

Consumer confidence falls to begin new year

By Alice Kassens and Steve Koczela

Consumer sentiment in Massachusetts has dropped sharply since late last year, mirroring the trend at the national level. The Massachusetts Index of Consumer Sentiment (ICS-MA) fell dramatically since October 2012, dropping about 15 points in January 2013 to 71.2 (see table at right). This reduction follows a year of mostly improvements in the measure, a composite index based upon survey responses to questions concerning the current and future health of Massachusetts residents' household finances and the overall economy. The drop is similar to national figures, which saw consumer confidence decline to 73.8 in January, down close to 10 points since October.

Residents were particularly gloomy about future conditions, though they also lost optimism regarding current conditions. The largest contributor to the precipitous drop in consumer sentiment is the 19-point reduction in the index of consumer expectations (ICE-MA), its lowest level since October 2011. About half (51 percent) of residents believe the next five years will bring periods of widespread unemployment and economic depression. Residents of the Bay State also curbed their sentiments concerning their current financial situation, with forty six percent now reporting they are worse off than a year ago, compared to the 29 percent who say they are better off (see appendix for full results).

Significant variation in confidence levels exists across the state; areas with relatively high unemployment rates expressed greater concern about both the current and future state of the economy. Personal labor market experiences and observations compounded by the public debate over unemployment benefits, taxes, and the fiscal cliff are likely causes of both the overall reduction in consumer confidence and the disparities across the Bay State.

Partisan split in economic outlook continues

The party split in sentiment continues, and is particularly true for thoughts concerning the future. Fifty-two percent of Democrats think the next five years will be good economic times while only 22 percent of Republicans share that outlook. Sixty-five percent of registered Republicans predict significant economic difficulties over the same period. Partisan differences in

Period	MA Index of Consumer Sentiment	MA Index of Current Conditions	MA Index of Consumer Expectations
Jan-13	71.2	74.0	69.4
Oct-12	86.1	82.5	88.4
Jul-12	75.5	76.9	74.6
Apr-12	79.2	78.4	79.8
Jan-12	78.4	80.2	77.2
Oct-11	59.6	64.2	56.5
Jul-11	59.4	64.5	56.1
Apr-11	68.0	71.0	66.1
Jan-11	73.3	72.8	73.7

The Massachusetts Index of Consumer Sentiment measures views of both current and future economic conditions. The ICS is made up two component indices, the Index of Current Economic Conditions, which measures present sentiments, and the Index of Consumer Expectations, which represents future prospects. The ICS is scaled such that the 1966 national ICS represents 100.

consumer confidence have been wide in recent periods, both at the state level and in national surveys.

Women are slightly more optimistic than men about the future while men are more optimistic about the present. Young adults (18-29 years of age) are considerably more positive than other age groups; those in the 45-59 age-group are the least optimistic. Young people's relative optimism continues a trend extending back to when The MassINC Polling group first began measuring the index in January of 2011.

Confidence lowest at lower income levels

Consumer sentiment increases with income, particularly opinions concerning current conditions. Close to two-thirds of Bay State residents earning less than \$25,000 per year report being worse off financially today than a year ago compared to 35 percent of those earning \$150,000 or more. Disparities in consumer sentiment over the income distribution are partly related to reactions to the fiscal cliff conversations. Throughout December multiple Bay State media sources reported potential losses of unemployment benefits if the conflict was not resolved, likely generating considerable anxiety at the lower end of the earnings distribution.

Web searches suggest unemployment concerns

Analysis of web searches provides support for the linkage between anxieties among the fiscal cliff and

consumer sentiment. Google Trends shows that web searches for “unemployment” in Massachusetts over the last 90 days peaked December 30, 2012, indicating mounting concern over pending labor market difficulties; searches for “unemployment extension” and other related terms increased markedly over the same period.

Unemployment fears weigh on consumer sentiment

Residents’ labor market concerns are not unfounded. In addition to the heightened political debate over rising taxes, the pending fiscal cliff, and expiring benefits, the

local unemployment rate increased by over half a percentage point in the fourth quarter of 2012 in portions of the Western and Central regions. These areas recorded unemployment rates higher than the Commonwealth’s rate of 6.7 percent. Springfield recorded particularly high unemployment in December 2012 indicating severe labor surpluses in that city. The mounting labor market concerns from both actual experiences and media coverage of potential benefit reductions and tax increases are likely creating sharp reductions in consumer sentiment.

