

January 28, 2011

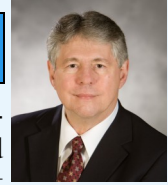
Rising Prices Worry Consumers

Index of Consumer Sentiment				
Jan '11	Dec '10	Jan '10	M-M Chng	Y-Y Chng
74.2	74.5	74.4	-0.4%	-0.3%

Index of Consumer Expectations				
Jan '11	Dec '10	Jan '10	M-M Chng	Y-Y Chng
69.3	67.5	70.1	+2.7%	-1.1%

Current Conditions Index				
Jan '11	Dec '10	Jan '10	M-M Chng	Y-Y Chng
81.8	85.3	81.1	-4.1%	+0.9%

Surveys of Consumers chief economist, Richard Curtin



“Consumers have become increasingly concerned with rising food and fuel prices, and have noticed that fewer and smaller discounts are now available at stores and vehicle dealerships. If rising global demand puts continued upward pressure on prices, inflation is likely to be the source of considerable discontent among consumers. Given that consumers do not anticipate renewed wage growth, they are likely to again engage in selective spending cutbacks. Consumers are now less able to smooth consumption by using credit cards since fewer households now have credit cards and those that have them are likely to have lower credit limits.”

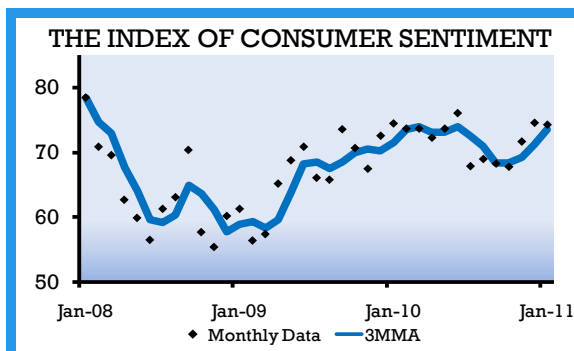
ANN ARBOR. Consumer confidence was largely unchanged in January from December and the January 2010 level. Importantly, confidence remained at its highest level in nearly three years (see the chart below). The recently extended tax cuts as well as the 2% reduction in wage taxes improved the outlook for the economy, and more importantly, for employment prospects. Unfortunately, worries about rising prices, especially food and fuel prices, have diminished consumers’ financial prospects. Half of all consumers now expect their inflation-adjusted incomes to post small declines in 2011. These concerns about price increases have spread beyond food and fuel prices to lower consumers’ buying attitudes toward a wide range of household durables as well as vehicles, especially noticeable among higher income households.

Job Opportunities Expected to Improve

Consumers anticipated a stronger economy during the year ahead, and they expected this renewed economic strength to also lower the unemployment rate. Just 22% of all consumers expected the unemployment rate to increase during 2011. The last time fewer consumers anticipated rising unemployment was more than a decade ago. The improvement may well cause more discouraged workers to actively seek work than can successfully find a job, thus temporarily increasing the unemployment rate in the coming months. Despite these improved employment expectations, most consumers do not expect that their incomes will increase in the year ahead. Other than tax declines, the vast majority of consumers anticipate stagnating or falling household incomes during the year ahead.

Consumer Sentiment Index

The Sentiment Index was 74.2 in the January 2011 survey, barely below the 74.5 in December and last January’s 74.4. Losses from December were concentrated in the Current Conditions Index (-4.1%), mainly due to much less favorable views of current buying conditions for durables. The Expectations Index, a component of the Index of Leading Economic Indicators, posted a small month-to-month increase (+2.7%). When compared to a year ago, the opposite trends held: very small increases in the Current Conditions Index were offset by comparable small gains in the Expectations Index.



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.