

Middle Tennessee Consumer Outlook Index

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The Office of Consumer Research

at Middle Tennessee State University

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Consumers Concerned About the Future of the Economy

Following a year long period of steady increases in consumer confidence, local consumers have suddenly changed their minds and have become much less optimistic about the future of the American economy. The overall consumer outlook index dropped sharply to 106 from 178 in September. Any momentum that was building to help bolster consumers' outlook on the economy has seemingly halted. This change in outlook is fueled by growing concerns about the future economy. The future expectations index plunged to 55 from 112. Similarly, consumers have taken a less positive view toward making large purchases. The purchasing situation index dropped to 73 from 92. Perceptions of the current economy are still negative, even though the current situation index gained modestly to -22 from -26. In general, consumers continue to view the current economy negatively and have become increasingly wary of the prospects for a quick turnaround in the economy.

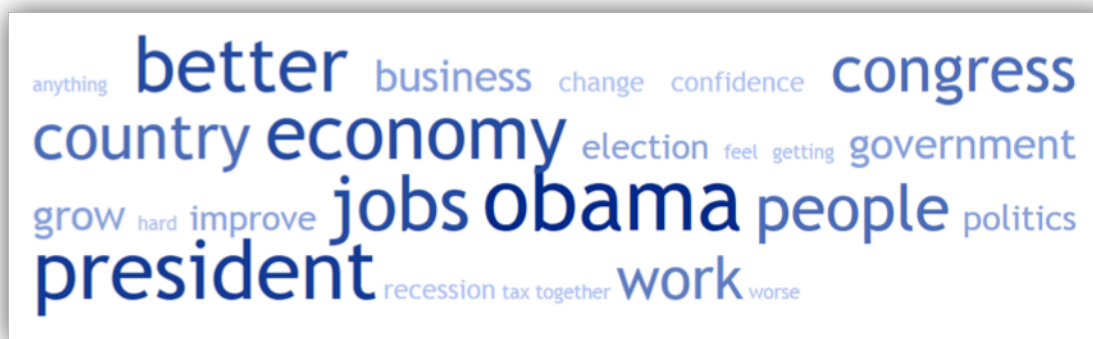
The Middle Tennessee Consumer Outlook Index and Components

	Sept '10	Dec '10	Feb '11	Apr '11	May '11	Sept '11	Dec '11	Jan '12	Apr '12	Sept '12	Nov '12
Overall Outlook Index	76	69	129	54	63	27	112	151	184	178 ¹	106
Current Situation Index	-93	-90	-74	-83	-80	-86	-64	-55	-24	-26	-22
Future Expectations Index	99	86	123	75	99	59	97	125	115	112	55
Purchasing Index	70	73	80	62	44	54	79	81	93	92	73

The current poll of 422 randomly selected adult residents of Davidson, Rutherford and Williamson counties was conducted the evenings of Tuesday, November 27 and Thursday, November 29.

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.

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.



Current Situation. The fact that the current situation index remains in the negative range indicates that the number of consumers who hold negative views of the current economy outnumber those who hold positive views of the current economy. Further, given that the current situation index has been in the negative range since April of 2008, this indicates a long-held frustration with the state of the economy.

