

## Middle Tennessee Consumer Confidence Index

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### The Office of Consumer Research

at Middle Tennessee State University

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## Consumer Confidence Improves Heading into the Christmas and Holiday Season

Local consumers are feeling more cheerful heading into the Christmas and Holiday shopping season. Given the tough economic times that have stifled consumer spending for the past few years, this increase in confidence could not come at a better time for local retailers. Many retailers rely heavily on the sales and revenues generated during the important Christmas and Holiday shopping season.

Even though consumers in Middle Tennessee continue to hold negative perceptions of the current economy, the overall consumer confidence index rose dramatically buoyed by improvements in all three subcomponents of the overall index. The overall consumer confidence index now stands at 112, up sharply from 27 in September of 2011. However, the overall confidence index is still at a historically low level given that we often observed index scores over 300 during the first half of the last decade.

This more optimistic view of the economy reverses a trend of withering confidence that began in the early spring of this year and lasted throughout the summer and fall months. All things considered, consumers are more upbeat this December than they were last December when the overall confidence index stood at 69.

Perceptions of the current economy continue to lag in the negative range, but improved to -64 from -86 in September. The fact that the current situation index is still well fixed in the negative range indicates that the number of consumers who hold negative views of the current economy outnumber those who hold positive views of the current economy.

The future expectations index rose to 97 from 59, indicating that local consumers are beginning to feel better about the future of the economy. This rise in the future expectations index was fueled by an improved outlook for the future of the local economy as well as greater optimism regarding the future job market. A more

optimistic outlook toward the future of the job market can have a positive effect on consumers' comfort level regarding their incomes and lead to a greater willingness to spend money.

The purchasing situation index gained to 79 from 54, hopefully reflecting an increased willingness to spend among consumers. However, it is premature to expect that consumers will significantly loosen their purse strings with large increases in consumer spending. Many consumers might simply be responding to retailer's incentives, good deals and sale prices on items to stimulate holiday shopping and spending.

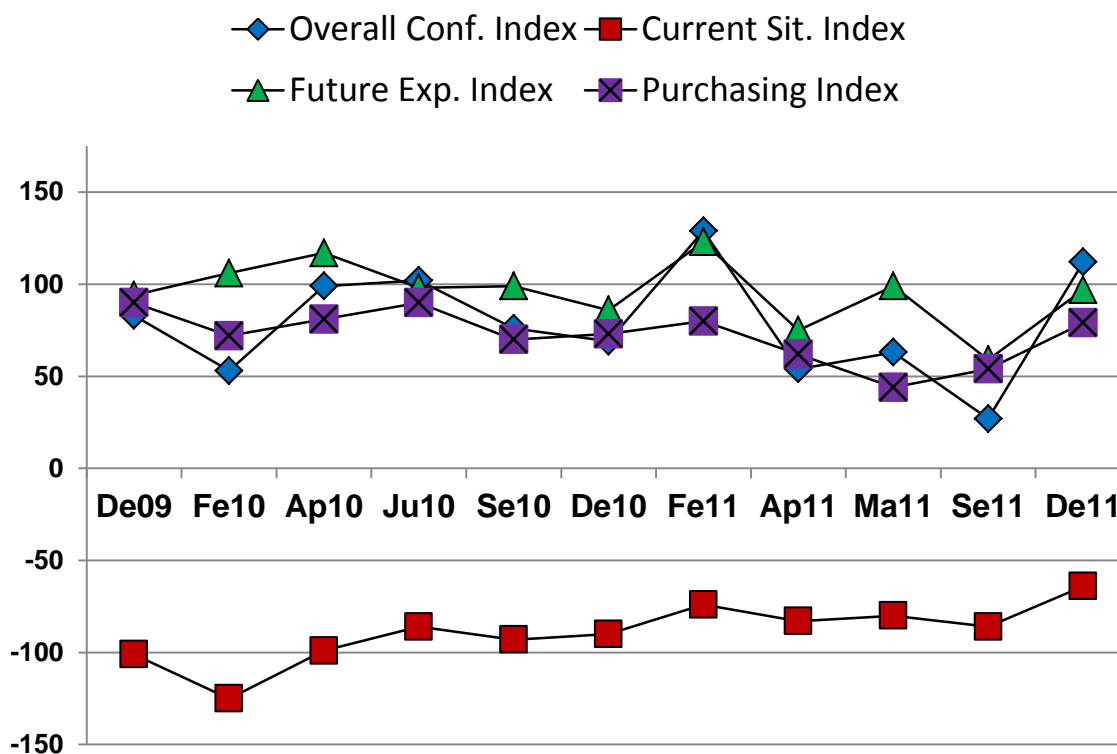
The current poll of 401 randomly selected adult residents of Davidson, Rutherford and Williamson counties was conducted the evenings of Monday, December 5 and Tuesday, December 6.

