

Middle Tennessee Consumer Outlook Index

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The Office of Consumer Research

Jones College of Business

at Middle Tennessee State University

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Consumers' Outlook Improves

After seeing a decline in consumer' outlook on the economy at the end of last year, consumers have become more optimistic and upbeat at the start of 2014. Based on the most recent Middle Tennessee Consumer Outlook survey, the overall Consumer Outlook Index improved to 179, from 122 in December of 2013. This mirrors the recent upward trend in national measures of consumer confidence reported by the Conference Board. All three sub-components of the Middle Tennessee Consumer Outlook Index rose. This suggests that local consumers view the current U.S. economy more favorably than they did in December, and local consumers are increasingly more optimistic about the future of the economy.

An improvement in consumer outlook is good news for local business and retailers. More positive consumer outlook measures can signal an increased willingness to spend among consumers which can further add to any growth in the economy.

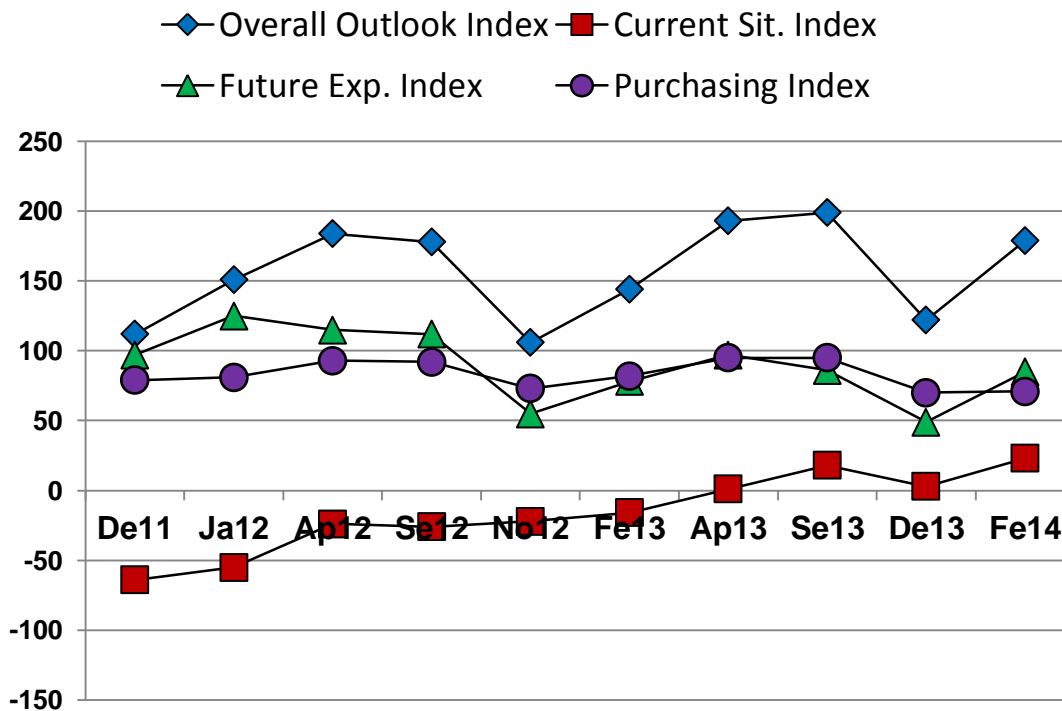
The Middle Tennessee Consumer Outlook Index and Components

	Sept '11	Dec '11	Jan '12	Apr '12	Sept '12	Nov '12	Feb '13	Apr '13	Sept '13	Dec '13	Feb '14
Overall Outlook Index	27	112	151	184	178	106	144	193	199	122	179¹
Current Situation Index	-86	-64	-55	-24	-26	-22	-16	1	18	3	23
Future Expectations Index	59	97	125	115	112	55	78	97	86	49	85
Purchasing Index	54	79	81	93	92	73	82	95	95	70	71

¹ The score is computed by adding the percentage of favorable responses to each question and subtracting the percentage of negative responses to each question.

