

## Consumer Confidence or Wishful Thinking?

*Nov. Consumer Confidence Index and Consumer Credit Index on the rise*

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The U.S. Consumer Confidence Index "registered another solid gain in November," (91.7, up from 81.7 in October) announced the latest press release of the Conference Board - a non-for-profit business membership and research organization.

Meanwhile, the Cambridge Consumer Credit Index release warned of a "strong hint of anticipation of using more credit during the holidays."

The Conference Board Consumer Confidence Survey is based on a representative sample of 5,000 U.S. households (about 3,500 surveys are returned), who are asked to give positive, negative and neutral responses to 5 questions.

Answers of the 5 questions are used to calculate an index value, which is compared to a benchmark set in 1985. "Consumer confidence is now at its highest level since the Fall of 2002," says Lynn Franco, Director of The Conference Board's Consumer Research Center.

Appraisal of current business conditions: Respondents rating conditions as "good" increased to 19.9% from 17.1%. Those claiming conditions were "bad" fell to 24% from 28.1%.

Expectations regarding business conditions six months hence: Those anticipating business conditions to pick up over the next six months rose to 24.1% from 23.5%. Consumers expecting the opposite declined to 7.1% from 11%.

Appraisal of the current employment conditions: Those saying jobs are abundant increased to 13.2% from 11.8%. Those saying jobs are "hard to get" declined to 29.5% from 33.7%, and those saying jobs are abundant increased to 13.2% from 11.8%.

Expectations regarding employment conditions six months hence: Those anticipating more jobs to become available in the next six months declined to 18.2% from 19.6%. Those expecting fewer jobs to become available, however, decreased to 17.6% from 20.4%. "The employment outlook is mixed," reads the press release.

Expectations regarding total family income six months hence: The proportion of respondents anticipating an increase in their incomes rose to 19% from 16.9%.

The most informative result of the Conference Board's Index is about employment confidence. When consumers fear they might lose their jobs, they are expected to respond by cutting down purchases of big-ticket items. This is taken into consideration by financial analysts and is believed to move stock prices.

While the Conference Board Consumer Confidence Index gives information about household's perceptions and expectations, it does not consider the current and anticipated debt burden of households.

On the other hand, the Cambridge Consumer Credit Index is a forward looking economic indicator gauging consumer spending and debt. Over 1,000 households are polled based on random-digit dialing.

The survey measures individual intentions on debt for the past month, the next month and over the next 6 months. The three measures are averaged into the overall index.

Higher index numbers against the survey questions mean more debt and lower numbers mean lower debt.

Questions Comprising Cambridge Consumer Credit Index	November Results	October Results
1. In the past month, have you taken on more debt or paid off debt?	64	66
2. In the next month, do you anticipate taking on more debt or paying off debt?	46	38
3. In the next six months, do you expect to take on debt because you are thinking of making a major purchase such as a car, education, appliance, medical procedure, furniture or carpeting?	70	70
Source: Cambridge Consumer Credit Index		

In November, 23% planned to take on more debt, with 3% planning to take on a lot and 20% planning to take on a little debt.

In November, 32% of Americans say they have taken on more debt, with 24% taking on a little and 8% taking on a lot more debt. Conversely, 69% of Americans have paid off debt, with 52% paying off a little and 17% paying off a lot.

In November, 35% of Americans plan to take on more debt to make purchases such as car, education, appliance, medical procedure, furniture or carpeting, with 7% taking on a lot of debt and 28% taking on a little more debt.

In contrast, 65% of Americans plan to pay off debt in the next six months, with 51% expecting to pay off a little and 14% expecting to pay off a lot.

A month ago, Cambridge Consumer Credit Index showed that 81% of Americans planned to pay off debt, while a month later only 69% actually did so. This is the so-called "Reality Gap," the difference between the amount of debt consumers say they will pay off in the next month versus the amount of debt they actually paid off a month later.

The increase in the November Consumer Confidence Index is a "signal that consumers will end this year much more upbeat than when the year began," claims Lynn Franco, Director of The Conference Board's Consumer Research Center.

At the same time, according to the Cambridge Consumer Credit Index, more than half (55%) of all Americans making monthly payments on car leases or loans (46% of all Americans) say these loans are burdensome enough to prevent them making major purchases, such as homes, appliances or furniture.

Not surprisingly, more lower-income respondents felt that their car payment was a burden with a total of 66% of the under \$25,000 group saying it was burden while only 30% of the over \$75,000

group saying it was.

It remains to be seen whether or not the heavily indebted households could be relied upon to behave as optimistically as the their appraisals and expectations suggest from the rise in the Consumer Confidence Index this November.

**For more information visit:**

[www.conference-board.org](http://www.conference-board.org)

<http://www.cambridgeconsumerindex.com>

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