### **The Middle Tennessee Consumer Confidence Index and Components**

	Dec '09	Feb '10	Apr '10	Jun '10	Sept '10	Dec '10	Feb '11	Apr '11	May '11	Sept '11	Dec '11
Overall Cons. Conf. Index	83	53	99	102	76	69	129	<b>54<sup>1</sup></b>	63	27	<b>112</b>
Current Situation Index	-101	-125	-99	-86	-93	-90	-74	<b>-83</b>	-80	-86	<b>-64</b>
Future Expectations Index	94	106	117	98	99	86	123	<b>75</b>	99	59	<b>97</b>
Purchasing Index	90	72	81	90	70	73	80	<b>62</b>	44	54	<b>79</b>

<sup>1</sup> The score is computed by adding the percentage of favorable responses to each question and subtracting the percentage of negative responses to each question.

## Middle Tennessee Consumer Confidence Index



The consumer confidence index scores are based on consumers' responses to eleven questions measuring their perceptions of the current economy, the future economy, jobs, personal finances, and whether or not now is a good time to make large purchases. Four questions make up the current situation index, four questions make up the future expectations index, and three questions make up the purchasing index. The overall confidence index is based on all eleven questions combined (the complete questions are shown on page 16 of this report).

The scores for each index are computed by adding the percentage of favorable responses to each question and subtracting the percentage of negative responses to each question. A net score of zero would indicate that the percentage of consumers who hold negative views of the economy is equal to the percentage of consumers who hold positive views of the economy. A net positive score would indicate that the number of consumers who hold positive views of the economy outnumber those who hold negative views of the economy.

### **Current Economy**

The current situation index has been stuck in the negative range since April 2008. Even though we see a slight improvement in the current situation index, the negative effects of the most recent recession, continued anxiety about the every growing government debt and perceptions of ineffective government solutions have continued to dampen consumers' views of the current economy. The percent of local consumers who said that business conditions in the country as a whole are "good" gained moderately to 9 from 7. This was coupled with a decrease in the percent who said that business conditions are "bad," from 41 to 36. The percent who said that business conditions in Middle Tennessee are "good" remained relatively steady, gaining only slightly to 24 from 23.

### **Future Economy**

Local consumers have become more optimistic about the future of the economy. The percent who said that six months from now the business conditions in the U.S. will be "better" rose modestly to 32 from 30. In comparison, there are much greater expectations for the future of the local economy. The percent who expect improvements in the local Middle Tennessee economy rose to 40 from 31.

### **Employment and the Job Market**

Local consumers are still concerned about employment and the current job market. Even though the percent who said that jobs are "hard to find" declined to 41 from 51, the percent who said that jobs are "easy to find" remained very low, gaining only slightly to 5 from 4. This percentage has remained in the single digits since December of 2008.

Fortunately, consumers are becoming more optimistic about the long term prospects for the job market. The percent who said that there will be "more job openings" in the next six months rose significantly to 38 from 26. The percent who said that there will be "fewer job openings" in the next six months dropped to 11 from 19.

Perceptions of the job market play a significant role in shaping consumers' views of the economy and their willingness to spend money. Insecurity due to concerns about jobs (and thus, consumers' incomes) can have a dampening effect on consumers' willingness to spend money. Alternatively, rising hopes about the potential for an expanding job market can give consumers renewed confidence when making purchasing and budgeting decisions.

## **Personal Finances**

Expectations regarding personal finances can have a significant effect on consumers' purchasing decisions. We see very little net change in consumers' perceptions of their current financial situation. The percent who said that compared to a year ago they are "better off financially" dropped marginally to 17 from 19, but the percent who said that they are "worse off financially" also dropped to 27 from 31. This was coupled with a small gain in optimism regarding the future of personal finances. The percent who said that in the next 12 months they will be "better off financially" increased to 35 from 32.

## **Purchasing Index**

Of particular interest to local retailers is the purchasing situation index. In general, consumers are becoming more inclined to think that now is a good time to make purchases. The percent of local consumers who said that now is a "good time" to make large purchases for the home gained to 33 from 28. This was coupled by a rise in the percent who said that now is a "good time" to buy a house to 66 from 61. Similarly, the percent who said that now is a "good time" to buy a car rose to 37 from 34. Many of these positive feelings likely resulted from the recent Black Friday shopping weekend. Consumers were aware of the incentives and promotions that retailers were offering to lure them into the store, and many consumers appeared eager to take advantages of these savings. The National Retail Federation reported that consumers spent an average of nearly \$400 during this Black Friday shopping weekend.<sup>2</sup>

