



# Surveys of Consumer Attitudes

Richard T. Curtin, *Director*

## OPTIMISM STILL TALL IN THE SADDLE: NARY A CLOUD IN THE SKY

- \*\* In the September 1984 survey, the Index of Consumer Sentiment was 100.9, just above the 99.1 recorded one month earlier and the 89.9 recorded one year earlier. The September reading is just below the cyclical peak of 101.0 recorded in March 1984, and less than 2 Index-points below the all-time peak level of 102.3 recorded in 1965. The recent rebound to peak levels has been due to more favorable prospects for the national economy in both the near and longer terms.
- \*\* Among families with incomes of \$25,000 or more, the Index stood at 111.7 in September 1984, up from 109.2 in August, and 102.3 one year earlier.
- \*\* The September 1984 survey recorded the most favorable assessments of long term prospects for the economy in more than a decade. The proportion of families that expected favorable business conditions over the longer term rose to 47 percent in September 1984, from 37 percent one year earlier.
- \*\* Confidence in government economic policy to reduce inflation and unemployment reached its most favorable level under the Reagan administration in the September 1984 survey. Among all families, 35 percent favorably rated government economic policies, compared with 19 percent that gave policies an unfavorable rating--the most favorable balance of opinion recorded during the past decade. More than three-quarters of all respondents expected Reagan to be reelected, and the majority expected personal income tax rates to increase.
- \*\* Attitudes toward buying conditions for large household durables stayed near record favorable levels mainly due to continued favorable perceptions of market prices. Attitudes toward buying conditions for vehicles declined by a small amount from the peak levels recorded earlier in the year, but nonetheless remained at very favorable levels. Attitudes toward buying conditions for houses declined by a larger amount during the past year, but still remain on balance favorable. The larger decline in house buying attitudes was due to more frequent complaints about rising interest rates.

\* \* \*

Consumer confidence has been maintained at very favorable levels in the September survey, and points toward continued high sales levels through 1984 and into early 1985. Unlike the period of growth in consumer sales in the mid 1970s, when low real rates tilted spending in favor of credit purchases, the current high real rates will favor non-credit purchases. Although the optimistic views now prevalent do incorporate the expectation of a Reagan reelection, they are not based on the expectation of no increase in personal taxes.

## Prospects for Economy Remain Favorable

The proportion of consumers that reported improvement in the national economy rose rapidly from January 1983 to January 1984--from 16 to 75 percent, the all-time peak. Since the start of 1984, the proportion of families that reported improved economic conditions has remained largely unchanged near that record level. In the September 1984 survey, 68 percent of all families thought that the economy had improved compared with one year earlier. Only 18 percent of all families in the September survey thought that the economy had worsened during the past year.

The very favorable performance of the economy during the past year was expected to be maintained through the year ahead, although the pace of growth was expected to slow. Among all families in the September 1984 survey, 33 percent expected the economy to improve, down from 46 percent one year earlier, and the peak 55 percent in early 1983. The near majority (48 percent) expected the economy to be maintained at its current favorable level during the year ahead. Few respondents in the September 1984 survey expected actual economic declines during the year ahead (15 percent), although somewhat above the year earlier reading (10 percent).

Despite the expected slowing of the rate of growth, good times financially in the economy as a whole were expected to persist. Among all families in the September survey, 66 percent expected good economic times during the next year, up from 58 percent one year earlier. The proportion of families expecting bad times financially in the economy as a whole fell to 24 percent, from 33 percent one year earlier.

Importantly, as the economic expansion has lengthened, the longer term outlook for the economy has also improved, indicating rising prospects for sustained growth. Among all families, 47 percent expected good times

financially in the economy as a whole over the next five years, up from 37 percent recorded one year earlier. Bad times financially over the longer term were expected by 31 percent of all families in September, down from 42 percent one year earlier. This represents the most favorable balance of opinion toward long term economic prospects recorded in more than a decade.

Confidence in government economic policies to reduce inflation and unemployment reached the most favorable level recorded during the past decade. In the September 1984 survey, 35 percent of all families favorably rated government economic policies, up from 33 percent one month earlier, and 27 percent one year earlier. Unfavorable evaluations of economic policies were given by 19 percent of all families in September, unchanged from one month earlier, and just below the 21 percent recorded one year earlier.

#### Presidential Prospects and Consumer Sentiment

In order to assess the relationship of expected election results on prospects for economic performance, respondents in the September 1984 survey were asked who they thought would win the presidential election in November--not for whom they intended to vote. Three-quarters of all respondents in the September 1984 survey expected President Reagan to be reelected. Just 15 percent of all respondents expected a Mondale victory in November (see Table A). When asked about their assessment of which candidate if elected would have a more favorable impact on general economic conditions, Reagan was identified by 58 percent of all respondents, compared with 30 percent that selected Mondale (Table A).

In the September 1984 survey, 55 percent of all families expected personal income tax rates to increase during the year ahead. Just 5 percent of all families expected declines in personal income tax rates (Table B). As might be expected, respondents that expected a Mondale victory were more

likely to expect increases in tax rates. More interestingly, however, the majority of those that expected a Reagan victory also expected tax rate increases during the year ahead. Consequently, the current high level of consumer optimism is not based on the expectation of no increase in personal income tax rates.

