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Confidence Weighs Negatively On Broader Economy *Consumer and Business Confidence Slipped This Summer*

August 29, 2012 by William L. Pittenger, MAI, SRA

According to the **Conference Board (August 28th)**, **consumer confidence** took an unexpected and large dip in August. The index measures both present and expected conditions around employment, income, purchasing plans and inflation expectations. The index has now declined for five of the last six months and is at its lowest level since November 2011. The unexpectedly large decline was driven by the *expectations* component of the survey and suggests that consumers are considerably more downbeat about where the economy is heading. When reviewing survey responses by age group, all three surveyed groups saw declines. The under 35 age cohort had the smallest decline while the oldest (over 55) had the largest decline.



Expectations of future income prospects were discouraging and expectations for inflation rose. These changes in consumer sentiment are not welcome news in an already weak economy. It also does not bode well for consumer spending over the short term especially when considered with weak job and income growth and currently rising gasoline prices.

In a separate report, the three major components of the **Bloomberg Consumer Comfort Index** which include state of the economy, personal finances and buying climate, all deteriorated in the most recent survey (August 23rd). Sentiment was consistently weak among geographic regions of the country and among income groups. The indicators are generally indicative of an economy in the throes of recession rather than one that has technically been recovering for three years. The Bloomberg index has now slipped for six consecutive weeks.

Rising prices seem to be the recurring theme in the key confidence reports. Gas prices hit \$3.80 per gallon nationally last week. That is the highest in three months. Moreover, crop prices have risen sharply in recent weeks as a result of drought conditions. That has sparked fears of rising food prices.

Small business confidence remains soft according to the National Federation of Independent Business (NFIB). Small business survey respondents generally reported that sales and profits are weaker than last quarter and they are being adversely affected by deteriorating consumer spending. Rising food and gasoline prices are still taking a bite out of consumers' ability and willingness to spend and that is translating to impairment in small business confidence. Business generally are unwilling to grow inventories or make significant capital expenditures. The NFIB index is at its lowest level this year but is still slightly higher than a year ago.

Manufacturing, which has supported the modest economic recovery, is also currently showing signs of fatigue as demand wanes both domestically and internationally. The Bureau of Labor Statistics Mass Lay-off Report for July showed manufacturing payrolls declined significantly. Mass layoff events (more than 50 people at a time) rose by one third and affected some 15,827 employees: a 50% increase. Additionally, core capital goods orders have declined measurably over recent months. That supports the observation that business investment is slowing.

Continuing uncertainty over the possible year end [fiscal cliff](#) is weighing heavily on both consumer and business confidence. Indeed, the non-partisan Congressional Budget Office (CBO) opined (August 23rd) that a recession lies at the bottom of the fiscal cliff if the currently scheduled federal tax increases (expiration of tax cuts) and spending cuts are allowed to occur at year end.

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