

Rising gas prices and soft housing sales hurt consumer confidence

26 December 2006

After three solid months of gains, consumer confidence in Florida fell in December by four points to 89, reflecting pessimism about gas prices, the housing market and future economic conditions, University of Florida economists report.

“The release this month shows a Florida consumer who is still reasonably optimistic about the economy at present but is expecting a decline in their finances and the overall economy over the next year,” said Chris McCarty, director of the survey research center at UF’s Bureau of Economic and Business Research.

The drop in confidence was broad-based, with declines in four of the five components. Expectations about U.S. economic conditions over the next five years fell nine points to 84. Expectations about personal finances a year from now fell seven points to 94. Expectations about national economic conditions over the next year fell six points to 82. Perceptions of personal finances now compared with a year ago fell one point to 83. Only the component measuring perceptions of whether it is a good time to buy big-ticket items rose, and by only one point to 102.

The declines in December were more pronounced among senior citizens and low-income households because wealthier families got a lift from record gains in the stock market, McCarty said.

Overall, consumer confidence is two points lower than it was a year ago, he said.

Many shoppers probably made a large percentage of their holiday purchases the weekend before Christmas, although it is unlikely total retail sales for the season will be exceptional, McCarty said.

“So far this holiday season, consumers have been buying electronics and appliances, largely fueled by deep discounting from retailers,” he said. “Unseasonably warm water is affecting clothing

sales negatively.”

Throughout most of 2006, consumer confidence has been driven by changes in gasoline prices, which are up 10 cents per gallon in Florida compared to October, McCarty said. The Organization of Petroleum Exporting Countries’ announcement of a planned reduction in daily production would typically drive the price higher, but warmer weather across the United States has reduced demand, he said.

“Oil prices, and thus the price of gasoline, face competing forces,” he said. “These factors will in part balance each other out.”

A bigger question is the extent to which the softening of the housing market will affect Floridians, McCarty said.

“I had expected a much larger downside effect of the cooling housing market by this time,” he said.

Sales data show that all markets in Florida are experiencing lower sales of both existing homes and condos, and in many markets the median home price is declining, McCarty said. Data from the Mortgage Bankers Association show resurgence in refinancing activity, although the most recent report shows a decline in both mortgage and refinancing applications, he said.

“My expectation is that housing, particularly in Florida, will continue to decline at least through the second quarter of 2007,” he said. “This will put downward pressure on consumers, resulting in lower consumer confidence and a pullback in spending.”

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 December was conducted from 420 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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