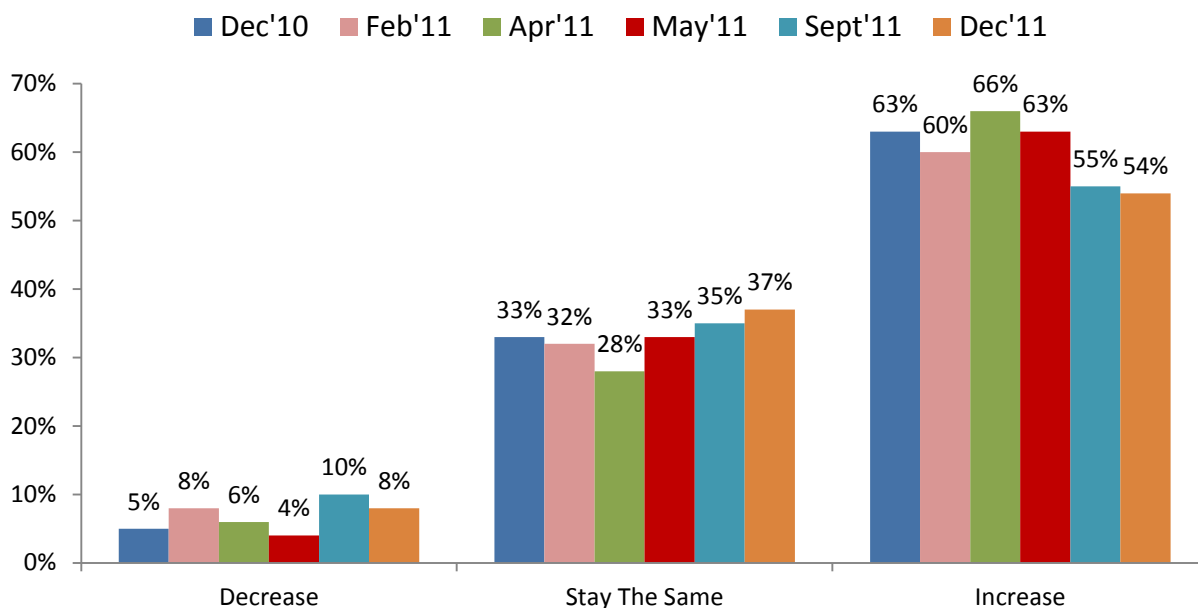
## **Taxes**

When consumers must pay more in taxes they have less money to spend on consumer purchases. Even though the percent who expect to pay more in taxes in the next year dipped slightly from September (to 54 from 55), the percent who expect an increase in taxes is still a majority of consumers.

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<sup>2</sup> Source: "Black Friday Weekend Shines as Shoppers Line up for Deals, Spend Record \$52 Billion," National Retail Federation (NRF.com), November 27, 2011.

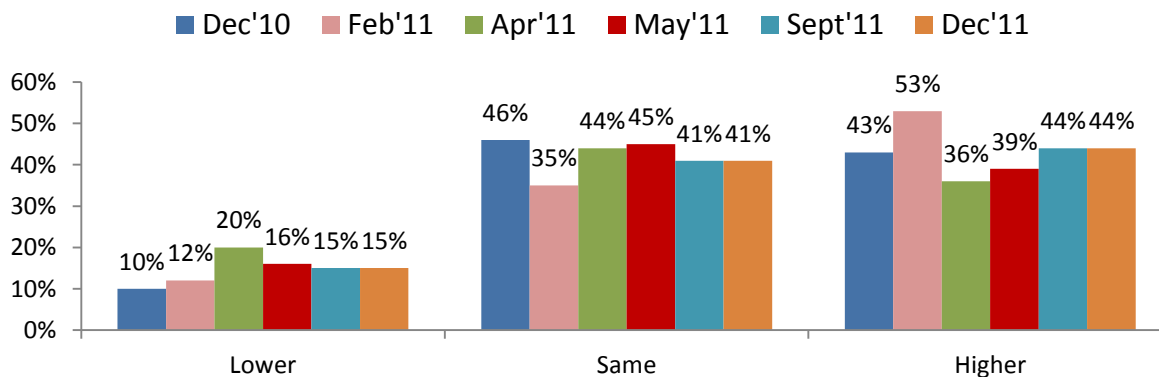
Do you think that in the next year the overall amount of taxes that you pay will increase, decrease, or stay about the same?



**Consumer Investments: The Stock Market**

The percent of local consumers who expect the stock market to be higher in the next 12 months remained steady at 44. A rising stock market can lead consumers to feel wealthier, which in turn, can lead to increases in future spending. However, a flat or declining stock market can cause consumers to feel less wealthy, and thus reduce their level of spending.

