

Middle Tennessee Consumer Outlook Index

May 2, 2014

The Office of Consumer Research

Jones College of Business

at Middle Tennessee State University

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Consumers' Outlook Continues to Improve

Overall, local consumers are feeling better about the economy. The overall Middle Tennessee Consumer Outlook Index rose to 203 from 179 in February of this year.

The Middle Tennessee Consumer Outlook Index and Components

	Dec '11	Jan '12	Apr '12	Sept '12	Nov '12	Feb '13	Apr '13	Sept '13	Dec '13	Feb '14	May '14
Overall Outlook Index	112	151	184	178	106	144	193	199	122	179	203¹
Current Situation Index	-64	-55	-24	-26	-22	-16	1	18	3	23	38
Future Expectations Index	97	125	115	112	55	78	97	86	49	85	86
Purchasing Index	79	81	93	92	73	82	95	95	70	71	79

This increase in the overall Outlook Index was due mostly to improvements in consumers' perceptions of the current economy. The Current Situation Index gained to 38 from 23 in February. Consumers are slowly beginning to feel better about the job market and their personal financial situation. However, perceptions of the local economy dipped a bit. The percent who said that business conditions in Middle Tennessee are "good" slipped to 48 from 50 in February.

The Future Expectations Index remained relatively steady, suggesting that although consumers feel that the economy has improved, they do not expect significant improvements in the future economy. And, optimism about personal finances has abated somewhat. The percent who said that in 12 months their personal financial situation will be "better" dropped to 33 from 39.

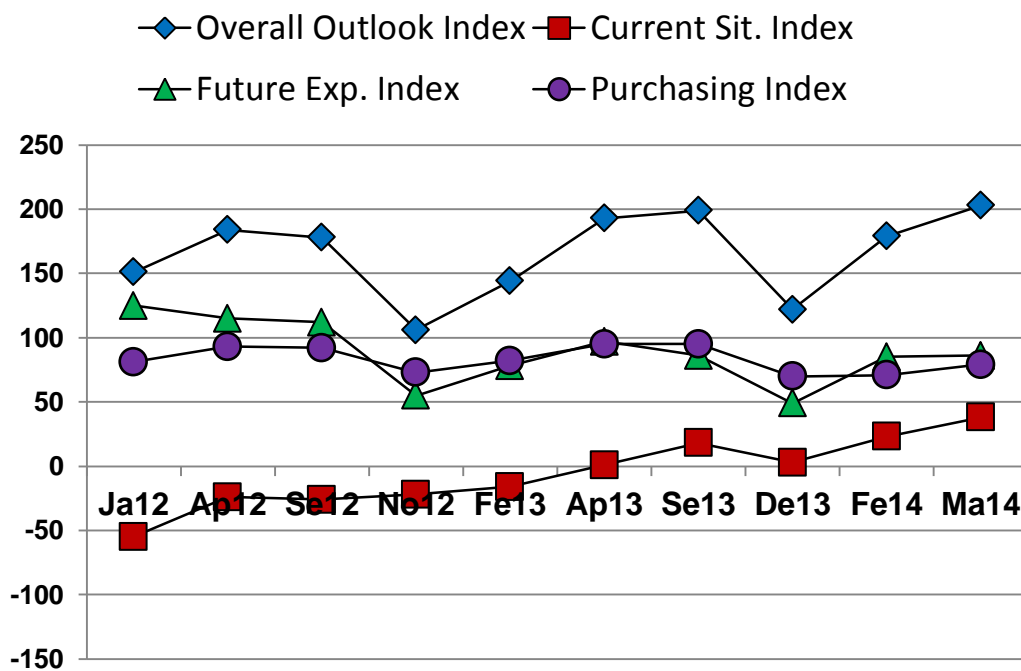
¹ The score is computed by adding the percentage of favorable responses to each question and subtracting the percentage of negative responses to each question.

The increase in the Purchasing Situation Index was due largely by the belief that now is a good time to buy a house. The percent who said that now is a “good time to buy a house” improved to 56 from 53. Alternatively, the percent who said that now is a “bad time to buy a house” dropped to 11 from 18.

