# Consumer confidence edges up, but housing makes big picture volatile

February 27 2007, By Cathy Keen

Relatively cheap gas prices, a record high stock market and low unemployment all contributed to a rise in Floridians' consumer confidence by two points to 91 in February, four points higher than at the same time a year ago, University of Florida economists report.

"Consumer confidence among Floridians has been volatile the last couple of months," said Chris McCarty, director of the survey research center at UF's Bureau of Economic and Business Research. "There are competing forces acting on the consumer, and it is still unclear how these will play out in the long term. On the positive side, gas prices are still relatively low, although they are headed back up. The stock market hit another record high in February, although it is down from that, and employment remains solid here in Florida, with the unemployment rate quite low compared to previous years."

The rise in consumer confidence was broad-based, with increases in four of the indexes' five components. The biggest gain was in perceptions of personal finances now compared to a year ago, which rose four points to 84. Three components rose three points: expectations about personal finances a year from now to 95; expectations about U.S. economic conditions over the next five years to 86; and perceptions of whether it is a good time to buy big-ticket items to 109. Expectations about U.S. economic conditions over the next year remained unchanged at 83.

"On the down side is housing, the focus of everyone's attention," McCarty said. "There is no question that we are seeing deterioration in the sub-prime loan market — higher-interest loans to consumers with weak credit histories — and that inventories are up and sales of both new and existing homes are down. Many people ended up buying homes they could not afford."

The question remains whether the effects will stay within the housing sector, McCarty said. Although housing construction by itself represents less than 10 percent of the U.S. economy, the effect of housing can move into other sectors, he said.

Since the last recession in 2001, consumer spending, which is responsible for about two-thirds of all U.S. economic activity, has been fueled directly by equity withdrawals from housing, he said.

As people's homes appreciated in value, they felt comfortable arranging cash-out refinancing, home equity loans and home equity lines of credit, McCarty said. But as sales have slowed and homeowners drop their prices to sell, the value of homes in many markets is declining, making consumers less comfortable withdrawing equity from their homes, he said.

"The big questions are how much will consumer spending pull back due to the decline in real estate prices, and if other areas of the economy, such as business investment and exports, can offset a possible decline in purchasing power from consumers," he said.

McCarty said he expects the effects on housing to spill into other sectors of the economy by May or June. "This should be more pronounced here in Florida, given the enormous gains in the value of Florida real estate," he said. "It has much further to fall than other states."

Many people are looking to the Federal Reserve Board for some relief to this situation, McCarty said. There is a sense among some economists that the Fed is overly concerned with inflation and will lower interest rates before the end of spring, traditionally the most active season for selling homes, he said.

But McCarty said he believes it is very unlikely that interest rates will fall in the near term, considering recent data on inflation and statements from board members.

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 February was conducted from 466 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

Citation: Consumer confidence edges up, but housing makes big picture volatile (2007, February 27) retrieved 2 May 2024 from https://phys.org/news/2007-02-consumer-confidence-edges-housing-big.html