

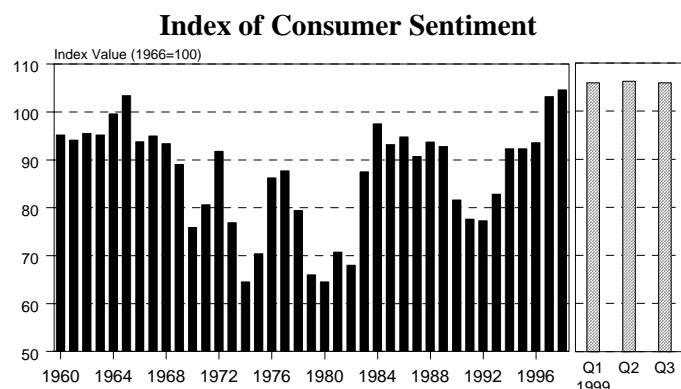


OVERALL CONSUMER CONFIDENCE REMAINS AT RECORD LEVEL: ENTIRE IMPACT OF RATE HIKE ON HOUSING MARKET

Consumer Confidence: Record Level and Record Stability

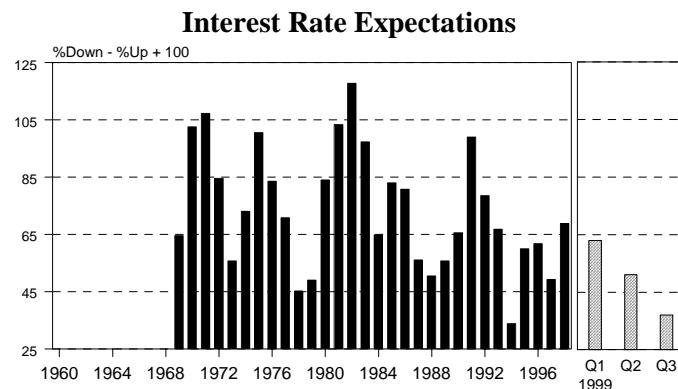
The Index of Consumer Sentiment rose to 107.2 in the September 1999 survey, regaining the small loss recorded in August. Importantly, the recent small monthly variations have left the quarterly averages since the start of 1999 virtually identical, differing by no more than two-tenths of a percent from the 1999 average of 106.0 (see the chart). Overall, the Sentiment Index was not only higher than ever before, the quarter-to-quarter changes since the start of 1999 were the smallest in the history of the surveys.

Although the recent interest rate hikes have significantly diminished home buying attitudes, nearly all other aspects of consumer confidence have remained quite positive. Importantly, this optimistic outlook incorporated the widely held view among consumers that additional interest rate hikes would be forthcoming during the year ahead. Rather than prompting concerns about a potential downturn, record number of consumers expected the pace of economic growth to be sufficient to keep unemployment near its thirty-year low.



Additional Interest Rate Increases Expected

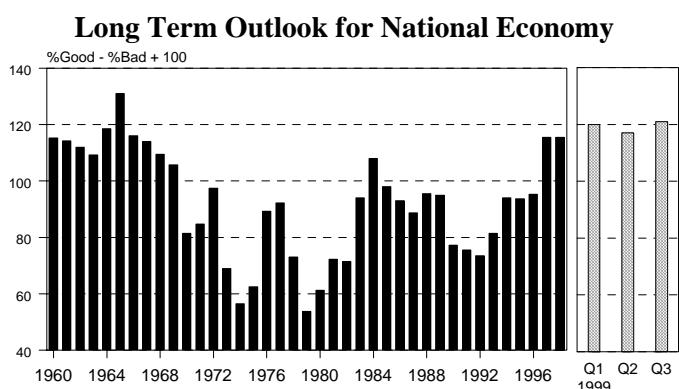
The recent hikes in interest rates have hardly changed consumers' views on the future course of interest rates: 68 percent still expect further increases during the year ahead in the September survey, only slightly below the 72 percent recorded prior to the last hike. Declines in interest rates, in contrast, were only expected by 7 percent of all consumers in the September survey. Overall, there has rarely been greater uniformity among consumers in the expectation that interest rates would increase (see the chart).



