California Consumers Remain Cautious

ORANGE, CA — The Anderson Center’s California Composite Index of Consumer Sentiment remained virtually unchanged from a level of 79.5 in the third quarter of 2005 to 80.0 in the fourth quarter. This marks the third consecutive quarter that the index value is below 100, and an index level less than 100 reflects a higher percentage of pessimistic consumers compared to those that are optimistic. Clearly the recent decline in gasoline prices and relatively positive economic news did not help rebound consumers’ confidence.

Nationally the University of Michigan’s consumer confidence index for the month of November stands at 81.6 consistent with our fourth quarter California index of 80.0. While the University of Michigan index for the U.S. and the Chapman index for California are now nearly the same, the U.S. index rebounded from the October reading of 74.2, even though the California index hardly changed.
The California Composite Index is generated based on three indices: consumers’ outlook on current and future economic conditions, and an index measuring consumers’ future spending plan. As shown in the following figure, the Index measuring current economic conditions decreased slightly from 68.6 in the third quarter of 2005 to 67.5 in the fourth quarter of 2005. The Index measuring future economic conditions also declined marginally from a level of 85.8 in the third quarter of 2005 to 83.6 in the fourth quarter of this year. Persistent high energy prices, high housing costs and higher overall inflation are likely factors causing consumers to remain pessimistic about both the current and future outlook.

The index measuring consumers’ planned spending on big ticket items (durable goods) is the only index that increased after dropping by more than 20 points last quarter. The index rose more than 8 points from the low of 88.9 in the third quarter of 2005 to 97.6 in the fourth quarter of 2005. This modest increase indicates that consumer spending in the upcoming holiday shopping season will be better than what the index suggested in the third quarter of this year. Good news to retailers!
BACKGROUND AND METHODOLOGY:

Beginning in the third quarter of 2002, the Anderson Center for Economic Research at Chapman University launched a survey to measure California consumer sentiment. This survey is similar to the monthly national survey of consumer sentiment conducted by the University of Michigan.

A survey comprised of six questions is mailed to a stratified sample of 5,000 residences throughout the state. Three questions relate to the current economic conditions, two questions address future economic conditions (one year outlook) and one question evaluates the consumers’ current plan for purchasing big ticket items.

The results are summarized into four indices. One index measures consumer sentiment about the current economic condition, a second measures consumers’ future economic expectations, the third is a composite index representing overall consumer confidence, and the fourth index measures consumers’ current spending plan on durable goods.
ABOUT THE ANDERSON CENTER FOR ECONOMIC RESEARCH:

The A. Gary Anderson Center for Economic Research (ACER) was established in 1979 to provide data, facilities and support in order to encourage the faculty and students at Chapman University to engage in economic and business research of high quality, and to disseminate the results of this research to the community.

ANNUAL SCHEDULE OF CONFERENCES AND PRESS RELEASES:

JANUARY
- Economic Forecast Conferences for Los Angeles County and the Inland Empire
- California Purchasing Managers Survey

FEBRUARY
- California Leading Employment Indicator

MARCH
- California Consumer Sentiment Survey

APRIL
- California Purchasing Managers Survey

MAY
- California Leading Employment Indicator

JUNE
- Economic Forecast Update Conference for the U.S., California, Orange and Los Angeles counties, and the Inland Empire
- California Consumer Sentiment Survey

JULY
- California Purchasing Managers Survey

AUGUST
- California Leading Employment Indicator

SEPTEMBER
- California Consumer Sentiment Survey

OCTOBER
- California Purchasing Managers Survey

NOVEMBER
- California Leading Employment Indicator

DECEMBER
- Economic Forecast Conference for the U.S., California and Orange County
- California Consumer Sentiment Survey