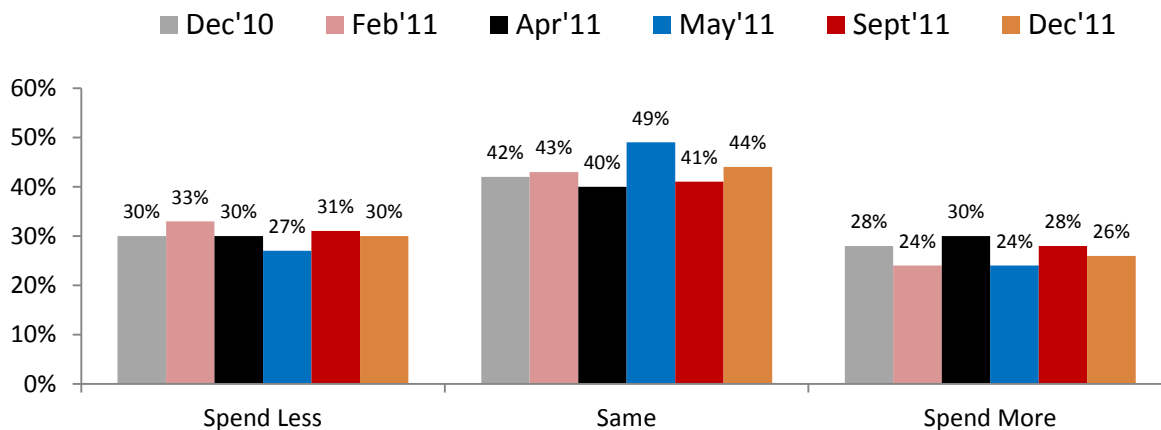
Do you think that 12 months from now the overall level (value) of the U.S. Stock Market will be higher than it is today, lower than it is today, or about the same?



**The Bottom Line: Consumer Spending**

A key question for local retailers is whether or not consumers will loosen their purse strings and increase their spending as a result of this renewed confidence in the local and national economy. Interestingly, the percent of consumers who expect to spend more than they did last year dropped modestly to 26 from 28 in September. Perhaps the increased spending during the recent Black Friday weekend was merely the result of pent up demand that was satisfied mostly with deep discounts, sale prices, and other incentives offered by retailers. As a result, an uptick in spending this Holiday season still might not make up for the reduced spending during the first 10 months of the year.

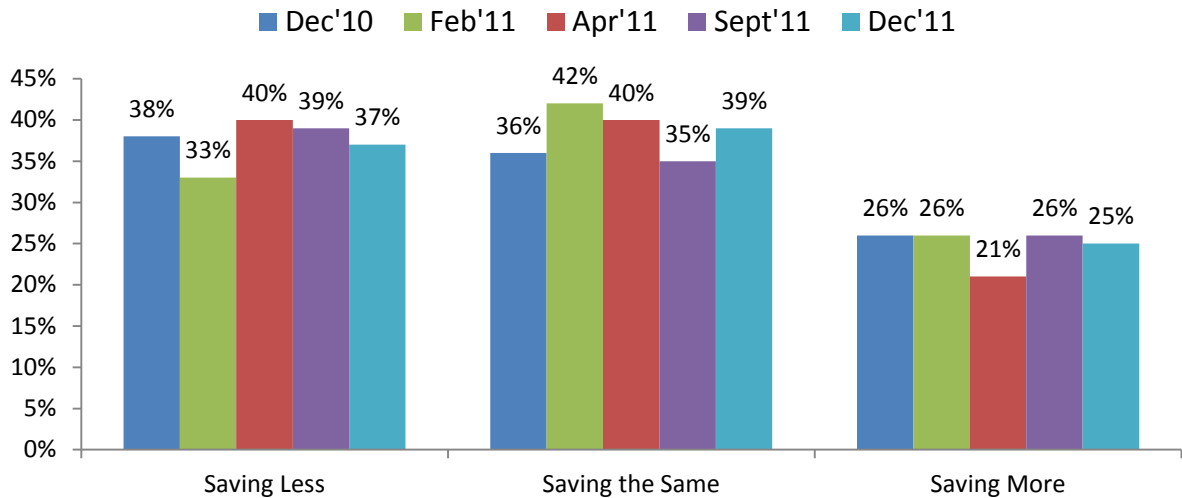
Thinking about your overall level of consumer spending, do you think that you will spend more, spend less, or spend about the same as you did last year?