Record Favorable Long Term Outlook

Consumers judged long term economic prospects more favorably throughout 1999 than at any time since the mid 1960's. Perhaps even more remarkable is that consumers have increasingly adopted optimistic expectations as the current expansion has lengthened. During the record 1960's expansion (the record that will soon be eclipsed), the peak in long term prospects was recorded in 1965, five years before the end of that expansion. Rather than

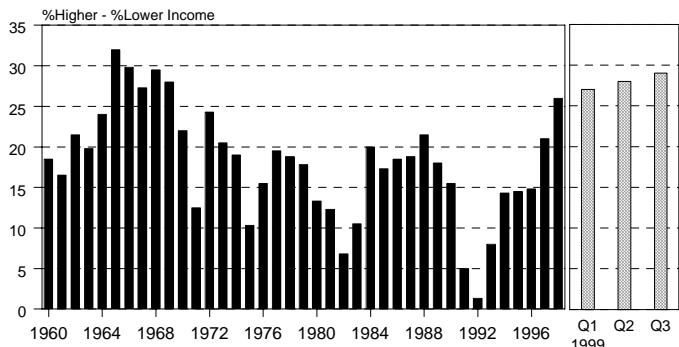
tempering their views after more than eight years of expansion, consumers became increasingly convinced during 1999 that the expansion would last yet another five years (see the chart below). For consumers, the most important implication of the expected nonstop growth was that the unemployment rate would remain at its current low level, with three-in-four consumers in the September 1999 survey expecting no increase in the national unemployment rate during the year ahead. Importantly, consumers did not change their favorable views on employment prospects following the recent hike in interest rates.



Personal Finances Remain at Record

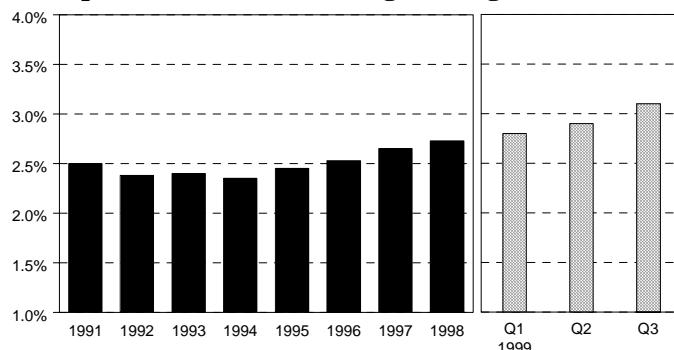
For the twelfth consecutive month, the majority of consumers in the September 1999 survey reported that their financial situation had improved during the past year. This marks the longest period of sustained financial gains recorded since the mid 1960's. Income gains were reported by the largest number of households since the 1960's, with the frequency of income gains steadily growing during 1999 (see the chart below).

Net References to Income Gains in Assessments of Consumers Current Financial Situation



When asked to assess their financial prospects for the year ahead, consumers expected somewhat larger gains in their nominal incomes in the third quarter. The size of expected income gains have steadily increased over the past 5 years, rising from under 2.5% to just over 3% (see the chart).

