

Consumer confidence in August dips to lowest level in 13 years

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High energy costs, volatility in the stock market and especially the housing slump are to blame for consumer confidence among Floridians plummeting 11 points to 76 in August, its lowest level in more than a decade, University of Florida economists report.

The source of this month's decline to the lowest level since July 1993 was broad-based, with all five components registering a drop. Expectations about U.S. economic conditions over the next year plunged 16 points to 60; perceptions of whether it is a good time to buy big-ticket items tumbled 13 points to 87; expectations about U.S. economic conditions over the next five years sunk 10 points to 72; perceptions of personal finances over the next year fell eight points to 90; and expectations about personal finances now compared with a year ago dropped seven points to 73.

“The size and extent of the fall in confidence in August is very similar to the effects we saw last year following Katrina, without the hurricane,” said Chris McCarty, director of the survey research center at UF's Bureau of Economic and Business Research. “When we think about the events that may have impacted consumers, there is, of course, the price of energy, although that has declined recently. The Israeli invasion of Lebanon may have been a factor, although such events typically impact perceptions of short-term business conditions. We think it is likely that the effects of a declining housing market may finally be coming into play.”

As was the case in past years, gas prices peaked in early August but are now retreating because of lower demand as families have largely finished their summer travels, McCarty said.

Another economic factor is this month's decline of the stock market, largely in reaction to events in the Middle East, although that typically affects wealthier households, he said.

Far more consumers, though, are hurt by rising interest rates on credit cards and a dramatic slowdown in the housing industry affecting both the sale and building of homes, McCarty said.

“The latter is of particular significance given the extent to which consumers have relied on the wealth in their homes to fuel spending,” he said, adding that consumer debt is still at record levels.

The decline in confidence was disproportionately large among consumers younger than 60, McCarty said.

“This would be the case if housing were having the expected effect as many older consumers have already paid for their homes and are less likely to look toward housing appreciation as a way of financing spending,” he said.

A prime target of the housing decline is consumers with adjustable rate mortgages that are now being reset to higher rates, he said.

McCarty said he expects consumer confidence to remain low through the remainder of 2006.

“The increased pressure on consumers as the effects of declines in the real estate market come to bear will keep consumer confidence, and therefore spending, at low levels compared to recent years,” he said.

The research center conducts the Florida Consumer Attitude survey monthly. Respondents are 18 or older and live in households telephoned randomly. The preliminary index for August was conducted from 430 responses. The error rate is plus or minus 5 percent.

Consumer confidence is designed to help predict buying patterns by measuring the mood of consumers toward purchasing. Although other economic indicators also predict buying patterns, consumer confidence tends to be available sooner.

The index is benchmarked to 1966, so a value of 100 represents the same level of confidence for the year. The value of the index is in comparing changes over time rather than looking at an isolated month.

Source: University of Florida

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