**Consumer Saving**

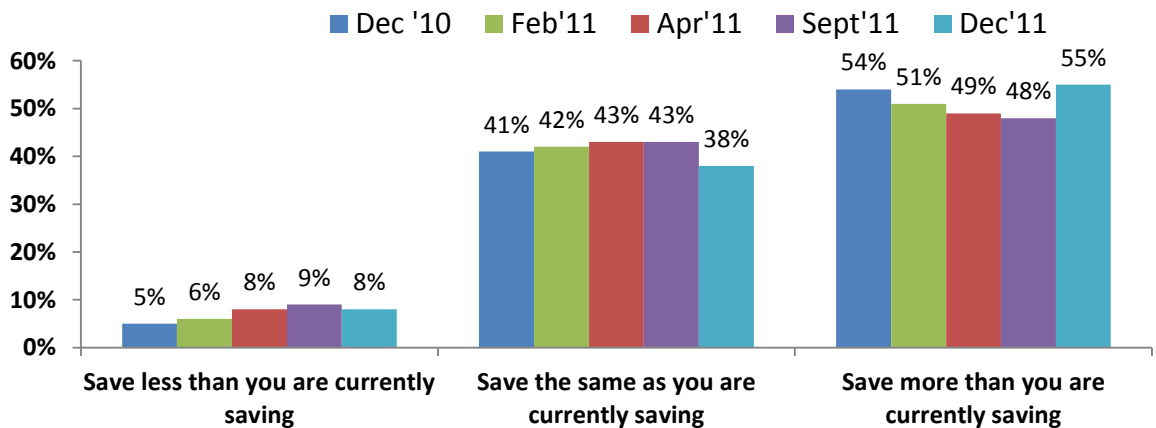
Consumers were also asked about their current level of saving compared to their level of saving before the most recent recession began. The level of saving has remained relatively steady across consumers. The percent of consumers who reported saving more dipped only slightly to 25 from 26. The percent who reported saving less dropped modestly to 37 from 39.

Thinking about the amount of your income that you are currently saving, compared to before this current recession began, are you currently saving more of your income, saving less of your income, or saving about the same as before the recession began?



Consumers were also asked to look ahead and predict their level of saving after the most recent recession has completely ended and the economy strengthens. In a reversal of the recent trend, the percentage of consumers who expect to increase their level of saving increased to 55 from 48.

Looking ahead, do you think that when the economy strengthens and the current recession has ended that you will save more of your income than you are currently saving, save less of your income than you are currently saving, or save about the same?

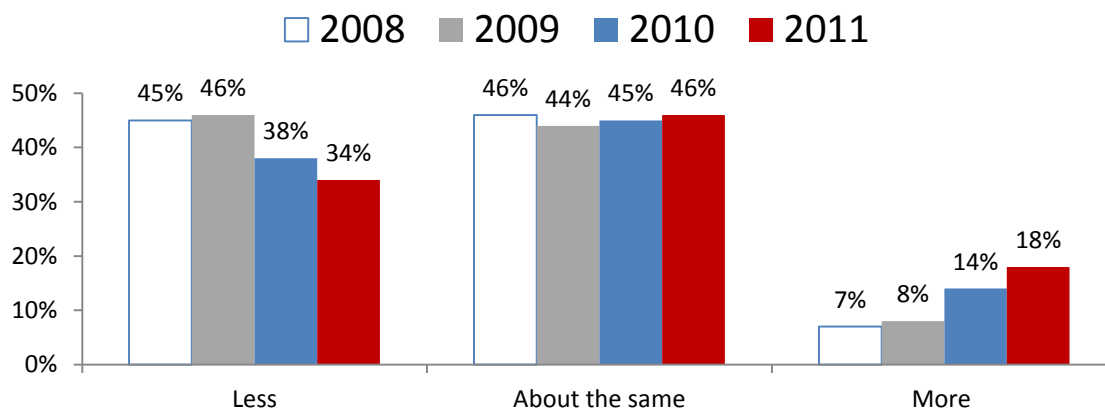




## **Christmas and Holiday Spending**

When asked about their expected Christmas and holiday spending, we see an increase in the percent of consumers who expect to spend more than they did last year (to 18 from 14), and we also see a decrease in the percent of consumers who expect to spend less than they did last year (to 34 from 46). This is another positive sign for local retailers. Many consumers might look toward good deals and retailers' incentives as a means to treat themselves and their family members after a year of budget tightening and reduced spending.