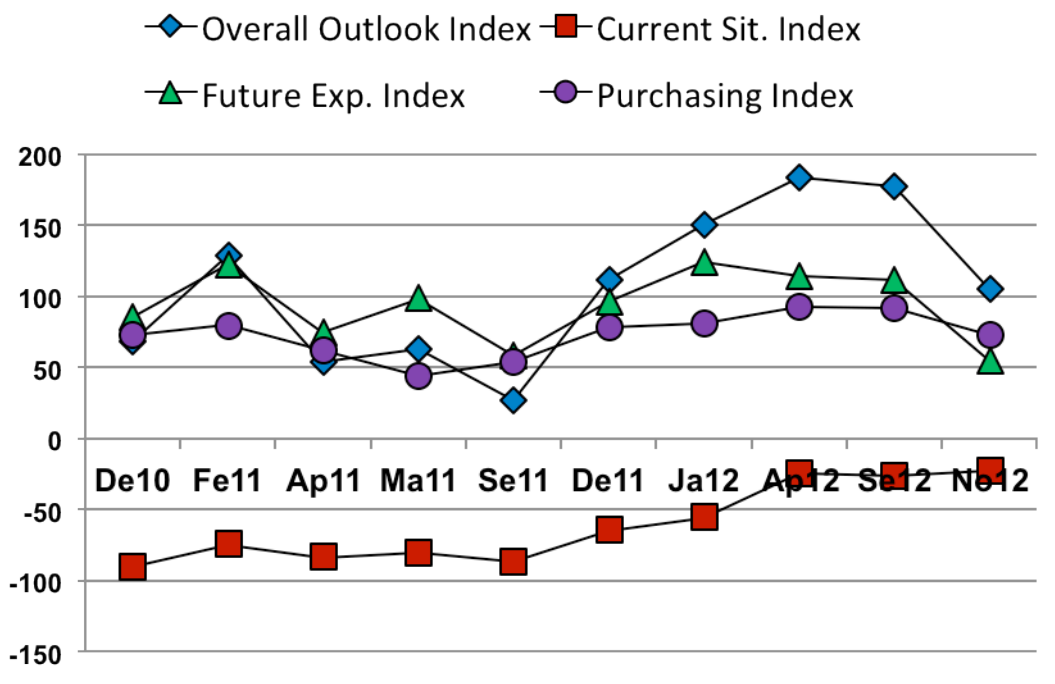
Although the percent of consumers who said that business conditions in the country as a whole are good rose modestly to 14 from 11, the percent who said that business conditions in Middle Tennessee are good dropped to 35 from 40.

Future Expectations. Any optimism regarding the future of the economy that was building since this time last year has apparently ceased, indicating that local consumers are becoming increasingly concerned about the future of the economy. Worries about the current and future job market, concerns about the growing national debt and the potential fiscal cliff, fears of increasing taxes, and growing concerns about the long term prospects for the stock market are all contributing to the pessimistic turn in consumers' outlook.

Although the percent of consumers who said that six months from now the economy will be better held steady, the percent of consumers who expect the future economy to be worse rose (to 28 percent from 13 percent for the overall American economy; and to 18 percent from 7 percent for the local economy). Similarly, while perceptions of the current job market were relatively unchanged, the percent who said that there will be fewer job openings in the next six months rose to 16 percent from 9 percent.

Purchasing Situation. The purchasing situation index had been steadily increasing since May of 2011. However, this positive trend has also reversed. This could translate into consumers becoming less willing to spend money.

Middle Tennessee Consumer Outlook Index













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.

Changes in Consumers' Perceptions of the Economy

The table below shows how consumers' responses to selected survey questions have changed since September 2012.

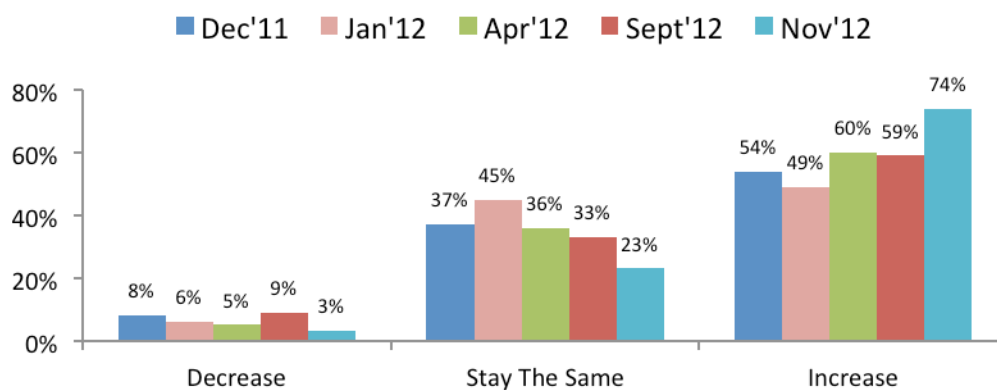
	November 2012 (%)	Change from September 2012	
Business conditions in the U.S. are <u>Good</u> .	14		3%
Six months from now, business conditions in the U.S. will be <u>Better</u> .	35	No change	
Business conditions in Middle Tennessee are <u>Good</u> .	35		5%
Six months from now, business conditions in Middle Tennessee will be <u>Better</u> .	36		1%
Jobs in Middle Tennessee are <u>Easy To Find</u> .	7		3%
Six months from now there will be <u>More Job Openings</u> in Middle Tennessee	33		3%
I am <u>Better Off Financially</u> than I was one year ago.	18		1%
12 months from now I will be <u>Better Off Financially</u> than I am today.	31		10%
Now is a <u>Good Time To Make Large Purchases</u> .	31		2%
Now is a <u>Good Time To Buy A Home</u> .	62		7%
Now is a <u>Good Time To Buy A Car</u> .	37		11%

