



Subject: February 2000 survey results.

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Consumer confidence showed no signs of any further deterioration in the last half of February. The most remarkable finding was that soaring gas prices, higher interest rates, and declines in stock market wealth had only a minor impact on confidence, with the Sentiment Index remaining at a higher level during the first two months of 2000 than at any other time during the past 50 years. To be sure, consumers do not think they are immune to such economic setbacks, nor has their optimism made them inattentive to potential risks. While the full impact may not yet be recorded because of lagged responses among consumers, the data provide ample evidence that consumers were not only aware of these developments but anticipated them in advance. The subdued impact stands in sharp contrast to consumers' past reactions to rising gas prices or hikes in interest rates. In particular, few consumers focused on the harm to their financial situation due to rising fuel prices, consumers were more likely to view the fuel price increases as temporary, and few consumers thought that rising interest rates would diminish their job and income prospects. While it is hardly surprising that rising mortgage rates have dampened home buying attitudes, it is quite remarkable that the combination of rising gas prices and higher interest rates have had no discernable impact on vehicle buying attitudes.

There was near universal agreement among consumers that additional interest rate hikes would be forthcoming, both prior to and following the latest increase. Overall, 77% of all consumers in February expected interest rates to continue to increase during the year ahead, nearly the same as recorded one month ago (73%) as well as six months ago (72%). Consumers did not expect the rate hikes to significantly slow the pace of economic growth during the year ahead, or to diminish prospects over the next five years. Indeed, consumers judged prospects over both the short and long term for the national economy more favorably than at any time other than last month's 50-year peak. For consumers the most important aspect of this very positive outlook was the expectation that the unemployment rate will remain unchanged at its current three-decade low during the year ahead.

Record numbers of consumers reported income gains in February, and consumers expected their income to increase at the same pace as last year. These very favorable income trends acted to mute the impact of the sharp cost increases for gas and home heating. While a rising number of consumers cited the negative impact of these costs, the overall impact was quite small—just 7% cited a drain on their incomes from rising prices in February, up from the thirty-year low of 4% in January. For the year ahead, just 6% of all consumers expected their financial situation to worsen, barely above January's fifty-year low of 3%.

The small impact on consumers' financial assessments reflects their expectation that the recent fuel price increases will be temporary and were anticipated in advance. Indeed, consumers revised downward the inflation rate they expected during the year ahead, falling to 2.9% from 3.0% in the prior two months. While inflation expectations are now well above the 2.5% recorded a year ago, the entire increase was recorded in the first half of 1999. Moreover, there has been no increase in long term inflation expectations during the past year. Vehicle buying attitudes strengthened in February, returning to the highest levels recorded during the past year. While rising gas prices had little impact on vehicle buying attitudes (just 2% citing the impact of rising gas prices), rising interest rates kept home buying attitudes at the same diminished level recorded since mid 1999.

|                                | Feb 1999 | Mar 1999 | Apr 1999 | May 1999 | June 1999 | July 1999 | Aug 1999 | Sept 1999 | Oct 1999 | Nov 1999 | Dec 1999 | Jan 2000 | Feb 2000 |
|--------------------------------|----------|----------|----------|----------|-----------|-----------|----------|-----------|----------|----------|----------|----------|----------|
| Index of Consumer Sentiment    | 108.1    | 105.7    | 104.6    | 106.8    | 107.3     | 106.0     | 104.5    | 107.2     | 103.2    | 107.2    | 105.4    | 112.0    | 111.3    |
| Current Economic Conditions    | 115.0    | 116.3    | 115.9    | 121.1    | 118.9     | 116.5     | 114.1    | 115.9     | 112.7    | 116.8    | 112.2    | 117.3    | 116.8    |
| Index of Consumer Expectations | 103.6    | 99.0     | 97.4     | 97.6     | 99.8      | 99.2      | 98.4     | 101.5     | 97.1     | 101.0    | 101.1    | 108.6    | 107.8    |
| Index Components               |          |          |          |          |           |           |          |           |          |          |          |          |          |
| Personal Finances—Current      | 133      | 130      | 134      | 133      | 133       | 132       | 132      | 132       | 127      | 138      | 133      | 135      | 132      |
| Personal Finances—Expected     | 138      | 134      | 136      | 135      | 133       | 135       | 139      | 135       | 133      | 138      | 132      | 141      | 138      |
| Economic Outlook—12 Months     | 152      | 141      | 141      | 144      | 147       | 147       | 140      | 150       | 140      | 146      | 150      | 165      | 161      |
| Economic Outlook—5 Years       | 127      | 123      | 115      | 114      | 122       | 118       | 118      | 124       | 118      | 123      | 125      | 133      | 136      |
| Buying Conditions—Durables     | 166      | 172      | 167      | 182      | 176       | 171       | 165      | 169       | 166      | 166      | 158      | 169      | 172      |

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