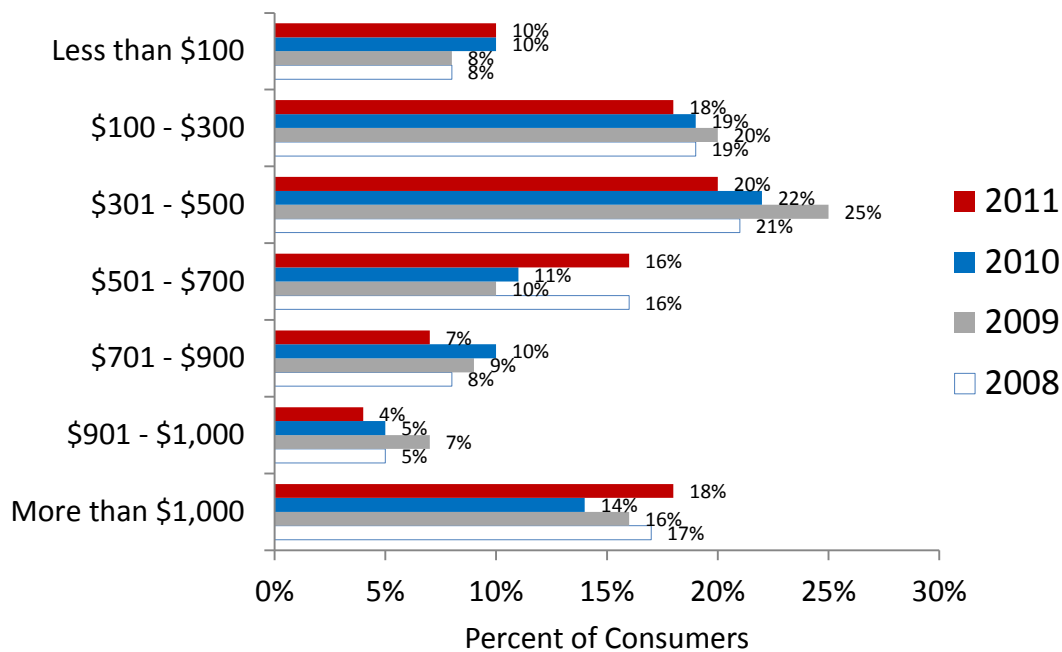
### **Do you think that you will spend more money on Christmas and Holiday gifts this year compared to last year, less money than you spend last year, or about the same?**



Consumers were also asked to estimate the amount of money they expect to spend on Christmas and Holiday gifts this year. Just under half (48 percent) of all local consumers expect to spend less than \$500. Similarly, 45 percent expect to spend more than \$500. This is comparable to national measures of consumer spending for the holidays. The National Retail Federation reported that consumers expect to spend an average of \$516 on gifts for family members, friends, co-workers and others this Christmas and Holiday season<sup>3</sup>.

<sup>3</sup> Source: BIGresearch®, Consumer Intentions & Actions® Survey, October 11, 2011, National Retail Federation (NRF.com).

### How much do you expect to spend on Christmas and Holiday gifts this year?



## **Perceptions of the Economy: Comparison to The Nation**

Compared to consumers across the country as a whole, local consumers have traditionally held more positive perceptions of the economy. Even though local consumers have slightly more negative views of the current American economy, local consumers are comparatively more optimistic about the future of the American economy, are more optimistic about the future of the job market, and are more optimistic about their personal financial situation in the next year. The table below illustrates some of these differences in consumers' responses to selected survey questions.

<b>Comparing Middle Tennessee Consumers to Consumers Across the Country as a Whole</b>	<b>Nation (%)</b>	<b>Mid. Tenn. (%)</b>
Business conditions in the U.S. are good.	13 <sup>4</sup>	9
Six months from now, business conditions in the U.S. will be better.	14	32
Jobs are easy to find (plentiful).	6	5
Six months from now, there will be more job openings.	13	38
In 12 months my personal financial situation (income) will be better.	15	35

## **The Psychology of Consumers**

The psychology of consumers can have dramatic effects on the future of the economy. Consumer spending makes up two-thirds of the American economy. Decreases in consumer confidence that translate into reduced purchasing patterns can have significant negative effects on the economy. Conversely, increases in consumer confidence that translate into accelerated consumer spending can have significant positive effects on the economy. When consumers begin to feel comfortable about the future of the economy and their own personal financial situation, they will increase their spending. Such spending would then help to grow the economy as manufacturers begin to produce more and retailers begin to fill jobs to meet increased consumer demand. This type of self-fulfilling prophecy is illustrated below in the *Consumer Confidence Cycle*.












<sup>4</sup> Source: November 29, 2011 Consumer Confidence Report – The Conference Board ([www.conference-board.org](http://www.conference-board.org)). The next consumer confidence report from The Conference Board is scheduled for Tuesday, December 27.