Expected Annual Percentage Change in Income

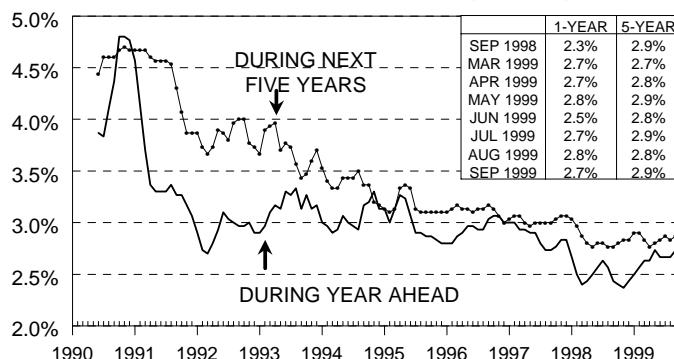


Despite the expected gains in nominal incomes, consumers did not revise their assessments of prospects for their overall financial situation. While consumers continued to judge their financial prospects quite favorably, no further gains were recorded during 1999, leaving them unchanged at the 1998 levels. This was because the benefits from the somewhat larger gains in nominal incomes were expected to be offset by a slightly higher rate of inflation.

Inflation Expectations

Consumers expected an inflation rate of 2.7% during the year ahead in September, down from 2.8% in August, but substantially above the 2.3% recorded last September (a year-ahead forecast that proved to be identical to the actual change in the CPI over the last twelve months.) Most of the year-to-year increase in inflation expectations was due to a shift from the view that overall prices would not increase at all (14%, down from 23%).

Expected Annual Inflation Rates (Trends in three-month moving averages)

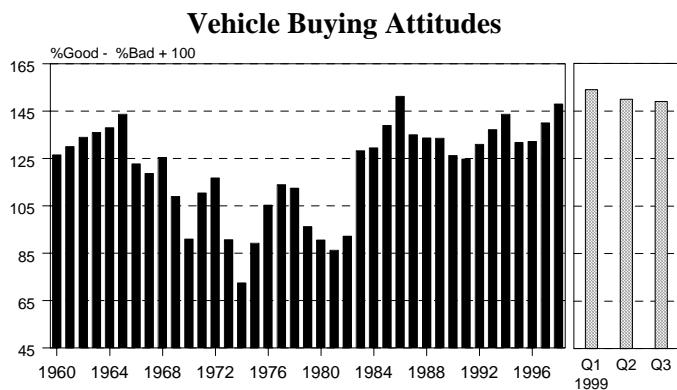


Long-term inflation expectations rose slightly in September, as consumers expected an annual inflation rate of 2.9% during the next five years, up from 2.8% in August. Overall, long term inflation expectations have been extraordinarily stable during the past twelve months, alternating between 2.8% and 2.9%.

Vehicle Buying Attitudes Remain at Record Levels

In sharp contrast to the significant decline in favorable home buying attitudes in reaction to the rise in interest rates, vehicle buying attitudes remained largely unchanged near record favorable levels. Indeed, in the September 1999 survey vehicle buying attitudes were only slightly below the all-time record high. Favorable vehicle buying attitudes were held by 67 percent of all consumers in the September survey, only slightly below the 69 percent in August, and the January 1999 peak of 73 percent.

When asked about vehicle buying conditions, 20 percent mentioned that attractively low interest rates were available in September, barely below the 21 percent recorded in August. Just 2 percent mentioned that they thought interest rates on vehicle purchases were high. To be sure, rather than market rates, the favorable views held by consumers were largely shaped by manufacturer's discount programs.



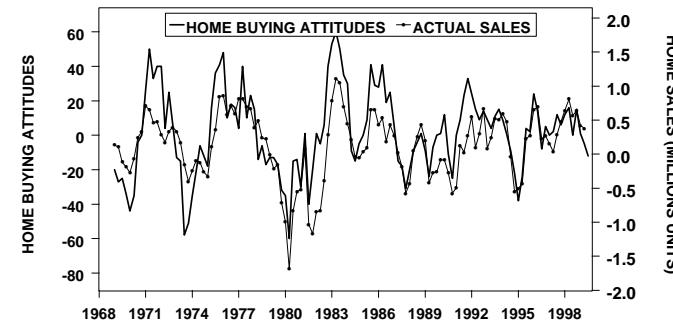
Home Buying Attitudes Decline Significantly

Home buying attitudes fell to their lowest level in more than three years. Overall, 71 percent rated home buying conditions favorably in September, significantly below the recent peak of 89 percent recorded last December. The pace of the recent decline is similar to the falloff recorded

from February 1994 to February 1995, when the proportion holding favorable home buying attitudes fell from 88 to 65 percent. In the 1994-95 decline, consumers' perceptions of mortgage rates worsened significantly more than during the past year, while perceptions of home prices worsened more in the 1999 decline, falling to the lowest level in nearly 20 years.