The current poll of 313 randomly selected adult residents of Davidson County, Rutherford County and Williamson County was conducted between the evenings of Wednesday, January 29 and Thursday, February 6.²

Middle Tennessee Consumer Outlook Index



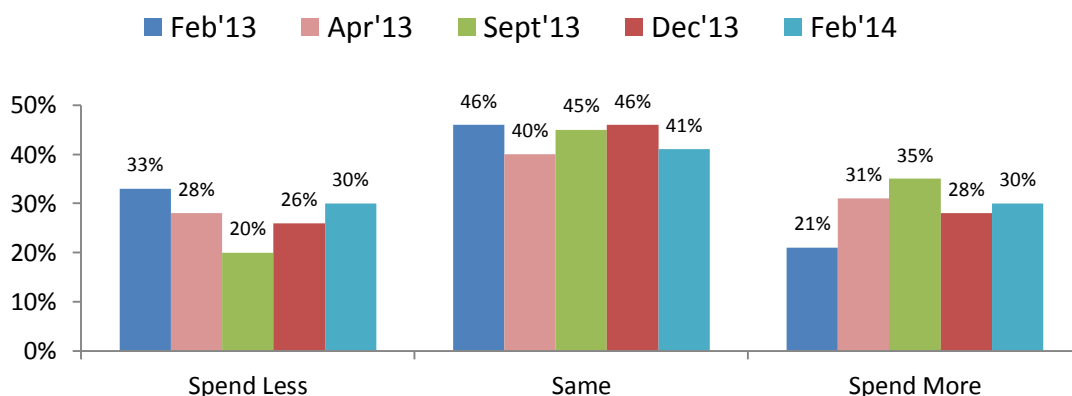
² The consumer outlook index scores are based on consumers’ responses to eleven questions measuring their perceptions of the current economy, the future economy, jobs, personal finances, and whether or not now is a good time to make large purchases. Four questions make up the current situation index, four questions make up the future expectations index, and three questions make up the purchasing index. The overall outlook index is based on all eleven questions combined (the complete questions are shown at the end of this report).

The scores for each index are computed by adding the percentage of favorable responses to each question and subtracting the percentage of negative responses to each question. A net score of zero would indicate that the percentage of consumers who hold negative views of the economy is equal to the percentage of consumers who hold positive views of the economy. A net positive score would indicate that consumers who hold positive views of the economy outnumber those who hold negative views of the economy.

Annual Consumer Spending

A more optimistic view of the economy can impact consumers' purchasing decisions. However, the current survey offers a mixed bag of results. The purchasing index gained only slightly to 71 from 70. When asked whether or not they expect their level of consumer spending for 2014 to be more or less than it was for 2013, the percent of consumers who expect to increase their spending rose to 30 from 28. However, the percent who expect to decrease their level of consumer spending also rose to 30 from 26. This suggests that when it comes to spending decisions, some consumers are still uncertain about loosening their purse strings until they see further improvements in the economy.

Thinking about your overall level of consumer spending, do you think that you will spend more, spend less, or spend about the same as you did last year?



Consumer Savings

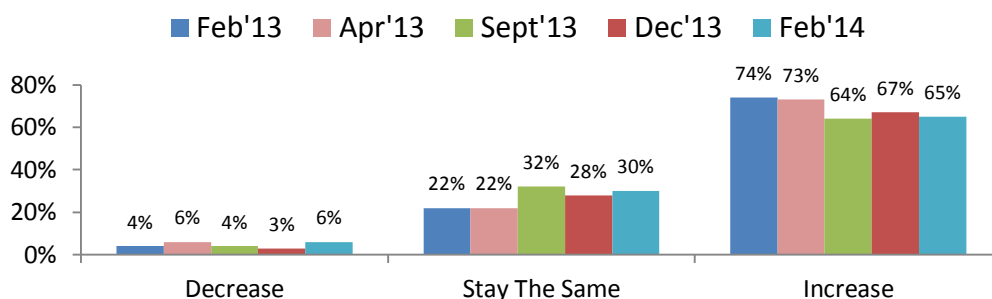
The amount of consumer savings can also significantly affect consumers' ability and willingness to spend money. When asked about the amount of their income that they are currently saving compared to last year, 28 percent reported saving more (up from 23 percent in December), and 29 percent reported saving less than they were saving last year (down from 33 percent in December). This suggests a general increase in the level of consumers' savings.

When asked about future savings, 36 percent expect to increase their level of saving in the future (up from 31 percent in December) and 20 percent expect to decrease their level of saving in the future (the same percent as in December).

Taxes

Increased taxes can reduce the amount of money that consumers have available for discretionary spending. Fears of higher taxes in the future seem to be abating. The percentage of consumers who expect their taxes to increase in the future dipped to 65 from 67 in December. Further, 6 percent of consumers expect taxes to decrease in the next year – an increase from 3 percent in December.