Consumer Outlook		Sept	Dec	Feb	Apr	May	Sept	Dec	Jan	Apr	Sept	Nov
Recent Results:		'10 (%)	'10 (%)	'11 (%)	'11 (%)	'11 (%)	'11 (%)	'11 (%)	'12 (%)	'12 (%)	'12 (%)	'12 (%)
Are business conditions in the U.S.	Good	5	7	8	8	9	7	9	7	11	11	14
	In Between	54	58	64	58	65	52	55	62	66	59	60
	Bad	41	34	28	34	26	41	36	30	21	29	25
Six months from now, will business conditions in the U.S. be:	Better	33	35	44	27	34	30	32	36	33	35	35
	About same	45	47	44	54	50	49	49	54	49	38	34
	Worse	18	17	10	17	15	19	18	7	15	13	28
Are business conditions in Middle TN:	Good	20	18	23	24	25	23	24	27	32	40	35
	In Between	63	62	59	57	60	60	59	55	59	46	53
	Bad	16	19	17	16	15	16	15	16	9	11	10
Six months from now, will business conditions in Middle TN be:	Better	38	36	40	33	38	31	40	38	37	37	36
	About same	51	53	51	55	53	57	49	54	54	46	45
	Worse	9	11	8	10	8	11	9	6	7	7	18
Are jobs in Middle TN:	Easy to find	3	4	3	3	5	4	5	5	5	4	7
	Found w/effort	41	41	42	46	37	42	51	46	51	52	53
	Hard to find	51	52	53	47	57	51	41	41	38	35	35
In Middle TN six months from now there will be (# of jobs):	More	35	29	39	34	32	26	38	39	40	36	33
	About same	50	54	48	51	54	53	49	47	46	44	46
	Fewer	12	15	11	12	13	19	11	9	11	9	16
Compared to a year ago, is your personal financial situation:	Better	17	17	18	16	13	19	17	19	19	19	18
	About same	54	52	54	48	53	50	57	54	58	56	56
	Worse	30	31	28	37	34	31	27	26	23	25	26
In 12 months will your personal financial situation be:	Better	40	40	37	34	37	32	35	39	44	41	31
	About same	52	49	55	52	57	57	55	53	50	51	51
	Worse	8	11	8	14	6	11	10	5	6	8	18
Is now a good time to buy large items for the home?	Good time	32	39	36	30	25	28	33	32	32	33	31
	In between	38	33	37	41	48	39	39	42	45	34	40
	Bad time	28	26	23	25	22	28	22	18	18	25	23
Is now a good time to buy a house?	Good time	68	65	66	64	57	61	66	68	71	69	62
	In between	16	15	15	18	17	18	16	14	17	16	18
	Bad time	14	18	17	15	23	18	15	15	11	12	16
Is now a good time to buy a car?	Good time	38	36	38	35	28	34	37	33	34	48	37
	In between	33	38	38	35	47	39	38	42	47	27	39
	Bad time	26	23	20	27	21	23	20	19	15	21	18

Taxes

Increases in taxes can decrease the amount of money that consumers have for discretionary spending. We see a sharp increase in the percent of consumers who expect their tax bill to rise in the next year.

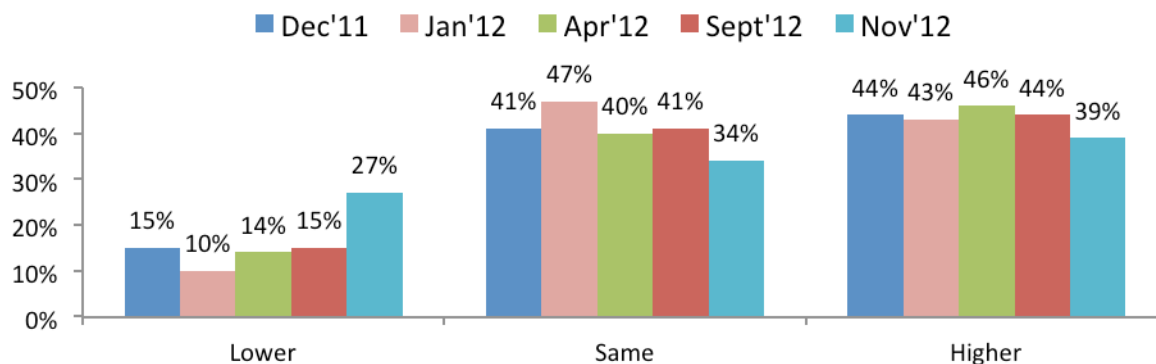
Do you think that in the next year the overall amount of taxes that you pay will increase, decrease, or stay about the same?



