California Consumer Sentiment Drops Sharply

ORANGE, CA — The Anderson Center’s California Composite Index of Consumer Sentiment dropped from a level of 88.7 in the first quarter of 2006 to 79.5 in the second quarter of 2006. Persistently high gasoline prices as well as high overall inflation along with weak job and real wage growth seem to be negatively impacting consumers’ attitude about the current and future economic conditions. This marks five consecutive quarters that the composite index registered an index level below 100. This is significant since an index level less than 100 reflects a higher percentage of pessimistic consumers as compared to those that are optimistic.

Similarly the University of Michigan’s consumer confidence index measuring consumers’ sentiment at the national level stands at 79.1 for the month of May, sharply lower than the level of 87.4 reported for the month of April.
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 from 89.3 in the first quarter of 2006 to 82.5 in the second quarter of 2006. The Index measuring future economic conditions declined sharply from a level of 86.6 in the first quarter of 2006 to 70.0 in the second quarter of this year.

The index measuring consumers’ planned spending on big ticket items (durable goods) is virtually unchanged at a level of 92.4 in the second quarter of 2006. This suggests that consumers’ spending over the next six months will be likely to match what has already occurred over the last quarter.
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, with a historical response rate of 5 to 10 percent. 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