Consumer Confidence Climbed in September Despite Price of Oil

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON—The bright jobs picture has kept U.S. households confident about the future despite high oil prices and continued stock-market volatility.

The Conference Board's monthly index of consumer sentiment rose to 141.8 in September from 140.8 in August, a bigger increase than many analysts had expected. Still, the index remains below the record 144.7 set in January and matched in May.

The latest numbers suggest that consumer spending, which accounts for two-thirds of economic output, won't slip much in the near term. In recent months, a number of big companies—from clothing retailers to auto makers—have reported weaker sales, battering the stock market and prompting many analysts to conclude the long-awaited slowdown is here.

Consumers are planning fewer large purchases. The number of respondents planning to buy cars in the next six months fell 1.7% in September, while those planning to buy homes slipped 1.2%. In New England, a region sensitive to heating-oil prices, confidence dropped 6.4 to 137.5.

Increasing Burden
Household debt service as a percentage of disposable income, quarterly

Source: Federal Reserve Board data, economy.com estimates

Read the article entitled "Consumer Confidence Climbed in September Despite Price of Oil," taken from the Wall Street Journal, September 27th, 2000. Use the information contained in the text and in the adjacent graph of "Household Debt Service as Percentage of Disposable Income" to address the following questions:

E2.1 How should we expect consumption and saving to behave based on the index computed by the Conference Board? Why? Explain the purpose of calculating this type of indexes.

E2.2 How can you reconcile the information contained in those two newspaper clippings? Is it consistent?

E2.3 Do you think that the growing level of household debt described in the graph entitled "Increasing Burden" is a sustainable way of maintaining high levels of consumption in the US? What are the possible drawbacks of such a tendency (does it affect saving and/or investment)?

(extra credit)