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. We see a marked increase in the percent of consumers who expect the stock market to decrease in value over the next year, coupled with a modest decrease in the percent who expect the stock market to rise in value over the next year.

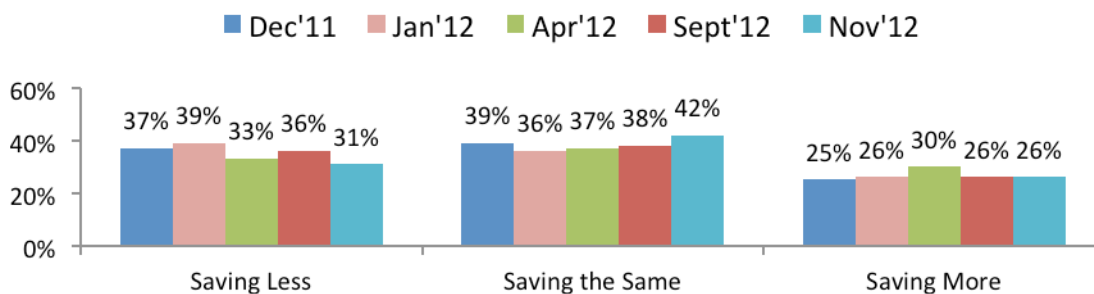
Do you think that 12 months from now the overall level (value) of the U.S. Stock Market will be higher than it is today, lower than it is today, or about the same?



Consumer Saving

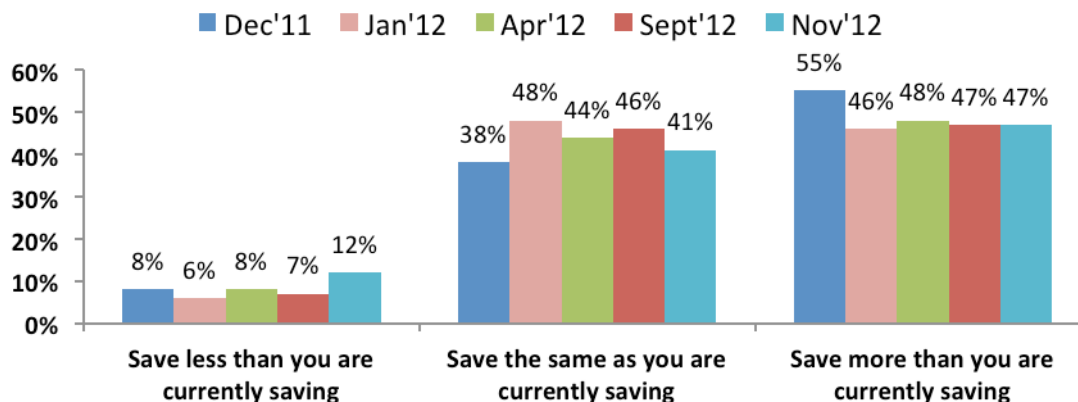
Consumers were also asked about their current level of saving compared to their level of saving before the most recent recession began.

Thinking about the amount of your income that you are currently saving, compared to before this current recession began, are you currently saving more of your income, saving less of your income, or saving about the same as before the recession began?



Consumers were also asked to look ahead and predict their level of saving after the most recent recession has completely ended and the economy strengthens. These results have remained fairly steady during the past few surveys. Almost half of consumers surveyed expect to increase their level of saving, whereas very few consumers expect to decrease their level of saving.

Looking ahead, do you think that when the economy strengthens and the current recession has ended that you will save more of your income than you are currently saving, save less of your income than you are currently saving, or save about the same?

