Middle Tennessee Consumer Outlook Index

December 6, 2013

**The Office of Consumer Research**

**Jones College of Business**

at Middle Tennessee State University

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**Consumers’ Outlook Drops Sharply**

 After seeing gains in consumers’ perceptions of the economy during 2013, local consumers’ outlook on the economy fell sharply in the most recent Middle Tennessee Consumer Outlook survey. The overall Consumer Outlook Index fell to 122 from 199 in September. This mirrors the recent downward trend in national measures of consumer confidence reported by the Conference Board. All three sub-components of the Middle Tennessee Consumer Outlook Index fell in December. This suggests that local consumers view the current U.S. economy a bit more negatively than they did in September, and local consumers are adopting a more pessimistic view of the future of the economy.

 A decrease in consumer outlook such as this is definitely not welcome news for local businesses and retailers as we head into the ever important Christmas and holiday shopping season. For some businesses, the sales that they generate during this time of year account for as much as 40 percent of their total annual sales. Whether or not this more pessimistic view of the economy finds its way into local consumers’ shopping plans for this Christmas and holiday season remains to be seen.

**The Middle Tennessee Consumer Outlook Index and Components**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | May ‘11 | Sept ‘11 | Dec‘11 | Jan‘12 | Apr ‘12 | Sept ‘12 | Nov ‘12 | Feb ‘13 | Apr ‘13 | Sept‘13 | **Dec ‘13** |
| Overall Outlook Index | 63 | 27 | 112 | 151 | 184 | 178 | 106 | 144 | 193 | 199 | **122**[[1]](#footnote-1) |
| Current Situation Index | -80 | -86 | -64 | -55 | -24 | -26 | -22 | -16 | 1 | 18 | **3** |
| Future Expectations Index | 99 | 59 | 97 | 125 | 115 | 112 | 55 | 78 | 97 | 86 | **49** |
| Purchasing Index | 44 | 54 | 79 | 81 | 93 | 92 | 73 | 82 | 95 | 95 | **70** |

 The current poll of 302 randomly selected adult residents of Davidson County, Rutherford County and Williamson County was conducted the evenings of Tuesday, December 4 and Thursday, December 6.

 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**

 Perceptions of the current and future economy can affect consumer spending plans. When asked whether or not they expect their level of consumer spending for 2013 to be more or less than it was for 2012, the percent of consumers who expect to increase their spending dipped to 28 from 35. Further, the percent who expect to decrease their level of consumer spending rose to 26 from 20.

**Christmas and Holiday Spending**

 The Christmas and holiday shopping season is an important time for most retailers. A concern for local retailers is that a sudden pessimistic shift in consumers’ outlook can dampen their willingness to spend money on holiday and Christmas gifts. However, this general negative trend in consumers’ outlook might not dampen the holiday shopping spirits for all local consumers. When asked about their expected Christmas and holiday spending, the percent who expect to increase their spending gained to 15 from 11, while the percent who expect to decrease their spending also gained to 38 from 33.

***Comparison to National Surveys.*** The 14th annual holiday spending survey, conducted by the Consumer Federation of America (CFA) and the Credit Union National Association (CUNA) recently found that 13 percent of Americans expect to increase their holiday spending from last year, and 32 percent expect to decrease their holiday spending from last year.[[2]](#footnote-2) This suggests an overall increase in holiday spending for this year, compared to last year.

***Amount Spent on Christmas and Holiday Gifts.*** Local consumers were also asked to estimate the amount of money they expect to spend on Christmas and holiday gifts this year. Fewer than half (43 percent) of all local consumers expect to spend less than $500. However, the decrease in consumer outlook seems to be taking a toll on the “big spenders” this year. The percent who expect to spend more than $1,000 on Christmas and holiday gifts dropped to 19 from 24 last year.

 Results from a recent survey conducted by the National Retail Federation suggest that American families will spend an average of $737.95 on gifts, décor, greeting cards and more this holiday season. This is down from $752.24 that was spent last year[[3]](#footnote-3)

**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, only 23 percent reported saving more, and 33 percent reported saving less than they were saving last year. However, 31 percent report that they plan to increase their level of saving in the next 12 months, whereas 20 percent expect to decrease their level of saving in the next 12 months.

**Taxes**

 Increased taxes can reduce the amount of money that consumers have available for discretionary spending. Fears of higher taxes in the future might be returning. The percentage of consumers who expect their taxes to increase in the future gained to 67 from 64 in September. Further, only 3 percent of consumers expect taxes to decrease in the next year.

**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 generally risen this year, consumers increasingly expect stocks to go lower in the future. Perhaps this merely reflects consumers’ understanding of the cyclical nature of the stock market, i.e., eventually the market will fall. The percent on consumers who expect the stock market to decrease in the next 12 months rose sharply to 29 from 18 in September.

