

Middle Tennessee Consumer Confidence Index

September 15, 2011

The Office of Consumer Research

at Middle Tennessee State University

Director -- Timothy R. Graeff, Ph.D.

Consumer Confidence Continues to Wane

Any hopes for improvement in consumer confidence during the summer months can be forgotten. Consumers in Middle Tennessee continue to hold negative perceptions of the economy. The overall consumer confidence index now stands at 27, down sharply from 63 in May of 2011. This stands in stark contrast to the first half of the last decade when the overall consumer confidence index was routinely above 300. We have seen a steady decline in confidence among Middle Tennessee consumers during the past three years. This time last year the overall confidence index stood at 76, which was down from 142 in September of 2009.

Two of the three subcomponents of the overall confidence index saw reductions. Perceptions of the current economy continue to sag, as the current situation index declined even further to -86 from -80. The fact that the current situation index is still well entrenched 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.

Consumers have also become more pessimistic about the future of the economy. The future expectations index fell to 59 from 99, indicating that local consumers are losing faith in the future of the economy. Continued pessimism regarding the job market, fears of potential price increases, concerns about higher taxes, worries about an ever growing government debt, and uncertainty about the negative effects of the recent S&P downgrade are all working to stifle consumers' hopes for a quick turnaround in the economy.

On a somewhat positive note, the purchasing situation index gained to 54 from 44, indicating that some consumers may still be willing to spend money amid these economic slow times. However, given the relatively low level of the purchasing index, it is premature to expect that consumers will significantly loosen their purse strings with large increases in consumer spending. This time last year the purchasing index stood at 70, which was down from 106 in September of 2009.

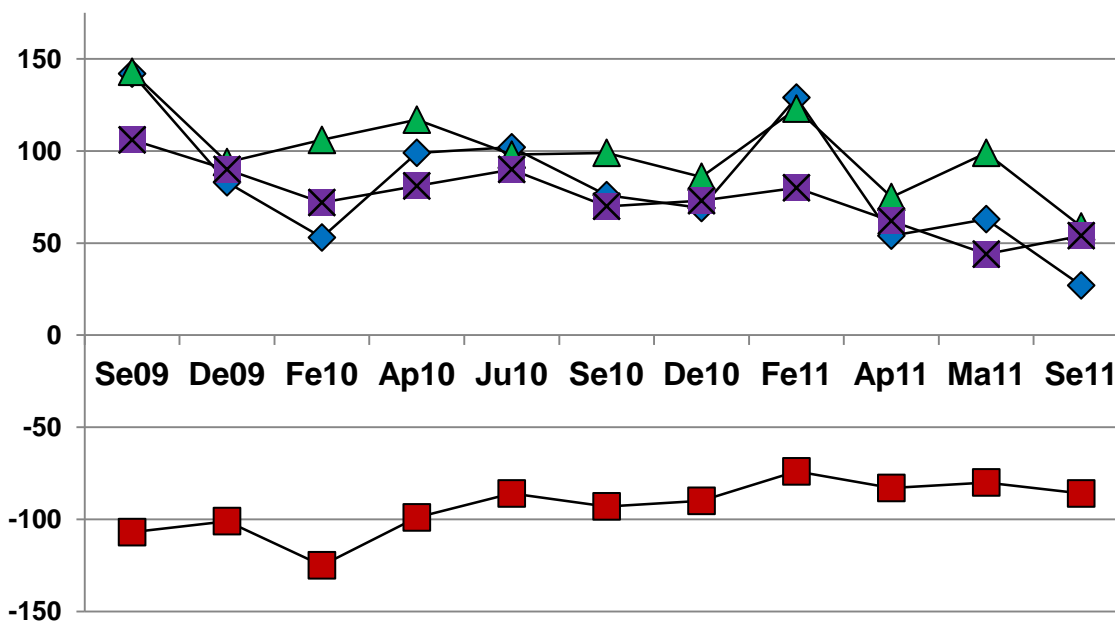
The current poll of 350 randomly selected adult residents of Davidson, Rutherford and Williamson counties was conducted the evenings of Monday, September 12 and Tuesday, September 13.