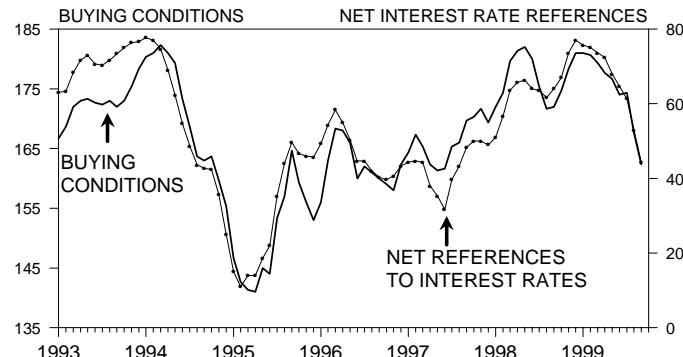
Actual unit sales of new and existing homes have closely followed trends in home buying attitudes. The chart below shows the correspondence of year-to-year changes in unit sales of single family homes and the year-to-year change in home buying attitudes.

Change in Home Buying Attitudes and Sales of New and Existing Single Family Homes (Year-to-year change in series)



The trends in references to mortgage interest rates have consistently shown a close correspondence to overall home buying attitudes (see the chart below). In the September 1999 survey, 42 percent of all consumers favorably cited mortgage rates, down from 58 percent three months ago, and the recent peak of 77 percent recorded in December 1998. The corresponding sharp decline in the level of home buying attitudes is clearly shown in the chart.

Assessments of Home Buying Conditions and Trends in Mortgage Rates among Home Owners



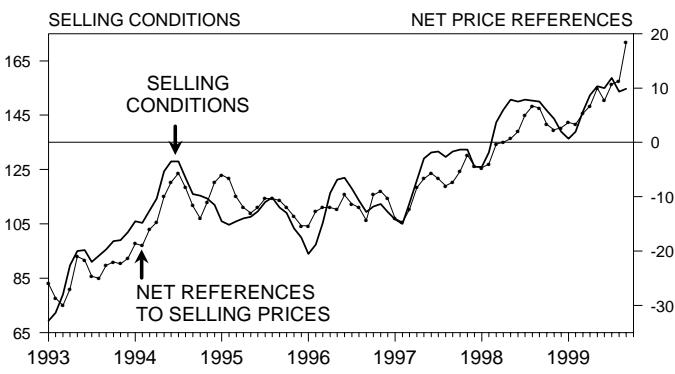
Consumers' views of recent trends in home prices have also had an impact on buying attitudes. The proportion of consumers that cited attractive home prices was just 9 percent in the September survey, the lowest level recorded in nearly 20 years. Indeed, for the first time since the early 1980's, more consumers thought that high home prices had made buying less attractive than cited the appeal of low home prices—although complaints about high home prices still remain extremely low at just 10 percent.

Home Selling Conditions Reach Decade Peak Level

While higher prices made consumers view home buying conditions less favorably, those same price increases made selling homes more attractive. Indeed, home owners were more positive in their views of home selling conditions than any other time since this question was introduced in the early 1990's (see the chart below). Overall, 74 percent of all home owners reported that home selling conditions were favorable in the September survey, up from 63 percent at the start of the year.