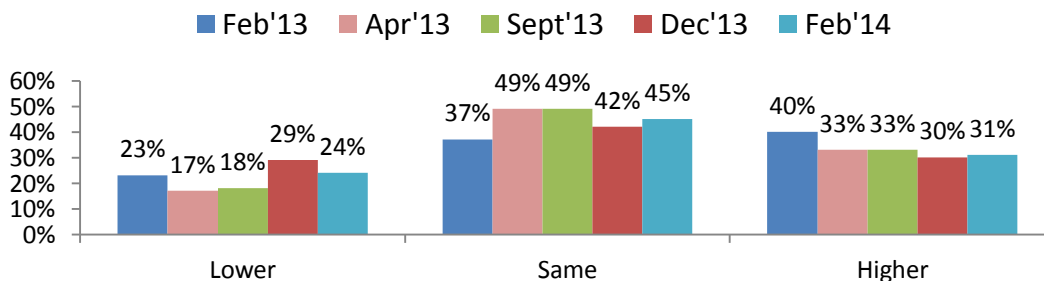
Do you think that in the next year the overall amount of taxes that you pay will increase, decrease, or stay about the same?



Consumer Investments: The Stock Market

A rising U.S. stock market can give consumers a greater feeling of wealth as their investments and savings grow. This greater feeling of wealth can then provide comfort to consumers when making spending decisions. Even though stocks have retreated a bit at the beginning of this year, consumers remain relatively steadfast in their expectations for the future of the stock market. The percent of consumers who expect the stock market to rise in the next 12 months improved only slightly to 31 from 30, whereas the percent who expect a decline in the stock market dipped to 24 from 29. Apparently, the recent drop in the market has not given local consumers great concern about the future value of stocks and investments.

Do you think that 12 months from now the overall level (value) of the U.S. Stock Market will be higher than it is today, lower than it is today, or about the same?



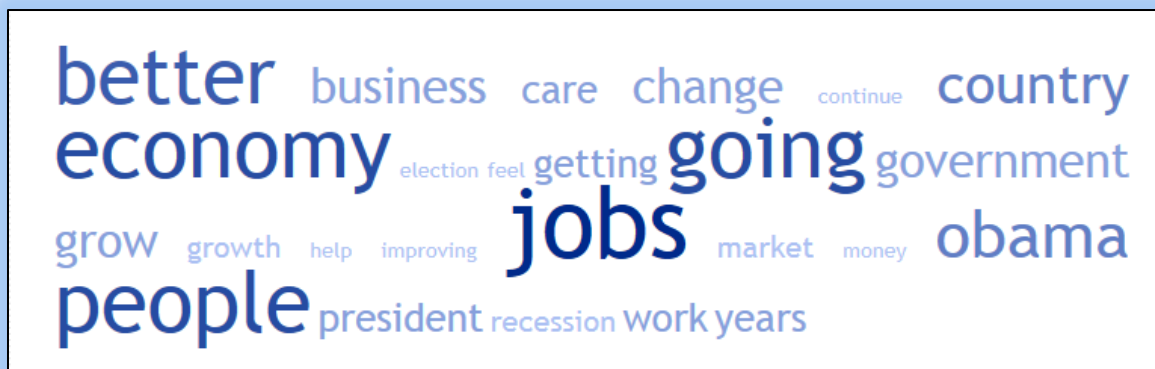
Perceptions of the Economy: Comparison to The Nation

Consumers in Middle Tennessee do not share the same perceptions of the overall economy as compared to consumers across the rest of the country. Compared to consumers across the country as a whole, local consumers are less positive about the current U.S. economy. However, local consumers are comparatively more optimistic about the future of the American economy, the future of the job market, and their personal financial situation in the next year.

Comparing Middle Tennessee Consumers to Consumers Across the Country as a Whole	Nation (%)	Mid. Tenn. (%)
Business conditions in the U.S. are good.	22 ³	15
Six months from now, business conditions in the U.S. will be better.	17	29
Jobs are easy to find (plentiful).	13	13
Six months from now, there will be more job openings.	15	35
In 12 months my personal financial situation (income) will be better.	16	39

What Was on Consumers' Minds?





Consumers were given an opportunity to offer a reason for why they rated the economy as they did. Below is a word cloud that depicts the 25 most frequently mentioned words that appeared in these open-ended responses. The larger the word, the more frequently it was mentioned. This can provide clues about the thoughts that were on consumers' minds as they responded to the survey. Apparently, jobs and the job market are foremost on consumers' minds.



³ Source: January 28, 2014, The Conference Board Consumer Confidence Index® Increases Again.” (www.conference-board.org).

Changes in Consumers' Perceptions of the Economy

The table below shows how consumers' responses to selected survey questions have changed since December, 2013.

