2006 Economic Outlook

Consumer Driven Economy: Will Demand Sputter or Shift into Overdrive

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“Real” Energy CPI Component
(Deflated by CPI Less Energy)
Annual Change in Energy Prices And Consumers’ Inflation Expectations

Energy Prices vs. Inflation Expectations over the years from 1960 to 2005, showing a significant disconnect.
CPI --- Gasoline
(Monthly percentage change)

July = 6.1%
Expected Inflation Rates

Five Year

One Year
Annual Change in Energy Prices and Consumers’ Personal Financial Expectations

Energy Prices

Personal Finances

Disconnect

Energy Prices

Finances (Inverted)
Household Net Worth as a Percent of Disposable Income

Wealth % Income

Wealth as % of income

Household Net Worth and Personal Saving as a Percent of Disposable Income

Wealth % Income

1.0 minus Saving Rate

Wealth as % of income

1-Saving Rate

Household Net Worth and Personal Saving as a Percent of Disposable Income
Debt Service & Financial Obligations As a Percent of Disposable Income

Financial Obligations = 18.3% in 2005:1

Homeowner = 16.2%  Renter = 30.6% in 2005:1

Debt Service = 13.4% in 2005:1
Annual Change in Home Prices

Proportion of All Mortgages With Cash Outs

Amounts of Mortgage Cash-Outs
As a Percentage of Disposable Income

Percent

Dollars

1993 1995 1997 1999 2001 2003 2005

$0 $40 $80 $120 $160 $200

0.00% 0.40% 0.80% 1.20% 1.60% 2.00%
Net References to Home Prices
In Assessments of Home Buying Conditions
National Unemployment Rate

All workers (July)
Age 16 – 24 = 10.8%
Age 25 – 54 = 4.2%
Age 55 or older = 3.5%

July 2005
All workers = 5.0%
Married worker = 3.0%

Decade Averages:
1950s = 4.5%
1960s = 4.8%
1970s = 6.2%
1980s = 7.3%
1990s = 5.8%
Unemployment Expectations & Change in Actual Unemployment Rate

The graph illustrates the relationship between consumer expectations and the change in the actual unemployment rate over the years from 1969 to 2003. The expectations are represented by a yellow line, while the actual change in unemployment rate is depicted by a red line. The y-axis on the left represents consumer expectations, ranging from 70 to 170, while the y-axis on the right shows the change in unemployment rate, ranging from -3 to 4. The x-axis represents the years from 1969 to 2003.
News Heard About Unemployment and Unemployment Expectations
Labor Force Participation Rate and Employment Population Ratio

- Participation Rate:
  - July = 66.1
  - Peak = 67.3
  - 63mths

- Employment Ratio:
  - July = 62.8
  - 75mths
  - 64mths
  - 64+?
Employment Population Ratios: Men and Women Under Age 25

Men
July = 55.8%
1999 Peak = 62.7%

Women
July = 52.8%
2000 Peak = 58.2%
Employment Population Ratios:
Men and Women Aged 25 to 54

- **Men**
  - July = 86.9%
  - 1999 Peak = 89.7%

- **Women**
  - July = 72.0%
  - 2000 Peak = 74.9%
Employment Population Ratios: Men and Women Over Age 55

Men
July = 43.2%

Women
July = 30.4%
Labor Productivity
(Annual change, five year moving averages)

Non-Farm Business
2005:2 = 2.3%

Non-Financial Corp.
2005:1 = 5.4%
References to Income Changes and Annual Growth in Real Wages

- Income References
- Wage Growth

Y-Y% Change in Real Wages

Income: %Higher - %Lower