The Middle Tennessee Consumer Confidence Index and Components

	Sept '09	Dec '09	Feb '10	Apr '10	Jun '10	Sept '10	Dec '10	Feb '11	Apr '11	May '11	Sept '11
Overall Cons. Conf. Index	142	83	53	99	102	76	69	129	54 ¹	63	27
Current Situation Index	-107	-101	-125	-99	-86	-93	-90	-74	-83	-80	-86
Future Expectations Index	143	94	106	117	98	99	86	123	75	99	59
Purchasing Index	106	90	72	81	90	70	73	80	62	44	54

Middle Tennessee Consumer Confidence Index

◆ Overall Conf. Index ■ Current Sit. Index
 ▲ Future Exp. Index ✖ Purchasing Index



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

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 13 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 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 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. The negative effects of the most recent recession, anxiety about the ever growing government debt, and the recent S&P downgrade have led to growing negative views of the current economy. The percent of local consumers who said that business conditions in the country as a whole are "good" dropped slightly to 7 from 9. This is coupled with an increase in the percent who said that business conditions are "bad," from 26 to 41. Similarly, the percent who said that business conditions in Middle Tennessee are "good" dipped slightly to 23 from 25. The percent who said that business conditions in Middle Tennessee are "bad" edged up to 16 from 15.

Future Economy

Local consumers have become even less 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" dropped to 30 from 34. There is similar pessimism regarding the local economy as the percent who expect improvements in the local Middle Tennessee economy fell to 31 from 38.

Employment and the Job Market

Local consumers are still concerned about employment and the job market. Even though the percent who said that jobs are "hard to find" declined to 51 from 57, the percent who said that jobs are "easy to find" remained very low at four percent. This percentage has remained in the single digits since December of 2008.

Unfortunately, consumers are also concerned about long term prospects for the job market. The percent who said that there will be “more job openings” in the next six months declined to 26 from 32. The percent who said that there will be “fewer job openings” in the next six months rose to 19 from 13.

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 can have a deadening 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. Although we see slight improvements in consumers’ perceptions of their current financial situation, concerns about the future of the economy and the future job market have left consumers feeling less optimistic about their future financial situation. The percent who said that compared to a year ago they are “better off financially” gained to 19 from 13. However, the percent who said that in the next 12 months they will be “better off financially” decreased to 32 from 37, and the percent who expect to be worse off financially increased to 11 from 6.

