

Bad news about gas, housing and stocks sinks consumer confidence

March 28 2007

Rising gas prices, a declining housing market and a sudden dip in the stock market contributed to a six-point drop in Florida's consumer confidence to 86 in March, its lowest level in six months, University of Florida economists report.

"I had been expecting a large decline in consumer confidence in Florida for the past several months," said Chris McCarty, director of the Survey Research Center at UF's Bureau of Economic and Business Research, which conducts the monthly study. "The main factor underlying this forecast was an expectation that housing would deteriorate nationally and particularly here in Florida, where much of the home buying in recent years has been fueled by exotic loans and speculative buying has been rampant. In addition, gasoline prices rose considerably, which they normally do in the spring, and the stock market experienced a large one-day decline, although much of that loss in value has been recovered."

The drop in confidence was broad-based, with declines in all five components. The largest drop was in the index measuring whether it is a good time to buy big-ticket items, which fell 11 points to 98. Expectations of U.S. economic conditions over the next year fell six points to 79, while expectations of U.S. economic conditions over the next five years fell five points to 82. Expectations of personal finances a year from now fell three points to 91, while perceptions of personal finances now compared with a year ago fell two points to 82.

One factor has been gasoline prices, which have risen about 30 cents per

gallon in Florida since last month and are not expected to drop significantly until fall when the summer traveling season is over, McCarty said.

However, the big question remains how much the housing decline will impact the greater economy, McCarty said. “It is now clear that the decline in real estate was worse than many had imagined, although there have been those who predicted this decline,” he said.

Credit problems are now spreading from the subprime mortgage market, where loans are given to those with low credit scores, and now threaten to hurt the Alt-A market, serving those with good credit scores who took out unconventional loans to afford very expensive housing.

Rising interest rates and stagnant home prices are leaving more borrowers struggling to meet monthly payments, McCarty said. The decline in house values is expected to continue as the full impact of these loans unfolds through the second quarter, he said.

“Our expectation is that confidence will stay low and perhaps decline further through the second quarter,” he said.

The most recent report from the Florida Association of Realtors shows prices for single-family homes down 3 percent from a year ago, with some areas of Florida, particularly along the coast, affected more than others, he said.

“Our expectations is that housing values in Florida will continue to decline at least through the second quarter and probably the third as well,” McCarty said. “This, along with rising gas prices and volatility in the stock market will result in consumer confidence levels in the low to mid 80s. Further deterioration in housing may force the index much lower. This will result in a pullback of consumer spending as Floridians

conserve their resources.”

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 March was conducted from 433 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: Bad news about gas, housing and stocks sinks consumer confidence (2007, March 28) retrieved 17 April 2024 from <https://phys.org/news/2007-03-bad-news-gas-housing-stocks.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.