From: Richard Curtin, Director
Surveys of Consumers

Subject: November 2001 survey results.

I have attached a summary of the results from the November 2001 Surveys of Consumers, conducted by the University of Michigan. The scheduled release time is:

**Friday, November 23, 2001 at 12:01 a.m. (ET)**

Results from the December 2001 survey are scheduled for release on Monday, December 24, 2001.

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Lowest Inflation Expectations Since 1950’s Amid Rising Pessimism About Unemployment

ANN ARBOR. Consumer confidence continued to inched upward in November from the lows recorded in October and September. The small gains, however, still left consumer confidence near the lowest level recorded in ten years. “While nearly all consumers think the economy is in recession and most expect the recession to last through most of 2002, the big surprise was that the fears generated by the terrorist attacks and the spread of anthrax has had so little lasting impact on the economic expectations of consumers,” according to Richard Curtin, the director of the University of Michigan’s Surveys of Consumers. While holiday sales will not be as bleak as widely expected, weaker income and job prospects will still significantly depress sales.

The Index of Consumer Sentiment was 83.9 in the November survey, up from 82.7 in October and 81.8 in September, but well below last November’s 107.6. The Index of Consumer Expectations, a closely watched component of the Index of Leading Economic Indicators, was 76.6 in November, up from 75.5 in October and 73.5 in September, but well below last November’s reading of 101.6. Despite the recent small gains, both indices remain near their lowest levels since the early 1990’s.

Zero interest rates on vehicle loans as well as a near zero inflation rate were responsible for the small overall improvement, while slowing income growth and rising unemployment were the most commonly cited problems by consumers. “Consumers expected next year’s inflation rate would be the lowest since the 1950’s. Consumers expected an inflation rate of less than half of one-percent in November (0.4%), down from 1.0% in October and 2.8% in September,” Curtin said. Consumers do not expect inflation to remain low for long, as consumers expected the rate of inflation to average 2.8% over the next five years.

Low inflation has helped to improved an otherwise very bleak assessment by consumers of their own personal financial situation. “While consumers judged their current financial situation the weakest in ten years, mainly due to lower income gains, their outlook for the year ahead has improved largely due to the lower inflation expected during the year ahead,” said Curtin. The November 2001 survey recorded the weakest income growth reported by consumers since the recession in the early 1990’s.

Record numbers of consumers reported hearing of layoffs and spreading unemployment, and nearly nine-in-ten consumers thought the overall economy was in recession. “Consumers now expect the highest unemployment rate since the recession in the early 1990’s, with most consumers expecting the economic downturn to continue to at least mid 2002,” reported Curtin. Overall the data indicate that consumers expect the unemployment rate to reach 6.5% in 2002.

“Consumers expected low prices on a wide range of products, and holiday sales will be brightest among retailers that offer deep discounts,” says Curtin. Lower interest rates resulted in record vehicle sales last month, and a record number of households refinanced their mortgages. “Concerns about future job and income prospects are still the primary problem, with purchases of appliances, furniture, home electronics as well as other non durables and clothing suffering most,” explained Curtin.

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