## The Self-Fulfilling Prophecy of the Consumer Confidence Cycle

Consumer Optimism	Consumer Pessimism
<p><b>Increased consumer confidence,</b> <i>leads to ...</i></p>	<p><b>Decreased consumer confidence,</b> <i>leads to ...</i></p>
<p><b>Increased consumer spending,</b> <i>which leads to ...</i></p>	<p><b>Decreased consumer spending,</b> <i>which leads to ...</i></p>
<p><b>Retailers hire more employees and purchase more inventory from suppliers,</b> <i>which leads to ...</i></p>	<p><b>Retailers hire fewer employees and purchase less inventory from suppliers,</b> <i>which leads to ...</i></p>
<p><b>Suppliers (manufacturers) must make more products,</b> <i>which leads to ...</i></p>	<p><b>Suppliers (manufacturers) must make fewer products,</b> <i>which leads to ...</i></p>
<p><b>Suppliers (manufacturers) hire more employees,</b> <i>which leads to ...</i></p>	<p><b>Suppliers (manufacturers) hire fewer employees,</b> <i>which leads to ...</i></p>
<p><b>More retail and manufacturing employees,</b> <i>which leads to ...</i></p>	<p><b>Fewer retail and manufacturing employees,</b> <i>which leads to ...</i></p>
<p><b>More consumers with pay checks who are able to spend,</b> <i>which leads to ...</i></p>	<p><b>Fewer consumers with pay checks who are able to spend,</b> <i>which leads to ...</i></p>
<p><b>Growing economy,</b> <i>which leads to ...</i></p>	<p><b>Slowing economy,</b> <i>which leads to ...</i></p>
<p><b>Increased consumer confidence,</b> <i>which leads to ...</i></p>	<p><b>Decreased consumer confidence,</b> <i>which leads to ...</i></p>

**Changes in Consumers' Perceptions of the Economy**

The table below shows how consumers' responses to selected survey questions have changed since September 2011.

	Dec. 2011 (%)	Change from Sept. 2011
Business conditions in the U.S. are <u>Good</u> .	9	 2%
Six months from now, business conditions in the U.S. will be <u>Better</u> .	32	 2%
Business conditions in Middle Tennessee are <u>Good</u> .	24	 1%
Six months from now, business conditions in Middle Tennessee will be <u>Better</u> .	40	 9%
Jobs in Middle Tennessee are <u>Easy To Find</u> .	5	 1%
Six months from now there will be <u>More Job Openings</u> in Middle Tennessee	38	 12%
I am <u>Better Off Financially</u> than I was one year ago.	17	 2%
12 months from now I will be <u>Better Off Financially</u> than I am today.	35	 3%
Now is a <u>Good Time To Make Large Purchases</u> .	33	 5%
Now is a <u>Good Time To Buy A Home</u> .	66	 5%
Now is a <u>Good Time To Buy A Car</u> .	37	 3%

## **About the Survey**

The results reported here are based on telephone interviews with 401 randomly selected adult residents, 18 years and older, from Davidson County, Rutherford County and Williamson County. Phone interviews were conducted between 4:30 pm and 8:30 pm on Monday, December 5, and Tuesday, December 6. With a sample of 401 people, we can say with 95% confidence that the amount of survey error due to taking a random sample instead of surveying all members of the population is  $\pm 4.9\%$ . Other factors such as problems with question wording and question interpretation can also introduce additional bias or error into the results. Results from the Middle Tennessee consumer confidence surveys can be compared to national consumer confidence surveys published monthly by the Conference Board ([www.conference-board.org](http://www.conference-board.org)). This report is also available on the Office of Consumer Research web page ([www.mtsu.edu/consumer](http://www.mtsu.edu/consumer)).

The Consumer Confidence Index is based on all 11 survey questions outlined below. The score is computed by adding the percentage of positive responses to each question, and subtracting the percentage of negative responses. The Current Situation Index is based on questions 1, 3, 5, and 7 (see the following tables of results). The Future Expectations Index is based on questions 2, 4, 6, and 8. The Purchasing Index is based on questions 9, 10, and 11.

## **About the Office of Consumer Research at MTSU**

In 2000, the Management and Marketing Department at Middle Tennessee State University received funding from an MTSU Technology Access Fee grant to create a telephone survey research lab and the Office of Consumer Research to be housed in the department. The Office of Consumer Research uses the telephone survey lab to conduct surveys of consumer confidence in Middle Tennessee. The surveys measure consumers' perceptions of economic conditions in the country as a whole as well as in Middle Tennessee. Similar consumer confidence surveys conducted by the Conference Board and the Survey Research Center at the University of Michigan have been shown to be very predictive of key economic indicators such as inflation, interest rates and consumer spending.

Students in Professor Timothy R. Graeff's marketing research courses conduct the telephone surveys. For further information contact Timothy R. Graeff, Professor of Marketing and Director, Office of Consumer Research (898-5124; [tgraeff@mtsu.edu](mailto:tgraeff@mtsu.edu)).