About the Poll - The MassPulse Quarterly Poll is conducted quarterly among representative samples of approximately 500 Massachusetts residents age 18 and older. The poll is conducted in English and Spanish among both cell phone and landline households. This iteration of the survey was conducted from January 16-19, 2013. The margin of sampling error is ± 4.4 .

About this Report - Report written for the MassINC Polling Group by Dr. Alice Louise Kassens, Associate Professor of Economics, Roanoke College and Senior Analyst with the Institute for Policy and Opinion Research.

About the Index of Consumer Sentiment - The national Index of Consumer Sentiment is a consumer confidence index published monthly by the University of Michigan and Thomson Reuters. The ICS is made up two component indices, the Index of Current Economic Conditions, which measures present sentiments, and the Index of Consumer Expectations, which represents future prospects. The consumer confidence measures were devised in the late 1940’s by George Katona at the University of Michigan. The measures have now developed into an ongoing, nationally representative survey based on telephonic household interviews. The Index of Consumer Sentiment (ICS) is developed from these interviews. The Index of Consumer Expectations (a sub-index of ICS) is included in the Leading Indicator Composite Index published by the U.S. Department of Commerce, Bureau of Economic Analysis.

APPENDIX: FULL RESULTS

The questions shown below are the components of the Index of Consumer Sentiment.

We are interested in how people are getting along financially these days. Would you say that you (and your family living there) are better off or worse off financially than you were a year ago?			
	Better off	The same	Worse off
Jan 2013	29	24	46
Oct 2012	38	26	34
Jul 2012	30	30	38
Apr 2012	30	27	41
Jan 2012	32	29	38
Oct 2011	25	27	47
Jul 2011	25	24	49
Apr 2011	29	24	45
Jan 2011	27	27	45

Now looking ahead--do you think that a year from now you (and your family living there) will be better off financially, or worse off, or just about the same as now?			
	Better off	The same	Worse off
Jan 2013	24	48	24
Oct 2012	36	43	8
Jul 2012	30	49	13
Apr 2012	33	45	14
Jan 2012	31	50	13
Oct 2011	21	54	18
Jul 2011	19	54	23
Apr 2011	25	52	20
Jan 2011	28	51	17

Now turning to business conditions in the country as a whole--do you think that during the next twelve months we'll have good times financially or bad times?			
	Good times	Mixed, or both good and bad times	Bad times
Jan 2013	37	9	47
Oct 2012	46	11	30
Jul 2012	33	14	43
Apr 2012	41	14	37
Jan 2012	40	10	44
Oct 2011	22	8	62
Jul 2011	25	6	64
Apr 2011	35	7	53
Jan 2011	43	10	43

Looking ahead, which would you say is more likely--that in the country as a whole we'll have continuous good times during the next five years or so, or that we will have periods of widespread unemployment or depression?			
	Good times	Mixed, or both good and bad times	Widespread unemployment or depression
Jan 2013	38	5	51
Oct 2012	43	11	32
Jul 2012	34	13	42
Apr 2012	38	10	41
Jan 2012	40	7	45
Oct 2011	22	9	62
Jul 2011	27	5	62
Apr 2011	32	8	55
Jan 2011	35	10	52

About the big things people buy for their homes--such as furniture, a refrigerator, stove, television, and things like that. Generally speaking, do you think now is a good or bad time for people to buy major household items?			
	Good time to buy	Mixed, or both good and bad time	Bad time to buy
Jan 2013	45	6	38
Oct 2012	44	10	35
Jul 2012	41	12	35
Apr 2012	47	10	34
Jan 2012	49	5	37
Oct 2011	35	7	48
Jul 2011	38	6	49
Apr 2011	41	7	43
Jan 2011	45	9	40

**Note: Totals for this battery of questions do not add up to 100% due to "Don't know" and "Refused" responses.*