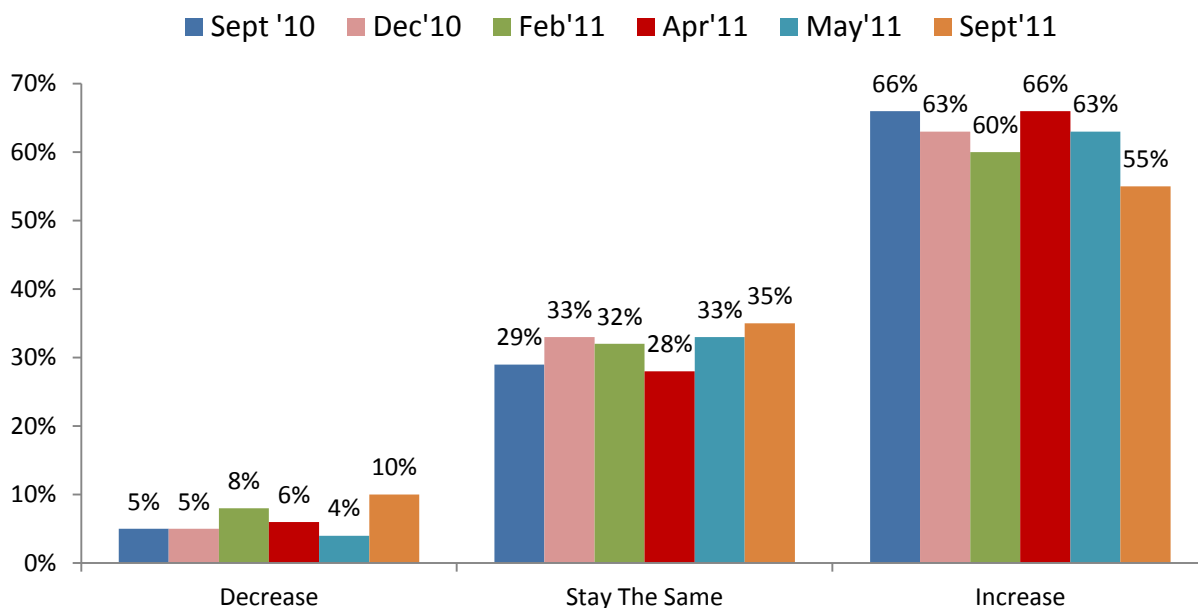
Purchasing Index

One positive result from the current survey is the increase in the purchasing situation index. The percent of local consumers who said that now is a “good time” to make large purchases for the home gained to 28 from 25. This was coupled by a rise in the percent who said that now is a “good time” to buy a house to 61 from 57. Similarly, the percent who said that now is a “good time” to buy a car rose to 34 from 28. Clearly, low interest and mortgage rates, and attractive 0% financing offers for new car purchases have not gone unnoticed. However, the number of consumers who are able to take advantage of these purchasing incentives remains to be seen.

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 decreased from May (to 55 from 63), the percent who expect an increase in taxes is still a solid majority of consumers.

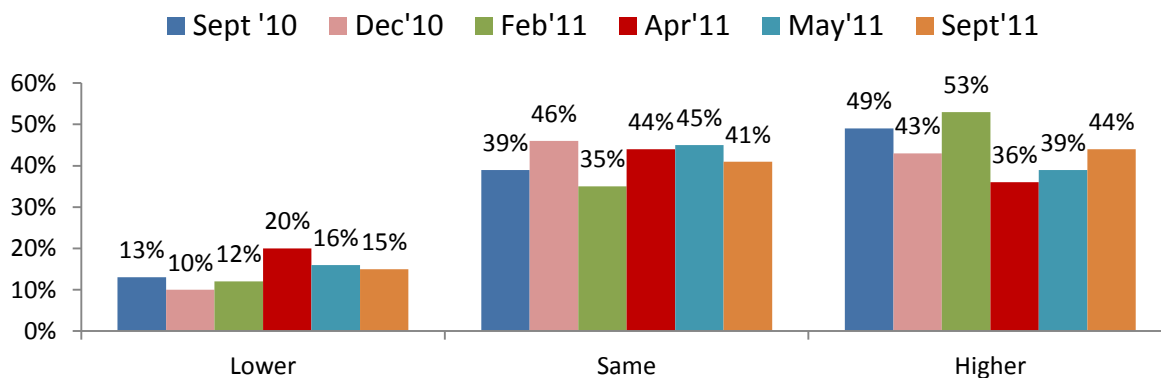
Do you think that in the next year the overall amount of taxes that you pay will increase, decrease, or stay about the same?



Consumer Investments: The Stock Market

The percent of local consumers who expect the stock market to be higher in the next 12 months gained to 44 from 39. A rising stock market can lead consumers to feel wealthier, which in turn, can lead to increases in future spending.