**Obamacare and Consumer Outlook**

 Local consumers were also asked about the recent Affordable Care Act (Obamacare) and its possible effect on the overall economy. A significant majority (56%) of local consumers expect Obamacare to have a negative effect on the overall American economy. Only 26 percent expect Obamacare to have a positive effect on the overall American economy, whereas 9 percent believe it will have no effect.

 Interestingly, such negative perceptions of the recent health care law do not seem to have as much of a factor when asked about the effects of Obamacare on consumers, personally. When asked if Obamacare will have an effect on them, personally (financially, ability to obtain insurance, etc.), 41 percent of local consumers expect it have a negative effect, only 11 percent expect it to have a positive effect, and 41 percent expect it to have no effect.

**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 have traditionally been more optimistic about the future of the economy. 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. | **20[[4]](#footnote-4)** | **12** |
| Six months from now, business conditions in the U.S. will be better. | **17** | **25** |
| Jobs are easy to find (plentiful). | **12** | **12** |
| Six months from now, there will be more job openings. | **13** | **28** |
| In 12 months my personal financial situation (income) will be better. | **15** | **34** |

**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 30 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.



**Changes in Consumers’ Perceptions of the Economy**

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

|  |  |  |
| --- | --- | --- |
|  | December  2013(%) | Change from September 2013 |
| Business conditions in the U.S. are Good. | **12** | **2%** |
| Six months from now, business conditions in the U.S. will be Better. | **25** | **5%**  |
| Business conditions in Middle Tennessee are Good. | **42** | **7%** |
| Six months from now, business conditions in Middle Tennessee will be Better. | **27** | **10%** |
| Jobs in Middle Tennessee are Easy To Find. | **12** | **4%** |
| Six months from now there will be More Job Openings in Middle Tennessee | **28** |  **12%** |
| I am Better Off Financially than I was one year ago. | **25** | **1%** |
| 12 months from now I will be Better Off Financially than I am today. | **34** | **1%** |
| Now is a Good Time To Make Large Purchases. | **35** | **6%** |
| Now is a Good Time To Buy A Home. | **52** | **13%** |
| Now is a Good Time To Buy A Car. | **38** | **7%** |

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

**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,** *leads to …* |  | **Decreased consumer confidence,** *leads to …* |
| **Increased consumer spending,** *which leads to …* |  | **Decreased consumer spending,** *which leads to …* |
| **Retailers hire more employees and purchase more inventory from suppliers,** *which leads to …* |  | **Retailers hire fewer employees and purchase less inventory from suppliers,** *which leads to …* |
| **Suppliers (manufacturers) must make more products,** *which leads to …* |  | **Suppliers (manufacturers) must make fewer products,** *which leads to …* |
| **Suppliers (manufacturers) hire more employees,** *which leads to …* |  | **Suppliers (manufacturers) hire fewer employees,** *which leads to …* |
| **More retail and manufacturing employees,** *which leads to …* |  | **Fewer retail and manufacturing employees,** *which leads to …* |
| **More consumers with pay checks who are able to spend,** *which leads to …* |  | **Fewer consumers with pay checks who are able to spend,** *which leads to …* |
| **Growing economy,** *which leads to …* |  | **Slowing economy,** *which leads to …* |
| **Increased consumer confidence,** *which leads to …* |  | **Decreased consumer confidence,** *which leads to …* |

 **About the Survey**

 The results reported here are based on telephone interviews with 302 randomly selected adult residents, 18 years and older, from Davidson County, Rutherford County and Williamson County. Phone interviews were conducted between 4:00 pm and 8:00 pm on Tuesday, December 4, and Thursday, December 6. With a sample of 302 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 ± 5.6%. 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](http://www.conference-board.org)). This report is also available on the MTSU Office of Consumer Research web page ([www.mtsu.edu/consumer](http://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?

**Middle Tennessee Consumer Outlook Index**

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. [↑](#footnote-ref-1)
2. Consumers Likely to Increase Holiday Spending, According to 14th Annual CFA-CUNA Holiday Spending Survey, November 27, 2013, Consumer Federation of America, <http://www.consumerfed.org>. [↑](#footnote-ref-2)
3. Cautious Consumers Trim Holiday Gift Giving Budgets (Even For Themselves), According to NRF Survey, October 16, 2013, National Retail Federation, <http://www.nrf.com>. [↑](#footnote-ref-3)
4. Source: November 26, 2013, “Consumer Confidence Declines Again in November.” ([www.conference-board.org](http://www.conference-board.org)). [↑](#footnote-ref-4)