Overall, these results are good news for local businesses and retailers. As we enter the summer months it appears that consumers are adopting a sunnier outlook on the economy.

The current poll of 324 randomly selected adult residents of Davidson County, Rutherford County and Williamson County was conducted between the evenings of Wednesday, April 23 and Thursday, May 1.²

Middle Tennessee Consumer Outlook Index



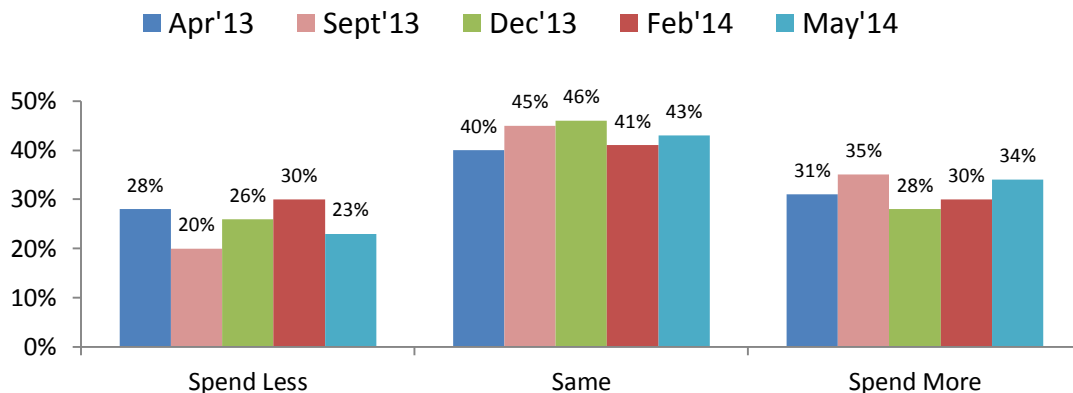
² The consumer outlook index scores are based on consumers' responses to eleven questions measuring their perceptions of the current economy, the future economy, jobs, personal finances, and whether or not now is a good time to make large purchases. Four questions make up the current situation index, 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

As consumers become more upbeat about the economy this can have positive effects on their spending decisions. 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 34 from 30. And, the percent who expect to decrease their spending dropped to 23 from 30. This is very welcome news for local businesses and retailers. As the summer months approach consumers appear to be more willing to open up their wallets and spend money.

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

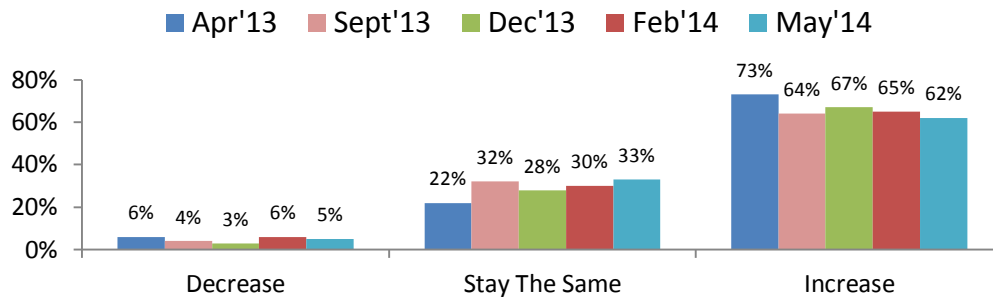
Many consumer spending decisions are based on the availability of money that is in the form of savings. When asked about the amount of their income that they are currently saving compared to last year, 30 percent reported saving more (up from 28 percent in February), and 23 percent reported saving less than they were saving last year (down from 29 percent in December). This suggests a general increase in the level of consumers' savings.

However, when asked about future savings, 34 percent expect to increase their level of saving in the future (down slightly from 36 percent in February) and 20 percent expect to decrease their level of saving in the future (the same percent as in February). It is possible that consumers are more willing to tap into their savings accounts as the means by which they will increase their spending this summer and throughout the remainder of the year.

Taxes

Consumers' ability to spend can be significantly impacted by the amount of money that they must pay in taxes. Fortunately, fears of higher taxes in the future continue to subside. The percentage of consumers who expect their taxes to increase in the future dipped to 62 from 65 in February.