As shown in Table C, respondents that expected Reagan's reelection also held much more favorable expectations for their own financial future, as well as for the economy as a whole. Similarly, respondents that expected no increase in personal income tax rates were also more optimistic about their own and national economic prospects. When expectations about the presidential election and taxes were combined, respondents that expected both Reagan's reelection and no tax increases were the most optimistic. Nonetheless, respondents that expected a Reagan victory and tax increases--the most widely held expectation--still had relatively optimistic views.

#### Personal Finances Remain Strong

Consumers' evaluations of their own financial situation remained very favorable in the September 1984 survey. Among all families, 45 percent reported that their financial situation had improved during the past year, up from 38 percent one year earlier. Financial reversals were reported by just 20 percent of all families in the September survey, down from 29 percent one year earlier, and the lowest level recorded since 1972. When asked to explain how their financial situation had changed, 39 percent of all families reported that their income had increased during the past year, compared with 12 percent that reported declines--the widest favorable margin recorded since 1972. In addition, complaints about the erosion of family budgets due to inflation were made by only 12 percent of all families in September, just above the decade low of 11 percent recorded one month earlier.

Not only have consumers reported substantial improvements in their financial situation during the past year, they also expect their financial situation to be maintained at those improved levels through the year ahead. Among all families in the September 1984 survey, 39 percent expected their financial situation to improve, just above the 37 percent recorded one year earlier. Only 8 percent of all families in the September survey expected a worsening financial situation during the year ahead, down from 12 percent one year earlier. Nearly the majority (49 percent) expected their financial situation to remain largely unchanged at its current favorable level.

In the September 1984 survey, 64 percent of all families expected their income to increase during the year ahead, up from 57 percent one year earlier. Two-thirds of all families expected that their income would increase by as much or more than the rate of inflation. Consumers expected the annual rate of inflation to average 4.2% during the year ahead in the September 1984 survey, down from 5.0% one year earlier. The September reading was the lowest level recorded since the cyclical low of 3.3% was recorded in March 1983.

#### Buying Attitudes Maintained at Favorable Levels

Attitudes toward buying conditions for large household durables remained near record favorable levels in the September 1984 survey. Among all families, 72 percent held favorable buying attitudes towards household durables, unchanged from one month earlier, and above the 66 percent recorded one year earlier. These very positive attitudes toward durable goods were based on favorable perceptions of market prices. In the September survey, 34 percent of all families mentioned the availability of reduced prices on household durables, just above the 32 percent recorded one year earlier. Just 10 percent of all families thought that high durable prices made buying conditions unfavorable at the present time.

The proportion of families holding favorable attitudes toward buying conditions for houses fell to 48 percent in September 1984, from 50 percent one month earlier, and 59 percent one year earlier. Unfavorable attitudes toward buying conditions for houses rose to 46 percent in September 1984, from 37 percent one year earlier. Although the balance of opinion remained favorable, this represents the narrowest margin in more than 18 months. The main reasons for the decline in favorable house buying attitudes involved increases in interest rates. The proportion of families that reported the availability of reduced interest rates on home loans fell to 34 percent in September from 47 percent one year earlier. At the same time, the proportion of respondents that referred to high interest rates rose to 37 percent from 28 percent one year earlier.

\* \* \*

The September 1984 survey included 690 completed interviews, conducted between September 1 and August 30, 1984.

TABLE A  
 EXPECTED OUTCOME OF THE PRESIDENTIAL ELECTION

	<u>Candidate Expected To Win</u>	<u>Candidate Better for Economy</u>
Reagan	79%	58%
Mondale	15	30
Don't know	4	6
NA	2	6
Total	<u>100%</u>	<u>100%</u>
Cases	690	690

The questions were: "Who do you think will be elected President in November-- Reagan or Mondale?"  
 "Looking ahead to the next year or so, do you think economic conditions in the country as a whole would be better if Reagan were elected, or would they be better if Mondale were elected?"

TABLE B  
 EXPECTED CHANGES IN PERSONAL INCOME TAX RATES

<u>Expected Change in Personal Tax Rates</u>	All Families	<u>Expected Winner</u>	
		Reagan	Mondale
Increase	56%	53%	70%
Unchanged	36	41	21
Decrease	5	4	9
Don't know	2	2	*
NA	1	*	*
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>
Cases	690	545	104

The question was: "During the next year or so, do you expect federal income tax rates for individual taxpayers to increase, stay the same, or decrease?"

TABLE C

## RELATIONSHIP OF ELECTION PROSPECTS AND CONSUMER SENTIMENT

	All Families	Win Election		Tax Rate Change		Expect Reagan Taxes		Victory and... Tax Increase
		Reagan	Mondale	Same or Down	Tax Increase	Same or Down	Tax Increase	
Index	100.9	106.2	79.7	110.8	94.0	114.8		99.1
Personal Finances								
Next year	131 <sup>a</sup>	136	108	140	125	141		134
Next 5 years	143	148	125	158	135	159		140
Business Conditions								
Next year	142	153	97	161	128	168		141
Next 5 years	116	123	81	132	104	139		110
Market Conditions								
Durables	154	158	144	167	145	173		145
Vehicles	124	130	102	144	112	146		119
Houses	102	109	82	111	98	116		104

<sup>a</sup>Table entries represent the proportion giving favorable replies minus the proportion giving unfavorable replies plus 100.