) and among residents of the Northeast (83.1, up from 81.0). These gains were offset by comparable small declines among residents of the Midwest (83.5, down from 87.7) and South (87.9, down from 89.3).

### **Leading Indicator Component Unchanged**

The Index of Consumer Expectations, the component of the Department of Commerce's Index of Leading Indicators, stood at 76.4 in the April 1993 survey, an insignificant gain above the 75.8 recorded in March 1993.

Importantly, the Expectations Index remains substantially below the recent high of 89.5 recorded in December 1992. Overall, the cumulative 13.1 Index-point decline since December, has left the Expectations Index just 5.9 Index-points above the year earlier level.

### **Stagnant Economy Reported by Consumers**

The anemic pace of economic growth during the first quarter came as no surprise to consumers. Since the start of the year consumers have increasingly reported weakening conditions in the national economy. In the April 1993 survey, nearly as many consumers reported that the economy had improved as worsened.

Thus far, the slower pace of economic growth has

not prompted consumers to anticipate renewed recessionary declines. It has, however, convinced consumers that the recovery will remain sluggish providing little improvement in job and income prospects.

Improved growth prospects were expected by 31 percent of all consumers in the April 1993 survey, down from the high of 47 percent in December, while fears of recessionary declines were voiced by just 17 percent in April, up from the low of 11 percent in December. Nearly half of all consumers expected the same sluggish pace of growth to persist during the year ahead (47 percent in April, up from 38 percent in December).

Importantly, most of the weakness recorded since the start of the year has been focused on diminished near term prospects for the economy. Good times financially in the economy as a whole were expected by 36 percent of all consumers in the April 1993 survey, down sharply from the high of 53 percent recorded in December 1992, remaining only marginally above the 33 percent recorded in April 1992.

In contrast, much less erosion has been recorded in the longer term outlook. Good times financially during the next five years were expected by 37 percent of all consumers in the April 1993 survey, although down from 42 percent in December, it remained substantially above the 23 percent recorded in April of 1992.

### **Widespread Concerns About Future Job Prospects**

Most consumers in the April 1993 survey expected the national unemployment rate to remain unchanged or inch upward from its current level during the year ahead. Among all consumers in the April 1993 survey, 33 percent expected the national unemployment rate to increase during the year ahead, up from 25 percent three months earlier. Declines in unemployment were expected by just 18 percent in the April 1993 survey, down from 27 percent in January. Nearly half (48 percent) of all consumers expected the unemployment rate to remain largely unchanged at its current level during the year ahead.

### **Inflation Concerns Diminish in April**

Although a rising inflation rate was still expected, concerns eased in the most recent survey. Consumers expected prices to increase by 4.1% during the year ahead in the April 1993 survey, down from 4.9% in March, but still well above the December 1992 low of 3.3%.

### **Personal Financial Prospects Weaken**

Consumers viewed their own personal financial prospects less favorably in the April 1993 survey than one year earlier. In April 1993 survey, 34 percent of all households expected their financial situation to improve during the year ahead, down from 41 percent recorded in December and the 37 percent recorded last April. Importantly, few households expected their financial situation to worsen during the year ahead (14 percent in April 1993, up from 8 percent a year earlier). Nearly half (47 percent) of all households expected their financial situation to remain largely unchanged during the year ahead.

### **Home Buying and Selling Conditions Improve**

Whereas home buying conditions have been viewed quite favorably during most of the past year, home selling conditions have been viewed much less favorably. Importantly, during the past few months home owners have adopted more favorable opinions of selling conditions. Since most home buyers are also home sellers, it has been their negative views of selling conditions that have overshadowed their rather positive views of buying conditions.

Home owners have judged buying conditions for homes quite favorably during the past year. In the April 1993 survey, 86 percent of all home owners thought that home buying conditions were favorable, just above the 82 percent recorded in December 1992.

Favorable opinions of home selling conditions have

risen substantially since the start of the year. In the April 1993 survey, 47 percent of all home owners thought that home selling conditions were favorable, up from 31 percent in December 1992 (see the table below).

Home Owners	Favorable Opinions Toward Home . . .	
	Buying Conditions	Selling Conditions
December 1992	82%	31%
January 1993	84%	33%
February 1993	83%	38%
March 1993	88%	42%
April 1993	86%	47%

Three-in-four home owners in the April 1993 survey cited low mortgage rates as the primary reason for their favorable views of home buying conditions, up from two-in-three at the start of the year. Although low mortgage interest rates were also mentioned as a reason for favorable selling conditions, low rates were singled out much less frequently--by just 28 percent in April.

More important for evaluations of selling conditions were references to recent price trends. In the last two months, home owners more frequently cited rising home prices in support of favorable home selling conditions (16 percent, up from 8 percent), and less frequently cited low or declining home prices (32 percent, down from 44 percent).

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The April 1993 survey included 501 completed interviews conducted between April 1 and April 29, 1993.