surveys of consumers
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SURVEYS OF CONSUMERS
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Subject: Unemployment Expectations Improve December 18, 2009
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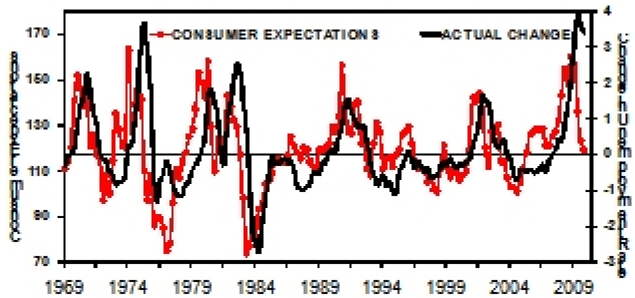
Consumers think that the unemployment rate is close to its cyclical peak, with most anticipating only minor increases in joblessness in the first half of 2010. Consumers have been remarkably accurate in their forecasts of the year-to-year changes in the national unemployment rate over the past forty years (see the chart). The data indicate that the cyclical peak in the unemployment rate is expected to be about 10.5% by mid 2010.

Unemployment Expectations and the Change in the National Unemployment Rate



Unemployment expectations have improved considerably during the past year, with the proportion expecting a higher jobless rate during the year ahead falling to 37% in the 4th quarter of 2009 from 67% at the close of 2008 (see the table below). Rather than shifting toward the expectation that the jobless rate would decline, consumers were more likely to anticipate that the unemployment rate would remain unchanged at its current double digit level (45%, up from 26%). These unemployment expectations had a significant negative impact on the Index of Consumer Expectations, a component of the Index of Leading Economic indicators. The difference in Index-points between those that held higher and lower unemployment expectations in the 4th quarter o f 2009 was an astounding 57.3 Index-points, which is nearly equal to its entire time-series range from peak to trough over the history of the surveys. High levels of job and income uncertainty, along with credit restrictions, will be responsible for the lackluster consumer spending growth of 1.6% in 2010.

Although consumers in every demographic subgroup and every region of the country were more likely to expect increases rather than decreases in unemployment during 2010, every subgroup nonetheless held more favorable unemployment expectations than a year ago. Moreover, rather than shifting toward the expectation that joblessness would decline, the dominant shift in every subgroup was toward the expectation that unemployment would remain largely unchanged at its current high level. The greatest shift away from continued increases in unemployment was among consumers in the top third of the income distribution and among those with the highest educations. In comparison, there was only slight differences across regions and age subgroups. It is not clear whether the top income and education subgroups were simply more aware of ongoing economic trends or if their own job prospects were expected to improve, or both. In any event, the data provide convincing evidence that all consumers anticipate that the unemployment rate will remain at a high level for a long time.

Expected Change in the National Unemployment Rate

(Cases: 2008:4 = 1,517; 209:4=1,358)

	2008:4				2009:4				Δ 2009 -2008
	More	Same	Less	Total	More	Same	Less	Total	(%Less - %More)
All Households	67%	26%	7%	100%	37%	45%	18%	100%	+41
Income									
Bottom Third	59	32	9	100%	41	42	17	100%	+26
Middle Third	66	27	7	100%	34	49	17	100%	+42
Top Third	74	21	5	100%	36	46	18	100%	+51
Age									
18-34	58	36	6	100%	31	51	18	100%	+39
35-54	69	24	7	100%	39	43	18	100%	+41
55 or older	68	25	7	100%	38	45	17	100%	+40
Education									
High school or less	60	31	9	100%	38	47	15	100%	+28
Some college	63	30	7	100%	37	46	17	100%	+36
College degree	75	22	3	100%	38	45	17	100%	+51
Graduate studies	77	17	6	100%	38	40	22	100%	+55
Region									
West	65	27	8	100%	34	45	21	100%	+44
Midwest	67	26	7	100%	37	49	14	100%	+37
Northeast	71	23	6	100%	39	44	17	100%	+43
South	65	29	6	100%	38	43	19	100%	+40
Addenda									
Index of Consumer Expectations	44.4	71.3	93.7	--	44.5	74.5	101.8	--	--