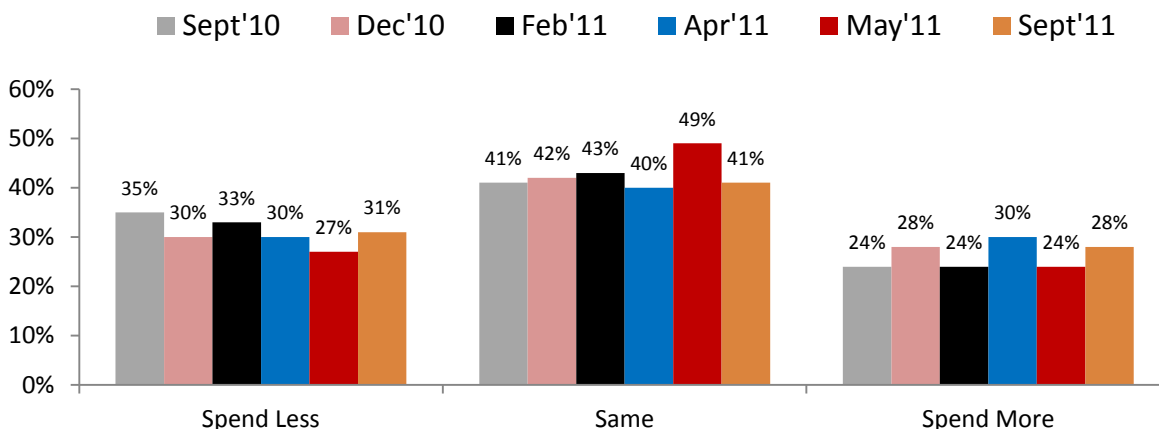
Do you think that 12 months from now the overall level (value) of the U.S. Stock Market will be higher than it is today, lower than it is today, or about the same?



The Bottom Line: Consumer Spending

A key question for local retailers is whether or not consumers will tighten their purse strings and reduce their spending as a result of this continued decrease in consumer confidence. Interestingly, the percent of consumers who expect to spend more than they did last year rose to 28 from 24 in May. However, the percent who expect to reduce their overall level of consumer spending also increased, to 31 from 27. While some of the reduction in future spending might be voluntary due to the economic slowdown, some of the expectations for increased spending might be due to fears of rising prices.

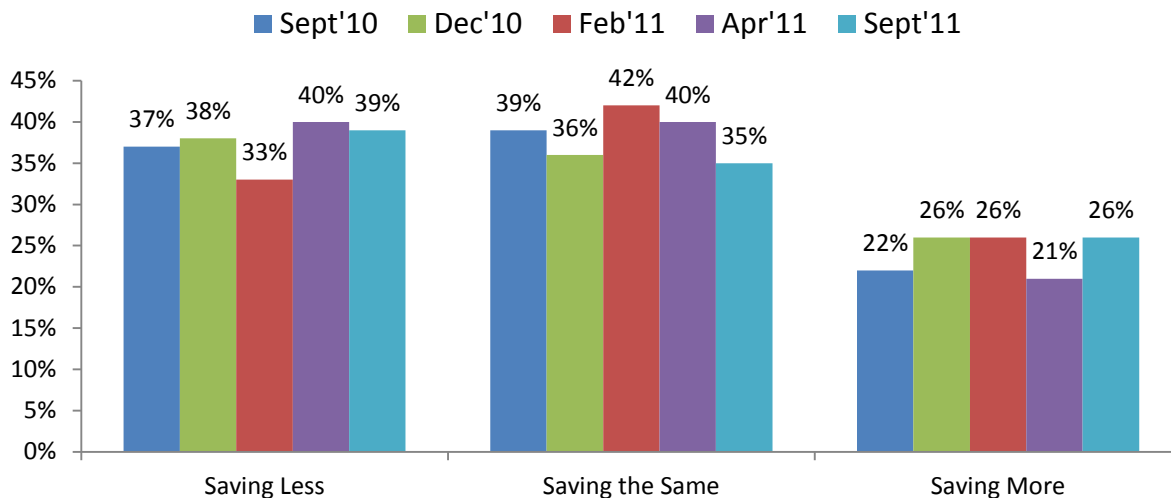
Thinking about your overall level of consumer spending, do you think that you will spend more, spend less, or spend about the same as you did last year?



