

10-Year Treasury Yield  
 9:45 - 4.57%  
 10:15 - 4.56%

# Economics Group Domestic

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## Confidence Falls - But Consumers Still Shopping

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*Consumers feel just fine about the current economic situation, but are getting a bit antsy about the future. Confidence dropped in February as a result. However, low confidence has not stopped consumers from hitting the malls for the last two years, and it looks like it will not stop them from doing so for at least a little longer.*

### Present Looks Okay, But Future Not as Bright

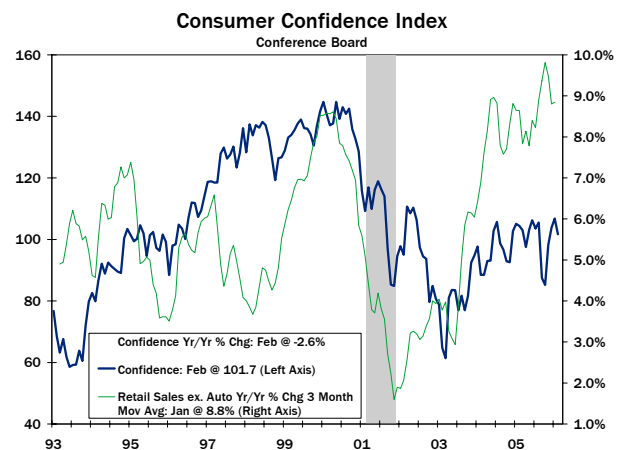
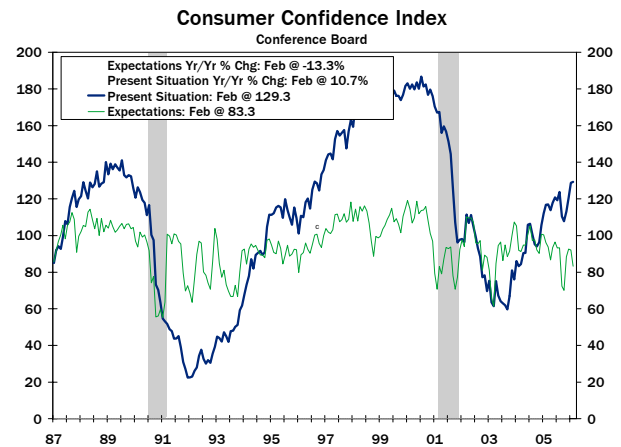
Consumer confidence fell to 101.7 in February from 106.8 in January, entirely due to consumers' expectations for the future. The present situation component of the index rose to 129.3 - the highest level since August 2001 - indicating that consumers are feeling just fine in February. However, the expectations component of the index dropped to 83.3 from 92.1 in January (top graph).

Fewer consumers feel business conditions will improve in six months, more consumers feel there will be fewer jobs down the road, and more consumers feel their incomes will decrease in the months ahead. As consumers have clearly adjusted their expectations in anticipation of slower job growth, paltry income growth and a generally stagnant economy, they may be in for a pleasant surprise for the remainder of 2006. Our expectation is for the economy to churn forward at just over 3 percent growth this year, to include steady job gains and real disposable income growth that more than doubles last year's pace.

### Crying Wolf?

While consumers have reported fairly stagnant levels of confidence for the last two years, they have not let their worries overrule their shopping habits (middle graph). Despite all of their reported concerns, consumers apparently have still not yet changed their spending plans - at least spending plans outside of housing (bottom table). While only 3.1 percent of consumers plan to buy a home in the next six months, plans to purchase an auto remain about the same as a year ago, with 7.1 percent of consumers reporting they plan to buy a car within the next six months. Perhaps consumers are expecting incentive offerings to pick back up in the near future, as the percentage expecting to purchase a new car jumped to 3.3 percent from 2.9 percent last month. Meanwhile, the percentage of consumers expecting to purchase a used car edged lower in February. Plans to purchase a major appliance are actually slightly higher this year than they were last year. Televisions, in particular, seem to strike consumers' fancy this month. Nearly 10 percent of respondents plan to buy a new TV within the next six months, up from 7.2 percent a year ago.

Airlines and travel agents have something to look forward to in the next few months, as consumers plan to spend their money traveling as well. Nearly 45 percent of consumers report they plan to take a vacation in the near term, up from 42.9 percent with such plans in February 2005, and just under ten percent of respondents plan to head outside of the U.S.



**Buying Plans**  
 (% of Respondents Planning to Purchase Within 6 Months)

	Feb-06	Aug-05	Feb-05
Auto	7.1	6.2	7.2
New	3.3	3.2	3
Used	2.9	3.1	3.1
Home	3.1	3.5	4.1
Major Appliance	31.9	29.7	28.2
TV	9.5	7.1	7.2
Vacation	44.5	43.2	42.9

