



UMICH Consumer Confidence Basic Data Slips

	Dec 2002	Jan 2003	Feb 2003	Mar 2003	April 2003	May 2003	June 2003	July 2003	Aug 2003	Sept 2003	Oct 2003	Nov 2003	Dec Prelim
Index of Consumer Sentiment	86.7	82.4	79.9	77.6	86.0	92.1	89.7	90.9	89.3	87.7	89.6	93.7	89.6
Current Economic Conditions	96.0	97.2	95.4	90.0	96.4	93.2	94.7	102.1	99.7	98.4	99.9	102.5	93.6
Index of Consumer Expectations	80.8	72.8	69.9	69.6	79.3	91.4	86.4	83.7	82.5	80.8	83.0	88.1	87.1
Index Components													
Personal Finances—Current	104	107	102	96	111	97	102	110	109	106	111	107	99
Personal Finances—Expected	135	126	127	128	131	138	136	135	124	133	127	128	122
Economic Outlook—12 Months	91	80	66	63	87	120	111	106	111	97	108	122	120
Economic Outlook—5 Years	97	86	86	87	99	110	100	95	97	94	98	104	107
Buying Conditions—Durables	144	145	145	136	139	144	143	155	150	148	148	158	143

(memo from UMICH survey director below)

Consumer confidence slipped in early December, reversing the entire November gain. The December loss was due to less favorable evaluations by consumers of their personal financial situation as well as less favorable views toward buying conditions. Importantly, prospects for the national economy remained largely unchanged at the improved November levels, and consumers held more positive views in early December about prospects for increases in employment during the year ahead. Given the maintenance of these favorable expectations for the economy and job growth, the December slide could simply reflect a growing impatience among consumers with the lack of improvement in their personal financial situation. Indeed, following the initial surge in confidence in past cyclical upturns, such a pause has typically been recorded until gains in wages and jobs begin to appear. Moreover, consumers' heightened concerns about their finances have increased the importance of discounts to their spending plans. Unfortunately, retailers have viewed the increased optimism as a reason to reduce discounts, and as a result, caused the slight decline in buying plans among consumers. Overall, the data are still quite positive and indicate a higher rate of growth in consumer sales during 2004 than this year. Nonetheless, the data make it clear that **consumers are counting on more rapid job growth in the months ahead, and without that growth in employment, confidence will quickly wane. (emphasis added)**

As many households reported their financial situation had worsened as reported it had improved in the early December survey. Consumers cited **fewer gains in wages as the primary reason for their worsening finances**. When asked about the year ahead, although financial gains were still anticipated by more than twice as many consumers as worsening finances, the margin of favorable expectations has gradually declined and is now at its lowest level in nearly seven years. A decline in the expected inflation rate has helped to offset some of consumers' negative views about their future wage prospects. A year-ahead inflation rate of 2.5% was expected in early December, down from 2.7% in November and the recent peak of 2.8% in September 2003.