	February 2014 (%)	Change from December 2013	
Business conditions in the U.S. are <u>Good</u> .	15		3%
Six months from now, business conditions in the U.S. will be <u>Better</u> .	29		4%
Business conditions in Middle Tennessee are <u>Good</u> .	50		8%
Six months from now, business conditions in Middle Tennessee will be <u>Better</u> .	35		8%
Jobs in Middle Tennessee are <u>Easy To Find</u> .	13		1%
Six months from now there will be <u>More Job Openings</u> in Middle Tennessee	35		7%
I am <u>Better Off Financially</u> than I was one year ago.	27		2%
12 months from now I will be <u>Better Off Financially</u> than I am today.	39		5%
Now is a <u>Good Time To Make Large Purchases</u> .	33		2%
Now is a <u>Good Time To Buy A Home</u> .	53		1%
Now is a <u>Good Time To Buy A Car</u> .	41		3%

Consumer Outlook		Dec	Jan	Apr	Sept	Nov	Jan	Apr	Sept	Dec	Feb
		'11	'12	'12	'12	'12	'13	'13	'13	'13	'14
		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Are business conditions in the U.S.	Good	9	7	11	11	14	14	13	14	12	15
	In Between	55	62	66	59	60	62	62	66	61	62
	Bad	36	30	21	29	25	23	24	20	26	22
Six months from now, will business conditions in the U.S. be:	Better	32	36	33	35	35	34	33	30	25	29
	About same	49	54	49	38	34	41	46	48	47	47
	Worse	18	7	15	13	28	22	19	20	25	22
Are business conditions in Middle TN:	Good	24	27	32	40	35	42	44	49	42	50
	In Between	59	55	59	46	53	48	45	46	47	38
	Bad	15	16	9	11	10	8	9	5	9	11
Six months from now, will business conditions in Middle TN be:	Better	40	38	37	37	36	36	39	37	27	35
	About same	49	54	54	46	45	52	49	51	59	55
	Worse	9	6	7	7	18	10	10	10	11	7
Are jobs in Middle TN:	Easy to find	5	5	5	4	7	5	8	8	12	13
	Found w/effort	51	46	51	52	53	53	54	57	57	53
	Hard to find	41	41	38	35	35	37	31	29	26	28
In Middle TN six months from now there will be (# of jobs):	More	38	39	40	36	33	34	39	40	28	35
	About same	49	47	46	44	46	49	47	45	50	47
	Fewer	11	9	11	9	16	13	11	12	16	15
Compared to a year ago, is your personal financial situation:	Better	17	19	19	19	18	17	24	24	25	27
	About same	57	54	58	56	56	57	52	53	48	53
	Worse	27	26	23	25	26	26	24	23	27	21
In 12 months will your personal financial situation be:	Better	35	39	44	41	31	33	37	35	34	39
	About same	55	53	50	51	51	53	52	51	53	52
	Worse	10	5	6	8	18	14	11	14	13	9
Is now a good time to buy large items for the home?	Good time	33	32	32	33	31	28	30	29	35	33
	In between	39	42	45	34	40	47	48	47	34	42
	Bad time	22	18	18	25	23	20	18	18	22	20
Is now a good time to buy a house?	Good time	66	68	71	69	62	67	65	65	52	53
	In between	16	14	17	16	18	15	22	19	29	24
	Bad time	15	15	11	12	16	13	9	12	13	18
Is now a good time to buy a car?	Good time	37	33	34	48	37	37	42	45	38	41
	In between	38	42	47	27	39	40	37	38	38	36
	Bad time	20	19	15	21	18	17	15	14	20	18

The Psychology of Consumers

The psychology of consumers can have dramatic effects on the future of the economy. Consumer spending makes up two-thirds of the American economy. Decreases in consumer outlook that translate into reduced purchasing patterns can have significant negative effects on the economy. Conversely, increases in consumer outlook that translate into accelerated consumer spending can have significant positive effects on the economy. When consumers begin to feel comfortable about the future of the economy and their own personal financial situation, they will increase their spending. Such spending would then help to grow the economy as manufacturers begin to produce more and retailers begin to fill jobs to meet increased consumer demand. This type of self-fulfilling prophecy is illustrated below in the *Consumer Confidence Cycle*.

