## Survey reveals pessimism at record levels

# Consumers expect finances to worsen

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*The following is a study on consumer pessimism and how it's hitting record levels entering the '80s. The study was presented to the University of Michigan Economic and Social Outlook Conference. Curtain explores consumer confidence for the U of M Social Science Research Institute.*

Representative sample surveys of American households conducted during 1979 have documented a sustained downturn in consumer sentiment.

During the past two years the Index of Consumer Sentiment, a summary measure of trends in consumer attitudes and expectations, has traced a consistent path of decline.

By October 1979, the ICS stood 17 index points below the year earlier reading and 27 index points below the cyclical peak recorded two years earlier.

A 62.1, the October index was just 4.1 index points above the all-time record low recorded in 1974-75. Growing awareness of a slowdown in the economy has led to sharp increases in unfavorable evaluations of business conditions and has heightened fears of spreading unemployment.

More families in the October survey rated their financial situation compared to a year ago as worse rather than better and more families expected their financial situation to worsen in the year ahead rather than improve.

In October, 46 percent of all families reported that they were worse off financially than a year earlier and 28 percent reported being better off financially.

**OCTOBER SURVEY** findings reversed the entire, although small, improvement in personal financial attitudes which occurred since mid-1979.

Fewer respondents mentioned income increases in October 1979 (28 percent) than in October 1978 (38 percent) and more frequently mentioned higher prices making them worse off financially in October 1979 (48 percent) than in October 1978 (33 percent).

Personal financial expectations remained largely unchanged in the October survey from late summer readings. In October 1979, 28 percent of all families expected to be worse off financially in a year, while 24 percent expected to be better off financially.

Although this represents a small improvement over the early summer lows which accompanied lowered food price increases, personal financial expectations nonetheless remain near all-time record low levels.

Approximately the same proportion of families expected nominal income increases in mid-1979 as in mid-1978. The distribution of expected increases has shifted significantly and is now concentrated in the 6-9 percent range.

Compared with a year earlier, fewer families expected their income to increase by 10 percent or more (25 percent in August 1979, down from 31 percent in August 1978) and fewer families expected income increases in the range of 1-5 percent (12 percent in August 1979 compared with 14 percent in August 1978).

The proportion of respondents who expect income increases in the range of 6-9 percent almost tripled (6 to 17 percent). Greater concentration of nominal income increases in the 6-9 percent range has led to lower income expectations due to the expected continuation of double-digit inflation.

In October 1979, 52 percent of all families expected prices to increase by more than their incomes during the year ahead.

**EVALUATIONS OF** business conditions have deteriorated significantly during the past year. In October 1979, 63 percent of all respondents reported that business conditions had worsened (up from 32 percent in October 1978) while 22 percent felt business conditions had improved compared with a year earlier (down from 45 percent in October 1978).

The major portion of this decline occurred in late 1978 and early 1979 with evaluations remaining largely unchanged at this low level during the past three months.

More than twice as many respondents in October 1979 expected the economy to worsen (35 percent) than to improve (15 percent) during 1980. This reading is significantly more pessimistic than October 1978 when improvement was somewhat more frequently expected than deterioration (22 versus 19 percent).

Among all families, 70 percent expected bad times financially in the economy as a whole during the next 12 months, in October 1979, up sharply from the 38 percent recorded in October 1978.

Sixty-seven percent expected periods of widespread unemployment and recession during the next five years (up from 47 percent in October 1978) while just 16 percent expected good times financially (down from 24 percent in October 1978).

The sharp declines in evaluations of business conditions during the past year have resulted from different forces. Declines occurring during the past several months have been largely due to heighteded fears of spreading unemployment. The majority of respondents (55 percent) in October 1979 expected unemployment to increase in the year ahead, compared with just 7 percent who expected declines.

**THIS REPRESENTS** a sharp deterioration from a year ago when just 30 percent expected unemployment to increase.

In contrast, heightened price expectations were more closely related to earlier declines in business evaluations. In the October 1979 survey, respondents expected consumer prices to increase on average by 8.9 percent, down from the 11.4 percent all-time peak recorded in May of 1979.

In October 1979, 70 percent of all respondents expected interest rates to go up, while just 7 percent expected declines during the next year.

Throughout the past year, interest rate expectations have remained at or near all-time record levels. Recent interest rates, while not unexpected, haved lowered favorable buying attitudes.

To provide an assessment of the initial impact from the Federal Reserve Board's recent change in policy, the October sample was subdivided based on whether the interview was completed before or after the Oct. 6 announcement.

High interest rates had their greatest impact on attitudes toward buying conditions for cars and houses which were significantly more pessimistic following the Oct. 6 announcement.

In the October survey, 58 percent of all respondents favorably rated buying conditions for durable goods, down from 62 percent in October 1978. Nearly one in three respondents rated durable buying conditions as unfavorable in October 1979, up from one in four in October 1978.

The recent increase in unfavorable evaluations was partially due to more frequent complaints of high interest rates.

Buying in advance psychology continues to be an important source of favorable durable buying attitudes. In October 1979, 48 percent reported that it was a good time to buy because prices would only go higher in the future, nearly identical to the 47 percent recorded in October 1978.

# Economists predict 'recession'

The U.S. economy will pass through a relatively mild recession in 1980, characterized by modest declines in real gross national product (GNP), rising unemployment rates, and inflation staying close to the two-digit level.

This summary was made by professors Saul H. Hymans and Harold T. Shapiro and research associate Jan P. Crary in the presentation of their national forecast at the opening of the university's 27th annual conference on the Economic Outlook.

U-M economists said, "We view the economic outlook over the next year and a half as being very sluggish with respect to real growth, accompanied by modest success in beginning to lower inflation rates. In this context, unemployment rates can be expected to rise steadily.

"The recovery forecast from the recession which we expect to characterize the first half of 1980, however, is critically dependent not only on our assumption of a modest easing of monetary policy after mid-year, but the postponement of scheduled Social Security tax increases. Indeed, it seems appropriate to us to give careful consideration to additional tax stimulus programs in mid-1980."

The control forecast for 1980, which assumes restrictive monetary policy, controlled federal expenditures, postponement of the scheduled Social Security tax increase, a windfall profits tax used to help offset consumer utility bills, and price increases in crude oil, farm products and raw materials, offers the following overview:

"Compared to the 2.1 percent increase in real GNP now expected to characterize 1979, we are forecasting a decline in the real output of goods and services of negative .25 percent for the year as a whole. Corresponding to this forecast of a virtually stagnant level of aggregate production, we anticipate a rise in the unemployment rate to a level of just over 7 percent for the year as a whole, and to a level above 7.5 percent by the end of 1980.

"The rate of price inflation (GNP

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