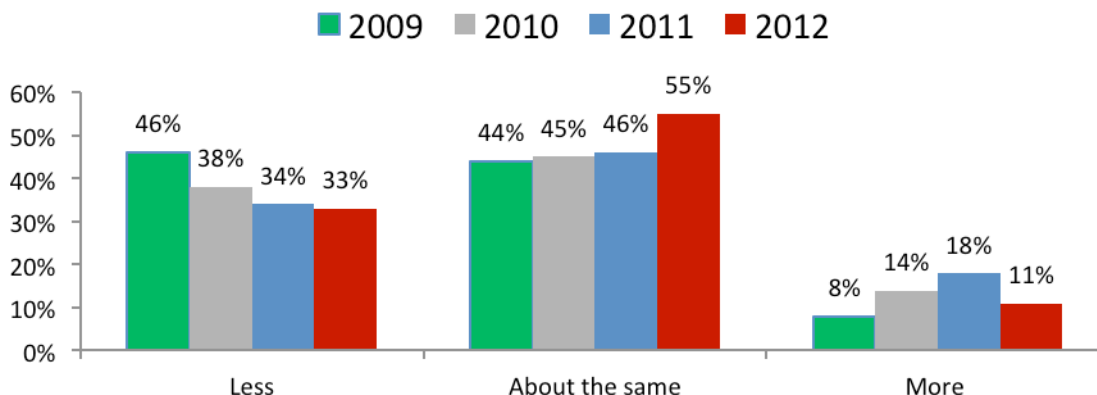


Christmas and Holiday Spending

The holiday shopping season is an important time for most retailers. A concern for local retailers is that the sudden pessimistic shifts in consumers' outlook can dampen their willingness to spend money on holiday and Christmas gifts.

When asked about their expected Christmas and holiday spending, fewer consumers expect to increase their spending (compared to what they spent last year), whereas more consumers expect to spend about the same as last year.

Do you think that you will spend more money on Christmas and Holiday gifts this year compared to last year, less money than you spend last year, or about the same?



Comparison to National Surveys. The 13th annual holiday spending survey, conducted by the Consumer Federation of America (CFA) and the Credit Union National Association (CUNA) recently found that 12 percent of Americans expect to increase their holiday spending from last year, and 38 percent expect to decrease their holiday spending from last year.² This suggests an overall increase in holiday spending for this year, compared to last year. If this holds true for the nation as a whole, it is welcome news for American businesses and retailers.

Some of the best-selling gift categories for this year are expected to be electronics (especially tablets), jewelry, gift cards, clothing, personal care products, home and garden, sporting goods, hobbies, and of course toys.

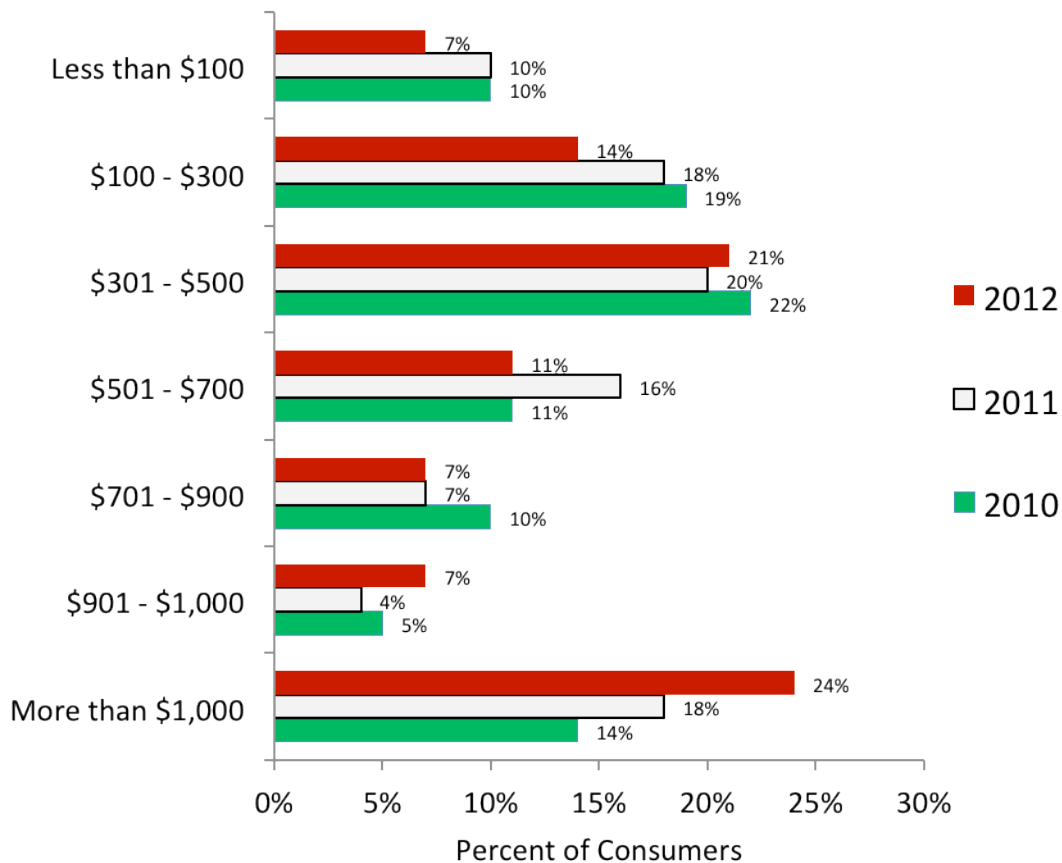
Consumers were also asked to estimate the amount of money they expect to spend on Christmas and holiday gifts this year. Fewer than half (42 percent) of all local consumers expect to spend less than \$500. Alternatively, 58 percent expect to spend more than \$500. Further, almost one in four local consumers expects to spend more than \$1,000 on Christmas and holiday gifts.