Since the question on home selling conditions was introduced in the early 1990's, the proportion of home owners that thought buying conditions were favorable always exceeded the proportion that thought home selling conditions were favorable—with favorable buying attitudes reported twice as frequently as favorable assessments of home selling conditions in the early 1990's. That changed in the September 1999 survey as a result of the declines in home buying attitudes and the increases in favorable views on home selling conditions.

Assessments of Home Selling Conditions and Trends in Home Prices among Home Owners



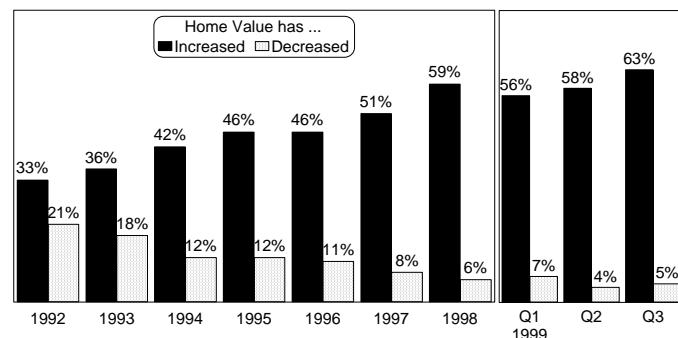
While rising mortgage rates prompted the recent declines in consumers' assessments of home buying conditions, trends in prices have dominated home owners' views of selling conditions. In the September 1999 survey, 28 percent of all home owners cited higher home prices as the primary reason for the improved conditions for selling, twice the 14 percent recorded at the start of the year, and the highest level recorded since the question was introduced in the early 1990's. Just 4 percent of all home owners in the September 1999 survey mentioned low prices as the reason for not viewing selling conditions favorably, one-tenth the peak level of 44 percent recorded in 1993.

Concerns among home owners that they would lose money on the sale of their home have virtually disappeared, reported by just 1 percent of all home owners in the September 1999 survey. In contrast, one-in-five home owners in early 1993 thought that the current market value of their home was less than their actual investment.

Gains in Home Values Largest in Ten Years

Given consumers' assessments of home buying and selling conditions, it should be no surprise that the proportion of home owners that reported net gains in the market value of their homes rose to the highest level recorded in the decade of the 1990's (see the chart below). Year-to-year gains in home values were reported by 63 percent of all home owners in the third quarter 1999 surveys, the highest proportion recorded since 1990 (when the series began). Reports of declines in home values have all but disappeared. Just 5 percent reported that their home had lost value during the past year—just one-fourth the level recorded in 1992.

Net Change in Home Value (% Increase minus % Decrease in Value)



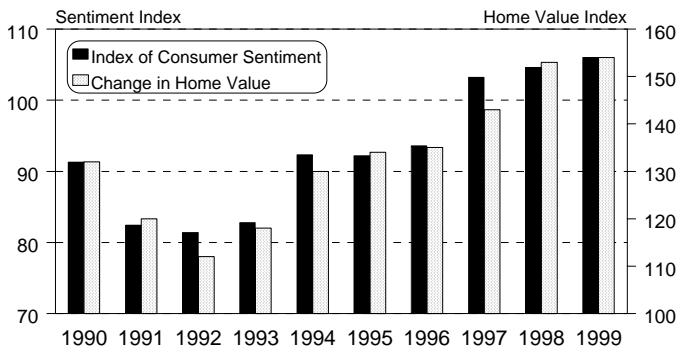
Gains in home values were recorded in every region of the country in the third quarter 1999 survey (see the charts at right). The largest recent gains as well as the largest cumulative gains since the early 1990 lows have been recorded among homeowners in the West. The gains among home owners living in the Northeast have been just as impressive during the past year or so, although their assessments still remain somewhat below the other regions. Midwestern home owners, in contrast, recorded the smallest declines in the early 1990's, and the slowest pace of improvement in the late 1990's.

