LOWE INSTITUTE OF POLITICAL ECONOMY
CLAREMONT MCKENNA COLLEGE

LOS ANGELES COUNTY CONSUMER SENTIMENT INDEX FROM LOWE INSTITUTE OF POLITICAL ECONOMY AT CLAREMONT MCKENNA COLLEGE CONTINUES DECLINE IN SECOND QUARTER 2019

Republican leaning respondents' historic optimism has worn off, Index shows a steep decline in sentiment

LOS ANGELES – July XX, 2019 – The CMC-Lowe Institute Los Angeles Consumer Sentiment Index (Index) continued a downward trend during the second quarter of 2019 though at a modest rate of 1.6%, from 88.5 to 87.1. This follows a first quarter 2019 decline of 4.2%, from 92.5 to 88.5. The Index is based on seven questions asking respondents to provide perceptions of their personal and overall economic conditions.

"Consumer sentiment in Los Angeles County has hit record lows despite continued health of the economy largely because of fears of how broader business conditions may prove detrimental to the region in the future. While consumers continue to worry about the regional and national business climate, they are generally optimistic about their own finances with one exception – making big-ticket purchases such as a new vehicle. General concerns about the bigger picture for the region's economy appear to be causing consumers to hesitate," noted Cameron Shelton, Director of the Lowe Institute of Political Economy and McMahon Family Associate Professor of Political Economy and Claremont McKenna College. The Index is generated by an alliance between Claremont McKenna College's Lowe Institute and Chapman University.

Los Angeles County consumers are increasingly pessimistic about local and national business conditions posting a 1.9% decline in sentiment when asked about the prospect for local business conditions in the near term and a decline of 3.3% when asked about national business conditions in the next year. This follows a marked decline in the first quarter 2019 of 8.2% regarding business conditions in the United States in the next year.

Conversely, when asked to project what their personal financial situation may be a one year from now sentiment rose 3.5% from the first quarter of 2019. Nevertheless, respondents are increasingly reluctant to purchase a car with a decline of 5.6% in response to this survey question – an all time low.

Concern for the overall economic outlook is pronounced among older respondents and those with higher incomes with a 6.4% decline among those 45 and older and a decline of 3.9% for those with incomes above $50,000. Slightly offsetting this decline, respondents under 45 posted a 2.5% increase in sentiment and those with incomes below $50,000 also rose by 3.1%.

"This disparity by age and income may indicate that younger and less affluent are more focused on their own circumstances rather than taking a look at the nation as a whole," Shelton observed.

Consumer sentiment is cooling with regard to whether it is a good time to find a job, down 1.3% over the first quarter 2019. Concerns about the labor market were exposed in the Index's first quarter results where respondents posted a 7.7% decline in sentiment when asked about their prospects for securing a job if they lost their current employment.

In the first quarter of 2019 there was a significant slowing in both the pace of hiring and the rise in hours worked per employee. A further examination of the data shows that in 2018 hires outpaced layoffs 3.5 to 1. In the first quarter 2019 the ratio dropped to 2.75 to 1. The latest second quarter 2019 information shows another drop to 2.5 to 1. "Hiring continues to slow despite the continued economic expansion," said Shelton. "However, when asked whether employers are increasing or decreasing hours, we find the slowdown in hours has been reversed.'

During 2018 the ratio of employees who hours were increased to those whose hours declined was 1.8 to 1. This dipped slightly in the first quarter 2019 to 1.5 to 1 but leapt in the second quarter 2019 to 3.25 to 1. "Demand has returned but businesses appear cautious about new hires and are responding by increasing work for existing staff," he concluded.

A respondent's political affiliation often influences consumer sentiment as evidenced in heavily Democratic Los Angeles County where consumer sentiment has marched downward since the 2016 election. During this same period respondents declaring an affinity for the Republic party have held a significantly higher sentiment, although the gap is narrowing. Over the past year sentiment among Republican leaning respondents has declined 15.4%. Sentiment among Democratic leaning respondents has remained consistently low and stable over the past year.

Los Angeles County has a population of more than 10 million and is the third largest metropolitan economy in the world. The Institute deemed this a region that could benefit from its own consumer sentiment survey. Consumption accounts for, on average, 70 percent of all U.S. economic activity and its importance cannot be overstated.

The economists behind the Index delve into the data and provide additional analysis and context at www.laconsumersentiment.com.

About the Survey

The representativeness of the Lowe Institute Los Angeles Consumer Sentiment Index is ensured by its being constructed from a random sample of 500 people stratified on the basis of age, gender, ethnicity, income, and zip code. The survey asks respondents seven questions concerning their current situation, perceived future prospects, and spending plans. People are asked to assess whether they see their financial situation getting better or worse over the coming year and how this is linked to their perception of recent business conditions both in Los Angeles and in the nation as a whole. They are also asked directly whether they think their chances of finding a new job are likely to improve over the coming year and whether they think the next year would be a good time, or a bad time, to buy a new car. The first quarterly survey was done in the second quarter of 2015 and has proceeded quarterly since, providing a baseline of data upon which to build. Additional information is available at www.laconsumersentiment.com

About the Lowe Institute

Founded in 1986 by Robert J. Lowe and his father Thomas Lowe, the Institute offers a variety of programs to provide learning opportunities for students outside the classroom including: a faculty-student research program, a public lecture series and a public policy focus on economic forecasting. The Institute strives to enhance existing curricula and provide emphasis on public affairs and the attendant concentration in economics and government. The mission of the Lowe Institute is to promote undergraduate education in economics and to enhance the public visibility of the College and its sister institutions.

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