Consumer Saving

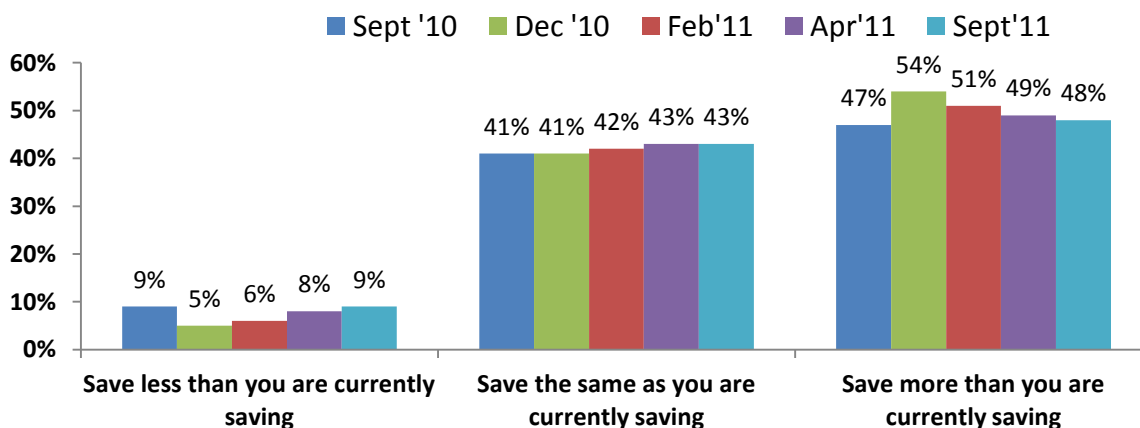
Consumers were also asked about their current level of saving compared to their level of saving before the most recent recession began. The percent of consumers who reported saving more rose to 26 from 21, and the percent who reported saving less dipped slightly to 39 from 40.

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. These expectations for saving in the future have remained relatively unchanged since this time last year.

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?



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 significantly 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.

Comparing Middle Tennessee Consumers to Consumers Across the Country as a Whole	Nation (%)	Mid. Tenn. (%)
Business conditions in the U.S. are good.	14 ²	7
Six months from now, business conditions in the U.S. will be better.	12	30
Jobs are easy to find (plentiful).	5	4
Six months from now, there will be more job openings.	11	26
In 12 months my personal financial situation (income) will be better.	14	32

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*.










² Source: August 30, 2011 Consumer Confidence Report – The Conference Board (www.conference-board.org). The next consumer confidence report from The Conference Board is scheduled for Tuesday, September 27.

The Self-Fulfilling Prophecy of the Consumer Confidence Cycle

Consumer Optimism	Consumer Pessimism
<p>Increased consumer confidence, <i>leads to ...</i></p>	<p>Decreased consumer confidence, <i>leads to ...</i></p>
<p>Increased consumer spending, <i>which leads to ...</i></p>	<p>Decreased consumer spending, <i>which leads to ...</i></p>
<p>Retailers hire more employees and purchase more inventory from suppliers, <i>which leads to ...</i></p>	<p>Retailers hire fewer employees and purchase less inventory from suppliers, <i>which leads to ...</i></p>
<p>Suppliers (manufacturers) must make more products, <i>which leads to ...</i></p>	<p>Suppliers (manufacturers) must make fewer products, <i>which leads to ...</i></p>
<p>Suppliers (manufacturers) hire more employees, <i>which leads to ...</i></p>	<p>Suppliers (manufacturers) hire fewer employees, <i>which leads to ...</i></p>
<p>More retail and manufacturing employees, <i>which leads to ...</i></p>	<p>Fewer retail and manufacturing employees, <i>which leads to ...</i></p>
<p>More consumers with pay checks who are able to spend, <i>which leads to ...</i></p>	<p>Fewer consumers with pay checks who are able to spend, <i>which leads to ...</i></p>
<p>Growing economy, <i>which leads to ...</i></p>	<p>Slowing economy, <i>which leads to ...</i></p>
<p>Increased consumer confidence, <i>which leads to ...</i></p>	<p>Decreased consumer confidence, <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 May 2011.