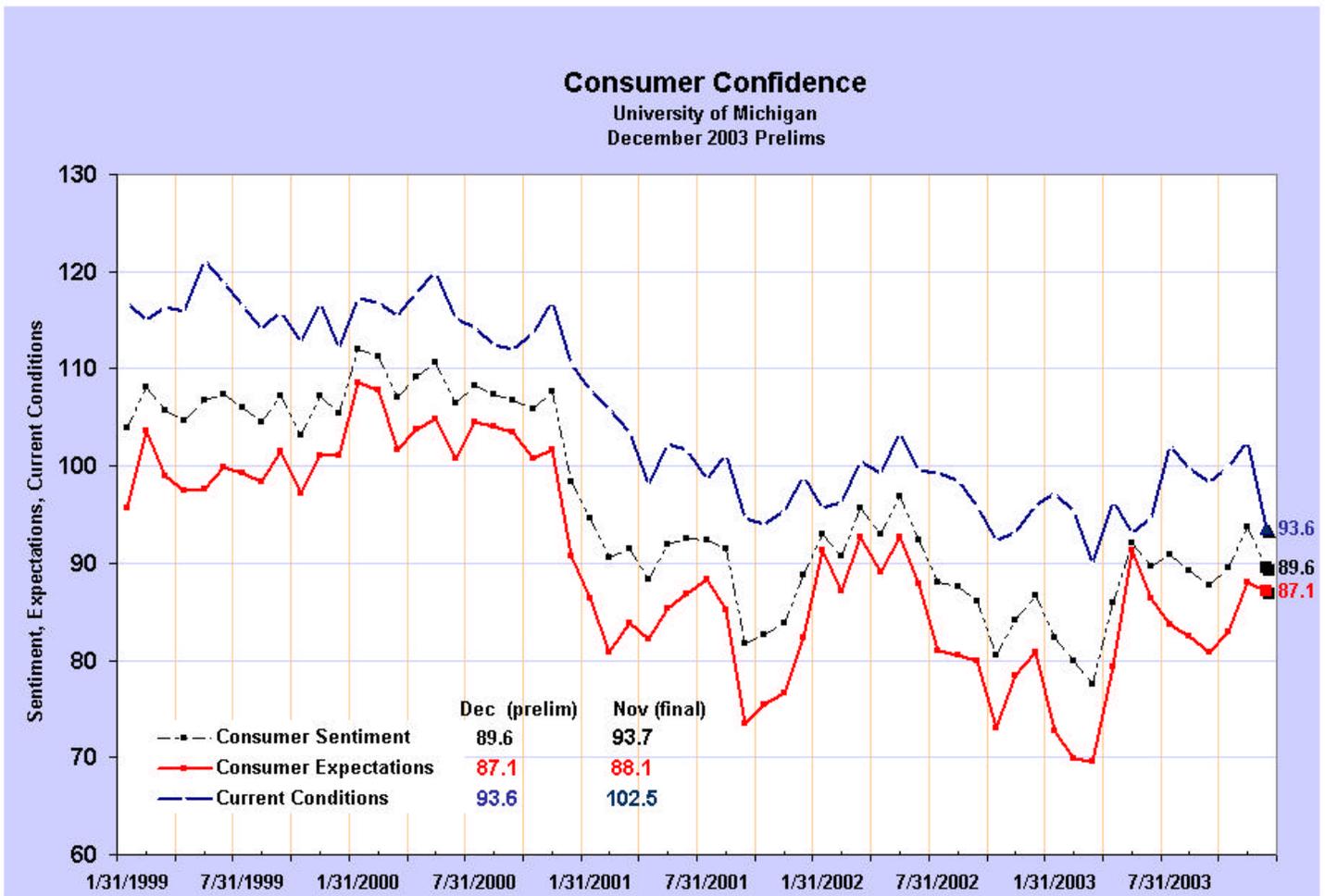
More consumers in early December reported hearing news of favorable economic developments, and more consumers expected declines in the unemployment rate than at any other time during the past twenty years. By a more than two-to-one margin, consumers anticipated a higher rate of economic growth in 2004 than in 2003. Overall, the majority of consumers in early December expected good economic times during the year ahead,



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and consumers were more likely to anticipate continuous rather than intermittent economic growth over the next five years. While the more favorable job prospects indicate that the December reading only represents a pause in the uptrend, it underscores the critical importance of job growth during the months ahead.

Buying plans for durables, homes, and vehicles weakened in early December. The largest declines were in buying plans for furniture, appliances, home electronics, and other household durables. Home buying plans recorded more modest declines, and vehicle buying plans declined the least. In each case, consumers were more likely to negatively cite the size of available discounts on prices and interest rates. Even after the small declines recorded in early December, home and vehicle buying attitudes remained at quite positive levels and indicate positive sales trends during 2004. Nonetheless, nearly two-thirds of all consumers anticipate higher interest rates by the end of 2004 which will affect home sales more than any other purchase.



Our reading of the data, which is highly imperfect, suggests the following:

- 1) wage growth has not been very zesty (we know that from the BLS data) and since employment expansion has been quite modest, some survey participants have to reflect some



anxiety over the maintenance of their forward consumption plans. (this is an old tension point).

- 2) The drop in “CURRENT CONDITIONS” from 102.5 to 93.6 is hard to merely dismiss, if for no other reason than the size of the change. See row three in the table above. This is amplified by the sharp drop in current personal finances. (107 to 99). Furthermore, there is doubt as to the future, with a drop from 128 to 122 in the expected measure of Personal Finances.
- 3) The EXPECTATIONS data continues to show an optimistic respondent, but this will be tempered over time if current employment conditions do not expand and personal finances are not improved by faster growth in wages.
- 4) While we do not think that the UMICH survey has high predictive content, as far as actual spending is concerned, we do feel that the Market will interpret the data as giving a high degree of volatility to Retail Sales outcomes over the holiday period.