



September 27, 2013

Policy Uncertainty Dims Consumer Confidence

Index of Consumer Sentiment				
Sep '13	Aug '13	Sep '12	M-M Chng	Y-Y Chng
77.5	82.1	78.3	-5.6%	-1.0%
Index of Consumer Expectations				
67.8	73.7	73.5	-8.0%	-7.8%
Current Conditions Index				
92.6	95.2	85.7	-2.7%	+8.1%

ANN ARBOR. Confidence fell in September as consumers were more likely to anticipate a slower pace of economic growth, fewer job opportunities, and less favorable personal financial prospects. While few consumers expected a federal shutdown, complaints about the economic policies of the government have risen. Indeed, spontaneous negative references to the government's policies were twice as high as three months ago, although still below the levels recorded during last December's fiscal cliffhanger. Moreover, despite the unexpected delay in tapering by the Federal Reserve, two-thirds of all consumers expect higher interest rates in the year ahead. Unless diminished by the dysfunction in DC, confidence is sufficiently positive to support a 2.5% growth rate in consumption.

Personal Finances Weaken

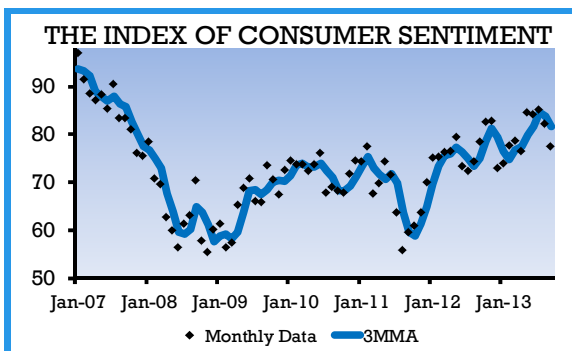
The personal financial situation of households weakened in September due to more frequent reports of net income declines as well as smaller expected income gains during the year ahead. Half of all households anticipated no income increase during the year ahead, with the median expected annual change falling to just 0.5%, from 0.9% last month. Given that the expected increases is smaller than the prevailing inflation rate, the majority of consumers did not anticipate a rising inflation-adjusted income next year and even over the next five years.

Favorable Buying Plans

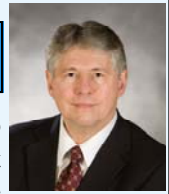
Buying plans for vehicles declined in September due to less favorable views of market prices. When asked to describe their views on vehicle buying conditions, just 25% mentioned the availability of low and discounted prices in the September survey, down from 34% last month, and the smallest proportion in more than ten years. While home buying and selling conditions remained largely unchanged, the rapid run-up in home prices has slowed. Twice as many homeowners as a year ago, however, reported recent gains in the value of their home.

Consumer Sentiment Index

The Sentiment Index was 77.5 in September 2013, down from 82.1 in August and last September's 78.3. Most of the weakness was in the Expectations Index, which fell to 67.8 in September, down from 73.7 in August and last year's 73.5. The Current Conditions Index was 92.6 in September, down from 95.2 in August, but above last September's 85.7.



Surveys of Consumers chief economist, Richard Curtin



“Although consumers have come to expect the Congressional theater that is now playing, they don't expect the President and Congress to be careless enough to allow a government shutdown due to intransigence on the federal budget and debt ceiling. If consumers come to believe a shutdown is probable, it may generate a precautionary response that would significantly slow spending and overall economic growth. Although the shock and dismay expressed in 2011 has thus far been absent, the data indicate that consumers are headed back down this negative path. Consumer confidence is fragile enough without this added source of economic uncertainty.”

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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