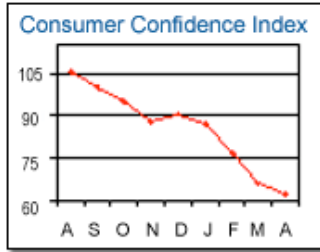


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The Conference Board

The Conference Board Consumer Confidence Index declined for the fifth month in a row, hitting a 16-year low.

Consumer Confidence hits a 16-year-low

by **ARANYA TOMSETH**
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The Conference Board's Consumer Confidence Index continued its downward trend in May, hitting a 16-year low of 57.2, down 5.6 points from 62.8 in April.

It was the fifth straight month that the Index has fallen.

The Present Situation Index, which measures consumer sentiment about the current economic environment and job market, decreased to 74.4 from 81.9 in April. The Expectations Index, which gauges what consumers expect from the economy and job market in the near future, declined to 45.7, down 4.3 points from 50 in April.

Economists had predicted that the Conference Board's measure would fall to 60, according to the median of 68 forecasts in a Bloomberg News survey. Estimates ranged from 57 to 63.

The Consumer Confidence Survey is based on a representative sample of 5,000 U.S. households, and is conducted monthly by The Conference Board, a business-supported research organization.

According to Lynn Franco, director of The Conference Board Consumer Research Center, the last time the Consumer Confidence Index was this low was in October 1992, when it hit 54.6.

"Weakening business and job conditions coupled with growing pessimism about the short-term future have further depleted consumers' confidence in the overall state of the economy," Franco stated in a press release. "Consumer's inflation expectations, fueled by increasing prices at the pump, are now at an all-time high and are likely to rise further in the months ahead."

Survey respondents who said they viewed business conditions as bad rose to 30.6 percent in May, compared with 26.5 percent of those who took the survey in April. In contrast, those who said they felt current business conditions are good decreased to 13.1 percent in May, compared with 15.4 percent a month earlier.

Despite the gloomy report, Mesirow Financial Holdings Inc. senior economist Adolfo Laurenti said media coverage and high gasoline prices have led the public to have an excessively negative perception of the current economy.

"If you look at the historical numbers, you will probably notice that Consumer Confidence Index seems to be the worst in decades and I think, quite frankly, that's quite excessive given the real condition of the economy, which is mixed," Laurenti said.

Laurenti said that while the current economy is not a good economy, "it is not as bad as people think it is."

"I've never had super confidence in confidence numbers," Laurenti added. "There has been proof again and again that there is sometimes a disconnect in what people think and feel and what they do, and how they are doing economically. A good example of that is the confidence levels after 9/11. They were horrible, and yet, in the weeks after 9/11, we had some very strong economic numbers in terms of consumer sales."

Laurenti said he does not think the U.S. is entering a recession.

"I still believe the labor market is weakening, but it's not as bad as it should be if we were entering a recession –but of course that's very little comfort to people," Laurenti said.

Steve Ferrara, a partner in the Retail and Consumer Product Practice at BDO Seidman LLP who sits on the board of the Chicagoland Chamber of Commerce, agreed that the press has a huge influence on consumer perception of the economy.

"All we've been hearing is bad news – housing is off and everything we hear is negative, and it impacts the way people psychologically

think about the market," Ferrara said.

Still, Ferrara said high gas prices are a reality, and a major source of concern for consumers.

"I think the biggest impact is the impact of oil on people's ability to spend," Ferrara said. "Most people are hurt, not only by the price of oil, but by the impact that that price is having on everything else."

Laurenti agreed that the high price of gas is perhaps the most significant factor influencing the the Consumer Confidence Index.

"I think what this report is actually picking up is pessimism due to the high cost of energy," Laurenti said, noting that there was minimal traffic in Illinois and surrounding states over the Memorial Day weekend. "I have the sense that this is really beginning to affect people's behaviors."

According to AAA Chicago Motor Club, there was a 0.9 percent decrease in the number of Americans traveling this Memorial Day weekend compared with the previous year.

"Many Americans are feeling a financial pinch this holiday weekend from record high gasoline prices and other factors in the economy," stated Beth Mosher, spokeswoman for AAA Chicago, in a press release.

"My understanding," Laurenti said, "is a lot of people were not driving this weekend, and I think the reason is \$4 per gallon gasoline. People around the country are really feeling the change and are adjusting their behavior, and it's really making people feeling bad."

Laurenti also pointed out that "higher inflation is making the economy look worse than it might if inflation were lower, and it's really dampening their [consumers] mood."

"People are just feeling uncertainty, and the Confidence numbers are reflecting that," Laurenti said.