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

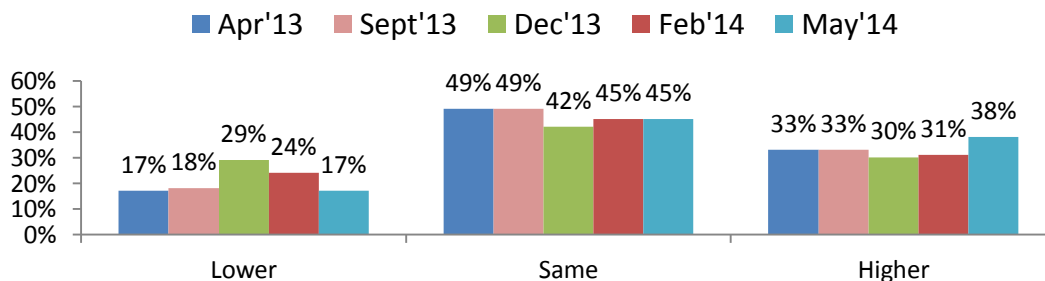


Consumer Investments: The Stock Market

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 retreated a bit at the beginning of this year, the improvement in the stock market since February has been noticed by consumers. And, consumers increasingly expect the stock market to continue to improve. The percent of consumers who expect the stock market to rise in the next 12 months gained to 38 from 31, and the percent who expect a decline in the stock market dropped to 17 from 24. Increased expectations for investments can add fuel to increased consumer spending patterns.

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?



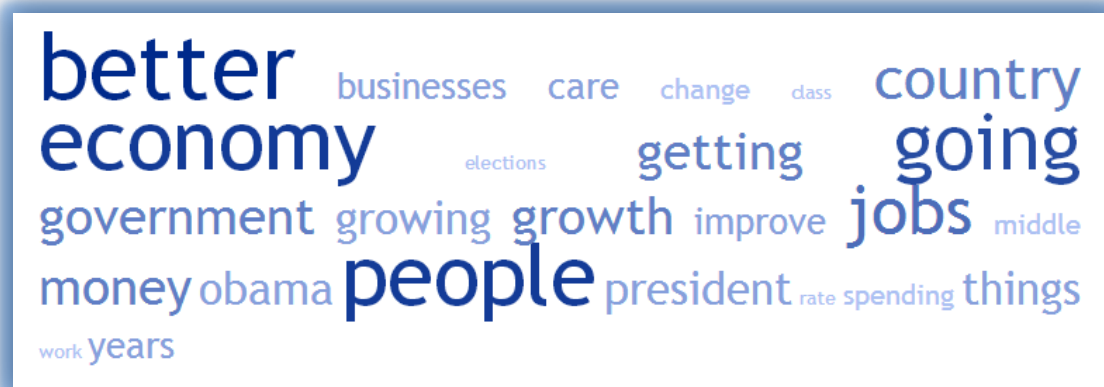
Perceptions of the Economy: Comparison to The Nation

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	17
Six months from now, business conditions in the U.S. will be better.	17	31
Jobs are easy to find (plentiful).	13	16
Six months from now, there will be more job openings.	15	33
In 12 months my personal financial situation (income) will be better.	17	33

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, consumers perceive that the economy has improved.



³ Source: April 29, 2014, The Conference Board Consumer Confidence Index® Falls Slightly in April.” (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 February, 2014.

	May 2014 (%)	Change from February 2014	
Business conditions in the U.S. are <u>Good</u> .	17	 2%	
Six months from now, business conditions in the U.S. will be <u>Better</u> .	31	 2%	
Business conditions in Middle Tennessee are <u>Good</u> .	48	 2%	
Six months from now, business conditions in Middle Tennessee will be <u>Better</u> .	33	 2%	
Jobs in Middle Tennessee are <u>Easy To Find</u> .	16	 3%	
Six months from now there will be <u>More Job Openings</u> in Middle Tennessee	33	 2 %	
I am <u>Better Off Financially</u> than I was one year ago.	29	 2%	
12 months from now I will be <u>Better Off Financially</u> than I am today.	33	 6%	
Now is a <u>Good Time To Make Large Purchases</u> .	32	 1%	
Now is a <u>Good Time To Buy A Home</u> .	56	 3%	
Now is a <u>Good Time To Buy A Car</u> .	37	 4%	

