

February 1, 2013

Payroll Tax Hike Narrows Gains in Confidence

Index of Consumer Sentiment				
Jan '13	Dec '12	Jan '12	M-M Chng	Y-Y Chng
73.8	72.9	75.0	+1.2%	-1.6%

Index of Consumer Expectations				
Jan '13	Dec '12	Jan '12	M-M Chng	Y-Y Chng
66.6	63.8	69.1	+4.4%	-3.6%

Current Conditions Index				
Jan '13	Dec '12	Jan '12	M-M Chng	Y-Y Chng
85.0	87.0	84.2	-2.3%	+1.0%

Surveys of Consumers chief economist, Richard Curtin



“The end of the payroll tax holiday had a significant impact on consumer confidence, especially among lower income households. When asked to describe recent changes in their financial situation, declines in disposable incomes were much more frequent among households with incomes below \$75,000. Indeed, higher income households much more frequently mentioned income gains in January than in the December survey. While consumer spending will slow in 2013, spending by higher income households, especially on interest sensitive purchases of homes, vehicles and household durables, will keep consumer spending slowly expanding in 2013.”

ANN ARBOR. Confidence began to improve in the January survey following the uncertainty generated by the fiscal crisis. So far the rise has been extremely small, as consumers were still much less optimistic in January than several months ago. Importantly, the payroll tax increase has had a significant impact on lower income households, as nearly the entire January gain was due to households with incomes above \$75,000. Concerns about disposable incomes have dominated consumer confidence for more than four years. The key to rising consumer spending is whether gains in employment are able to offset higher payroll taxes. Overall, consumer total expenditures adjusted for inflation will grow by 1.8% in 2013, just below the 1.9% in 2012.

Personal Finances Diverge Between Income Groups

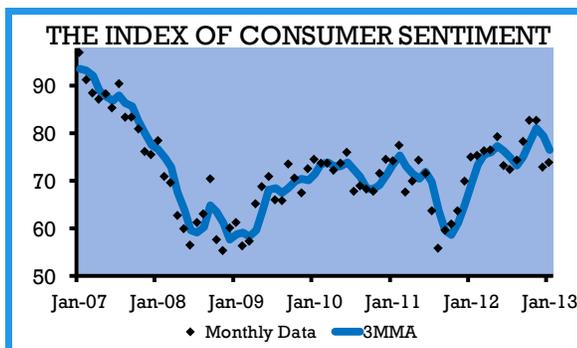
The personal finances of consumers has weakened considerably compared with the closing months of 2012. The January decline was due to households with incomes below \$75,000 reporting more frequent losses than could be offset by upper income households. Indeed, just 13% of lower income households reported gains in disposable income in January (down from 21% in December) compared with 38% of upper income households (up from 25% in December). Overall, income gains expected in 2013 were smaller than the expected inflation rate.

Economic Slowdown and Small Gains in Unemployment Anticipated

More consumers anticipated that economic conditions will improve rather than worsen in 2013. While consumers are less fearful of a renewed downturn during the year ahead, nearly six-in-ten expected a downturn sometime in the next five years in the January survey. On the employment front, consumers do not anticipate a significant decline in the overall unemployment rate during 2013, although they still anticipate a slowly falling rate.

Consumer Sentiment Index

The Sentiment Index was 73.8 in the January 2013 survey, up from 72.9 in December, but just below last January's reading of 75.0. The two components of the Index moved in opposite directions. The Expectations Index posted a gain to 66.6 in January from 63.8 in December, while the Current Economic Conditions Index declined to 85.0 in January from 87.0 in December.



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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