Gains in Home Values Support High Confidence Levels

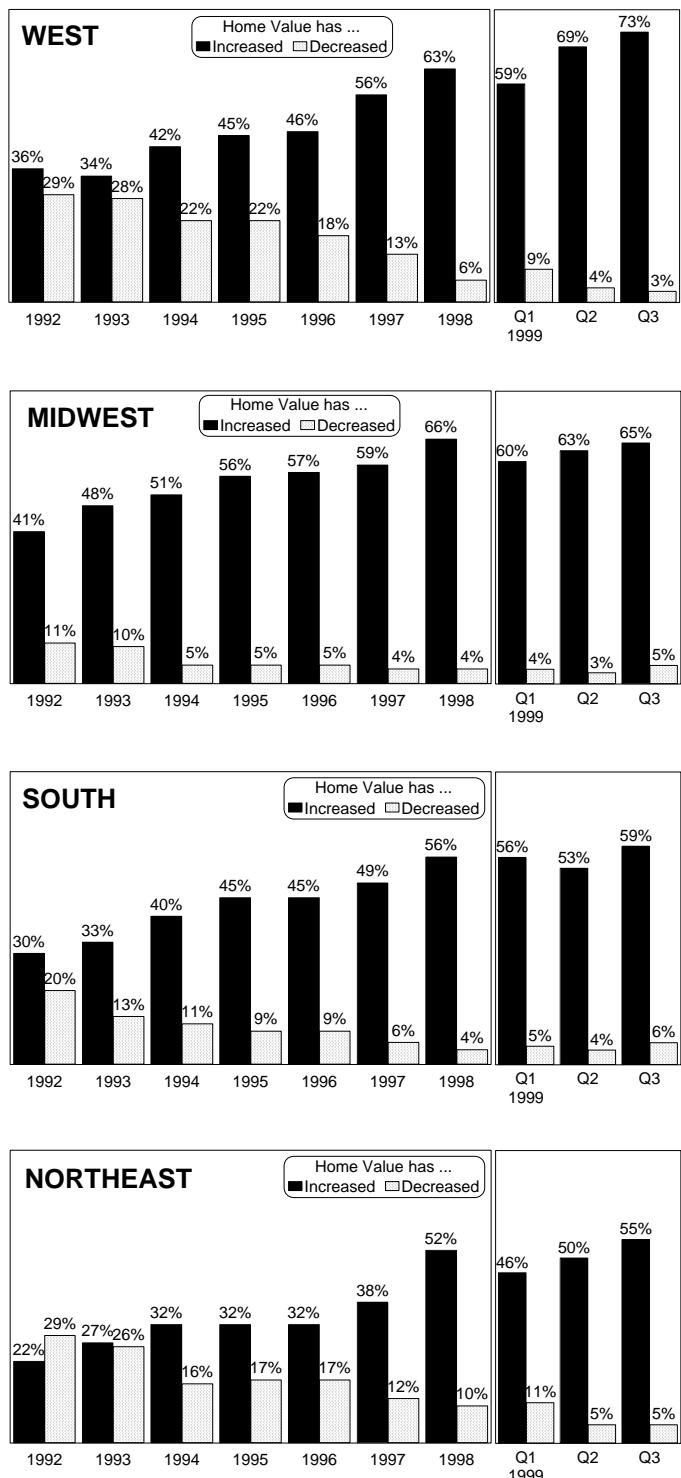
While rising home prices has shifted the advantage from home buyers to home sellers, the associated gains in household wealth are likely to have the largest influence on consumers' overall spending and saving behavior.

The persistent strength in consumer confidence during the past year has been due to gains in both incomes as well as rising asset values. While increase in stock prices received the most attention, home owners represent an even larger share of all households than stock owners. Over the past decade, the reported gains in home values have closely paralleled changes in the overall level of consumer confidence (see the chart below).

Consumer Sentiment and Gains in Home Values



Net Change in Home Value (% Increase minus % Decrease in Value)



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The September 1999 survey included 500 completed interviews conducted September 1 - 30, 1999.