	Sept. 2011 (%)	Change from May 2011
Business conditions in the U.S. are <u>Good</u> .	7	 2%
Six months from now, business conditions in the U.S. will be <u>Better</u> .	30	 4%
Business conditions in Middle Tennessee are <u>Good</u> .	23	 2%
Six months from now, business conditions in Middle Tennessee will be <u>Better</u> .	31	 7%
Jobs in Middle Tennessee are <u>Easy To Find</u> .	4	 1%
Six months from now there will be <u>More Job Openings</u> in Middle Tennessee	26	 6%
I am <u>Better Off Financially</u> than I was one year ago.	19	 6%
12 months from now I will be <u>Better Off Financially</u> than I am today.	32	 5%
Now is a <u>Good Time To Make Large Purchases</u> .	28	 3%
Now is a <u>Good Time To Buy A Home</u> .	61	 4%
Now is a <u>Good Time To Buy A Car</u> .	34	 6%

About the Survey

The results reported here are based on telephone interviews with 350 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, September 12, and Tuesday, September 13. With a sample of 350 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 $\pm 5.2\%$. 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). This report is also available on the Office of Consumer Research web page (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).

Consumer Confidence		Sept	Dec	Feb	Apr	Jun	Sept	Dec	Feb	Apr	May	Sept
Recent Results:		09	09	10	10	10	10	10	11	11	11	11
		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Are business conditions in the U.S.	Good	7	7	2	7	7	5	7	8	8	9	7
	In Between	59	60	58	59	61	54	58	64	58	65	52
	Bad	33	32	39	33	32	41	34	28	34	26	41
Six months from now, will business conditions in the U.S. be:	Better	49	40	44	42	39	33	35	44	27	34	30
	About same	36	44	39	42	43	45	47	44	54	50	49
	Worse	13	15	15	15	16	18	17	10	17	15	19
Are business conditions in Middle TN:	Good	18	16	15	17	25	20	18	23	24	25	23
	In Between	64	60	62	59	60	63	62	59	57	60	60
	Bad	17	22	21	22	14	16	19	17	16	15	16
Six months from now, will business conditions in Middle TN be:	Better	52	35	42	42	40	38	36	40	33	38	31
	About same	38	51	45	48	51	51	53	51	55	53	57
	Worse	9	13	11	10	7	9	11	8	10	8	11
Are jobs in Middle TN:	Easy to find	2	4	1	2	3	3	4	3	3	5	4
	Found w/effort	37	39	33	38	38	41	41	42	46	37	42
	Hard to find	58	53	61	55	56	51	52	53	47	57	51
In Middle TN six months from now there will be (# of job):	More	41	32	34	35	37	35	29	39	34	32	26
	About same	42	47	52	48	50	50	54	48	51	54	53
	Fewer	14	16	12	14	10	12	15	11	12	13	19
Compared to a year ago, is your personal financial situation:	Better	12	13	12	15	12	17	17	18	16	13	19
	About same	49	54	53	55	57	54	52	54	48	53	50
	Worse	38	34	34	30	31	30	31	28	37	34	31
In 12 months will your personal financial situation be:	Better	46	38	34	45	26	40	40	37	34	37	32
	About same	44	53	54	46	62	52	49	55	52	57	57
	Worse	9	7	10	8	11	8	11	8	14	6	11
Is now a good time to buy large items for the home?	Good time	39	39	33	33	36	32	39	36	30	25	28
	In between	34	31	34	38	36	38	33	37	41	48	39
	Bad time	24	28	29	27	24	28	26	23	25	22	28
Is now a good time to buy a house?	Good time	73	69	65	70	63	68	65	66	64	57	61
	In between	13	17	17	14	24	16	15	15	18	17	18
	Bad time	12	13	15	14	13	14	18	17	15	23	18
Is now a good time to buy a car?	Good time	51	47	42	42	46	38	36	38	35	28	34
	In between	26	27	31	33	34	33	38	38	35	47	39
	Bad time	21	24	24	23	18	26	23	20	27	21	23

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

