

May 30, 2014

Main Concern of Consumers: Dismal Wage Prospects

Index of Consumer Sentiment				
May' 14	Apr' 14	May' 13	M-M Chng	Y-Y Chng
81.9	84.1	84.5	-2.6%	-3.1%

Index of Consumer Expectations				
May' 14	Apr' 14	May' 13	M-M Chng	Y-Y Chng
73.7	74.7	75.8	-1.3%	-2.8%

Current Conditions Index				
May' 14	Apr' 14	May' 13	M-M Chng	Y-Y Chng
94.5	98.7	98.0	-4.3%	-3.6%

Surveys of Consumers chief economist, Richard Curtin



“Consumers anticipate that the economy will post a much improved pace of growth, and more importantly, create more robust jobs growth in the months ahead. The small May loss should not detract from the fact that consumer confidence during the first five months of 2014 was higher than anytime since 2007. Data clearly indicate continued strength in consumer spending during the year ahead. Although a good deal of the 1st quarter strength in spending was due to higher utility and insurance payments, consumers will increasingly purchase a broader array of products, especially products that are discounted to fit into more limited budgets.”

ANN ARBOR. The May decline in consumer confidence was not due to the dismal state of the economy during the 1st quarter, which had the weakest pace of GDP growth in three years. Consumers thought the harsh winter weather was mainly responsible. A much greater impact on consumer sentiment would result if the economy did not post a strong rebound in the months ahead. Importantly, the economy was anticipated to be strong enough to produce more jobs in the year ahead. The main concern expressed by consumers involved dismal prospects for wage growth. Tiny wage gains meant that nearly half of all households anticipated declines in inflation-adjusted incomes during the year ahead. Overall, the data is consistent with gains in real consumer expenditures of 2.5% during 2014.

Personal Finances

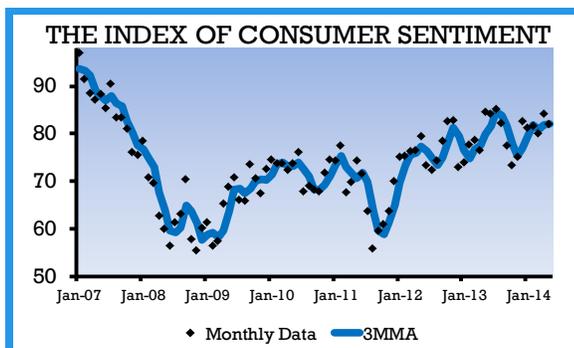
When asked about their financial prospects for the year ahead, an improved financial situation was expected by just 25% of all consumers in May, down from 32% last month. Gains in nominal incomes were anticipated by only half of all households, and among those that did anticipated gains, an increase of just 1% or 2% was most commonly expected. Importantly, consumers under age 45 expected the smallest income increases in six months.

Buying Plans

Vehicle buying plans were less favorable than last month or last year, especially among households in the top third of the income distribution. The decline was primarily due to less favorable references to discounts. Discounts are critical to buyers who only expect limited income gains. While home buying conditions were viewed less favorably, it was offset by improved home selling conditions, largely due the rising value of owned homes.

Consumer Sentiment Index

The Sentiment Index was 81.9 in the May 2014 survey, down from 84.1 in April, and 84.5 in last May's survey. The May decline still left the Index comparable to the average level during the prior four months (81.7). The largest May declines were recorded in the Current Conditions Index (94.5, down from April's 98.7) compared with a decline in the Index of Consumer Expectations (73.7, down from 74.7).



About the survey

The Survey of Consumers is a rotating panel survey based on a nationally representative sample that gives each household in the coterminous U.S. an equal probability of being selected. Interviews are conducted throughout the month by telephone. The minimum monthly change required for significance at the 95% level in the Sentiment Index is 4.8 points; for Current and Expectations Index the minimum is 6.0 points.

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