Consumer Confidence		Dec	Feb	Apr	Jun	Sept	Dec	Feb	Apr	May	Sept	Dec
Recent Results:		09	10	10	10	10	10	11	11	11	11	11
		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Are business conditions in the U.S.	Good	7	2	7	7	5	7	8	8	9	7	9
	In Between	60	58	59	61	54	58	64	58	65	52	55
	Bad	32	39	33	32	41	34	28	34	26	41	36
Six months from now, will business conditions in the U.S. be:	Better	40	44	42	39	33	35	44	27	34	30	32
	About same	44	39	42	43	45	47	44	54	50	49	49
	Worse	15	15	15	16	18	17	10	17	15	19	18
Are business conditions in Middle TN:	Good	16	15	17	25	20	18	23	24	25	23	24
	In Between	60	62	59	60	63	62	59	57	60	60	59
	Bad	22	21	22	14	16	19	17	16	15	16	15
Six months from now, will business conditions in Middle TN be:	Better	35	42	42	40	38	36	40	33	38	31	40
	About same	51	45	48	51	51	53	51	55	53	57	49
	Worse	13	11	10	7	9	11	8	10	8	11	9
Are jobs in Middle TN:	Easy to find	4	1	2	3	3	4	3	3	5	4	5
	Found w/effort	39	33	38	38	41	41	42	46	37	42	51
	Hard to find	53	61	55	56	51	52	53	47	57	51	41
In Middle TN six months from now there will be (# of job):	More	32	34	35	37	35	29	39	34	32	26	38
	About same	47	52	48	50	50	54	48	51	54	53	49
	Fewer	16	12	14	10	12	15	11	12	13	19	11
Compared to a year ago, is your personal financial situation:	Better	13	12	15	12	17	17	18	16	13	19	17
	About same	54	53	55	57	54	52	54	48	53	50	57
	Worse	34	34	30	31	30	31	28	37	34	31	27
In 12 months will your personal financial situation be:	Better	38	34	45	26	40	40	37	34	37	32	35
	About same	53	54	46	62	52	49	55	52	57	57	55
	Worse	7	10	8	11	8	11	8	14	6	11	10
Is now a good time to buy large items for the home?	Good time	39	33	33	36	32	39	36	30	25	28	33
	In between	31	34	38	36	38	33	37	41	48	39	39
	Bad time	28	29	27	24	28	26	23	25	22	28	22
Is now a good time to buy a house?	Good time	69	65	70	63	68	65	66	64	57	61	66
	In between	17	17	14	24	16	15	15	18	17	18	16
	Bad time	13	15	14	13	14	18	17	15	23	18	15
Is now a good time to buy a car?	Good time	47	42	42	46	38	36	38	35	28	34	37
	In between	27	31	33	34	33	38	38	35	47	39	38
	Bad time	24	24	23	18	26	23	20	27	21	23	20

**The Middle Tennessee Consumer Confidence Survey:**

**[C]** = included in the Current Situation Index

**[F]** = included in the Future Expectations Index;

**[P]** = included in the Purchasing Situation Index

1. **[C]** Turning first to business conditions in the country as a whole, would you say that business conditions in the country as a whole are good, bad, or somewhere in between?
2. **[F]** And how about 6 months from now, do you expect that in the country as a whole business conditions will be better than they are today, worse than they are today, or just about the same?
3. **[C]** Now turning to business conditions in Middle Tennessee, would you say that business conditions in Middle Tennessee are good, bad, or somewhere in between?
4. **[F]** And how about 6 months from now, do you expect that in Middle Tennessee business conditions will be better than they are today, worse than they are today, or just about the same?
5. **[C]** Now turning to the availability of jobs in Middle Tennessee, would you say that jobs are easy to find, can be found with effort, or hard to find?
6. **[F]** How about in the next 6 months, do you expect that in Middle Tennessee there will be more job openings than there are now, fewer job openings than there are now, or about the same number of job openings?
7. **[C]** We are interested in how people are getting along financially these days. Would you say that you, and any family members living with you, are better off financially than you were a year ago, worse off financially than you were a year ago, or about the same?
8. **[F]** Now looking ahead, do you think that 12 months from now you, and any family members living with you, will be better off financially, worse off financially, or about the same?
9. **[P]** About the big things people buy for their homes -- such as furniture, a refrigerator, stove, television, and things like that, generally speaking, do you think now is a good time for people to buy major household items, a bad time, or somewhere in between?
10. **[P]** How about buying a house? Is now a good time to buy a house, a bad time to buy a house, or somewhere in between?
11. **[P]** How about buying a car? Is now a good time to buy a car, a bad time to buy a car, or somewhere in between?



## Middle Tennessee Consumer Confidence Index