Consumer Outlook		Apr	Sept	Nov	Jan	Apr	Sept	Dec	Feb	May
		'12	'12	'12	'13	'13	'13	'13	'14	'14
		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Are business conditions in the U.S.	Good	11	11	14	14	13	14	12	15	17
	In Between	66	59	60	62	62	66	61	62	66
	Bad	21	29	25	23	24	20	26	22	17
Six months from now, will business conditions in the U.S. be:	Better	33	35	35	34	33	30	25	29	31
	About same	49	38	34	41	46	48	47	47	49
	Worse	15	13	28	22	19	20	25	22	18
Are business conditions in Middle TN:	Good	32	40	35	42	44	49	42	50	48
	In Between	59	46	53	48	45	46	47	38	43
	Bad	9	11	10	8	9	5	9	11	7
Six months from now, will business conditions in Middle TN be:	Better	37	37	36	36	39	37	27	35	33
	About same	54	46	45	52	49	51	59	55	57
	Worse	7	7	18	10	10	10	11	7	8
Are jobs in Middle TN:	Easy to find	5	4	7	5	8	8	12	13	16
	Found w/effort	51	52	53	53	54	57	57	53	57
	Hard to find	38	35	35	37	31	29	26	28	24
In Middle TN six months from now there will be (# of jobs):	More	40	36	33	34	39	40	28	35	33
	About same	46	44	46	49	47	45	50	47	54
	Fewer	11	9	16	13	11	12	16	15	10
Compared to a year ago, is your personal financial situation:	Better	19	19	18	17	24	24	25	27	29
	About same	58	56	56	57	52	53	48	53	47
	Worse	23	25	26	26	24	23	27	21	24
In 12 months will your personal financial situation be:	Better	44	41	31	33	37	35	34	39	33
	About same	50	51	51	53	52	51	53	52	59
	Worse	6	8	18	14	11	14	13	9	8
Is now a good time to buy large items for the home?	Good time	32	33	31	28	30	29	35	33	32
	In between	45	34	40	47	48	47	34	42	44
	Bad time	18	25	23	20	18	18	22	20	17
Is now a good time to buy a house?	Good time	71	69	62	67	65	65	52	53	56
	In between	17	16	18	15	22	19	29	24	28
	Bad time	11	12	16	13	9	12	13	18	11
Is now a good time to buy a car?	Good time	34	48	37	37	42	45	38	41	37
	In between	47	27	39	40	37	38	38	36	42
	Bad time	15	21	18	17	15	14	20	18	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
Increased consumer confidence, <i>leads to ...</i>	Decreased consumer confidence, <i>leads to ...</i>
Increased consumer spending, <i>which leads to ...</i>	Decreased consumer spending, <i>which leads to ...</i>
Retailers hire more employees and purchase more inventory from suppliers, <i>which leads to ...</i>	Retailers hire fewer employees and purchase less inventory from suppliers, <i>which leads to ...</i>
Suppliers (manufacturers) must make more products, <i>which leads to ...</i>	Suppliers (manufacturers) must make fewer products, <i>which leads to ...</i>
Suppliers (manufacturers) hire more employees, <i>which leads to ...</i>	Suppliers (manufacturers) hire fewer employees, <i>which leads to ...</i>
More retail and manufacturing employees, <i>which leads to ...</i>	Fewer retail and manufacturing employees, <i>which leads to ...</i>
More consumers with pay checks who are able to spend, <i>which leads to ...</i>	Fewer consumers with pay checks who are able to spend, <i>which leads to ...</i>
Growing economy, <i>which leads to ...</i>	Slowing economy, <i>which leads to ...</i>
Increased consumer confidence, <i>which leads to ...</i>	Decreased consumer confidence, <i>which leads to ...</i>

About the Survey

The results reported here are based on telephone interviews with 324 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, April 23 and Thursday, May 1. With a sample of 324 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 $\pm 5.4\%$. 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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