Results from a recent survey conducted by the National Retail Federation suggests that American families will spend an average of \$749.51 on gifts, décor, greeting cards and more this holiday season, up slightly from the \$740.57 they spent last year.³

² Consumers Plan to Spend More This Holiday Season, According to 13th Annual CFA-CUNA Holiday Spending Survey, , November 21, 2012, Consumer Federation of America, <http://www.consumerfed.org/news/615>.

³ Shoppers to Remain Conservative with Holiday Gift Budgets This Year, According to NRF, October 17, 2012, National Retail Federation, http://www.nrf.com/modules.php?name=News&op=viewlive&sp_id=1438.

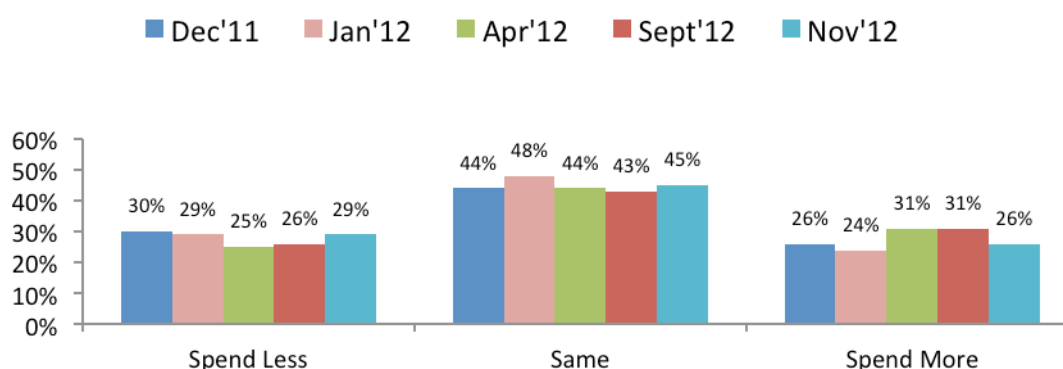
How much do you expect to spend on Christmas and Holiday gifts this year?



Annual Consumer Spending

The uneasiness about the current economy, fears about the future of the economy, and the prospect of higher taxes might have a dampening effect on consumers' spending. When asked to estimate their total amount of consumer spending for 2012, a greater percent of consumers expect to spend less than they spent last year, and fewer consumers expect to spend more than they spent last year.

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?



Perceptions of the Economy: Comparison to The Nation

Compared to consumers across the country as a whole, local consumers have traditionally held more positive perceptions of the economy. Local consumers are comparatively more optimistic about the future of the American economy, are more optimistic about the future of the job market, and are more optimistic about 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.	14 ⁴	14
Six months from now, business conditions in the U.S. will be better.	22	35
Jobs are easy to find (plentiful).	11	7
Six months from now, there will be more job openings.	20	33
In 12 months my personal financial situation (income) will be better.	16	31

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 confidence that translate into reduced purchasing patterns can have significant negative effects on the economy. Conversely, increases in consumer confidence that translate into accelerated consumer spending can have significant positive effects on the economy. When consumers begin to feel comfortable about the

⁴ Source: November 27, 2012, "The Conference Board Consumer Confidence Index® Increases Again." (www.conference-board.org).

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 422 randomly selected adult residents, 18 years and older, from Davidson County, Rutherford County and Williamson County. Phone interviews were conducted between 4:30 pm and 8:30 pm on Tuesday, November 27 and Thursday, November 29. With a sample of 422 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 $\pm 4.8\%$. 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?