The Self-Fulfilling Prophecy of the Consumer Confidence Cycle

Consumer Optimism	Consumer Pessimism
<p>Increased consumer confidence, <i>leads to ...</i></p>	<p>Decreased consumer confidence, <i>leads to ...</i></p>
<p>Increased consumer spending, <i>which leads to ...</i></p>	<p>Decreased consumer spending, <i>which leads to ...</i></p>
<p>Retailers hire more employees and purchase more inventory from suppliers, <i>which leads to ...</i></p>	<p>Retailers hire fewer employees and purchase less inventory from suppliers, <i>which leads to ...</i></p>
<p>Suppliers (manufacturers) must make more products, <i>which leads to ...</i></p>	<p>Suppliers (manufacturers) must make fewer products, <i>which leads to ...</i></p>
<p>Suppliers (manufacturers) hire more employees, <i>which leads to ...</i></p>	<p>Suppliers (manufacturers) hire fewer employees, <i>which leads to ...</i></p>
<p>More retail and manufacturing employees, <i>which leads to ...</i></p>	<p>Fewer retail and manufacturing employees, <i>which leads to ...</i></p>
<p>More consumers with pay checks who are able to spend, <i>which leads to ...</i></p>	<p>Fewer consumers with pay checks who are able to spend, <i>which leads to ...</i></p>
<p>Growing economy, <i>which leads to ...</i></p>	<p>Slowing economy, <i>which leads to ...</i></p>
<p>Increased consumer confidence, <i>which leads to ...</i></p>	<p>Decreased consumer confidence, <i>which leads to ...</i></p>

About the Survey

The results reported here are based on telephone interviews with 313 randomly selected adult residents, 18 years and older, from Davidson County, Rutherford County and Williamson County. Phone interviews were conducted between the evenings of Wednesday, January 29 and Thursday, February 6. With a sample of 313 people, we can say with 95% confidence that the amount of survey error due to taking a random sample instead of surveying all members of the population is $\pm 5.5\%$. Other factors such as problems with question wording and question interpretation can also introduce additional bias or error into the results. Results from the Middle Tennessee Consumer Outlook Surveys can be compared to national consumer surveys published monthly by the Conference Board (www.conference-board.org). This report is also available on the MTSU Office of Consumer Research web page (www.mtsu.edu/consumer).

The Consumer Outlook Index is based on all 11 survey questions outlined below. The score is computed by adding the percentage of positive responses to each question, and subtracting the percentage of negative responses. The Current Situation Index is based on questions 1, 3, 5, and 7. The Future Expectations Index is based on questions 2, 4, 6, and 8. The Purchasing Index is based on questions 9, 10, and 11.

About the Office of Consumer Research at MTSU

In 2000, the Management and Marketing Department at Middle Tennessee State University received funding from an MTSU Technology Access Fee grant to create a telephone survey research lab and the Office of Consumer Research to be housed in the department. The Office of Consumer Research uses the telephone survey lab to conduct surveys of consumers in Middle Tennessee. The surveys measure consumers' perceptions of economic conditions in the country as a whole as well as in Middle Tennessee. Similar surveys conducted by the Conference Board and the Survey Research Center at the University of Michigan have been shown to be very predictive of key economic indicators such as inflation, interest rates and consumer spending.

Students in Professor Timothy R. Graeff's marketing research courses conduct the telephone surveys. For further information contact Timothy R. Graeff, Professor of Marketing and Director, Office of Consumer Research (898-5124; Tim.Graeff@mtsu.edu).

The Middle Tennessee Consumer Outlook Survey:

[C] = included in the Current Situation Index

[F] = included in the Future Expectations Index;

[P] = included in the Purchasing Situation Index

1. **[C]** Turning first to business conditions in the country as a whole, would you say that business conditions in the country as a whole are good, bad, or somewhere in between?
2. **[F]** And how about 6 months from now, do you expect that in the country as a whole business conditions will be better than they are today, worse than they are today, or just about the same?
3. **[C]** Now turning to business conditions in Middle Tennessee, would you say that business conditions in Middle Tennessee are good, bad, or somewhere in between?
4. **[F]** And how about 6 months from now, do you expect that in Middle Tennessee business conditions will be better than they are today, worse than they are today, or just about the same?
5. **[C]** Now turning to the availability of jobs in Middle Tennessee, would you say that jobs are easy to find, can be found with effort, or hard to find?
6. **[F]** How about in the next 6 months, do you expect that in Middle Tennessee there will be more job openings than there are now, fewer job openings than there are now, or about the same number of job openings?
7. **[C]** We are interested in how people are getting along financially these days. Would you say that you, and any family members living with you, are better off financially than you were a year ago, worse off financially than you were a year ago, or about the same?
8. **[F]** Now looking ahead, do you think that 12 months from now you, and any family members living with you, will be better off financially, worse off financially, or about the same?
9. **[P]** 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 time for people to buy major household items, a bad time, or somewhere in between?
10. **[P]** How about buying a house? Is now a good time to buy a house, a bad time to buy a house, or somewhere in between?
11. **[P]** How about buying a car? Is now a good time to buy a car, a bad time to buy a car, or somewhere in between?

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