LOWE INSTITUTE OF POLITICAL ECONOMY
CLAREMONT MCKENNA COLLEGE

**LOS ANGELES COUNTY CONSUMER SENTIMENT INDEX FROM LOWE INSTITUTE OF POLITICAL ECONOMY AT CLAREMONT MCKENNA COLLEGE DECLINES IN THIRD QUARTER 2018**

LOS ANGELES – October XX, 2018 – During the third quarter of 2018, the CMC-Lowe Institute Los Angeles Consumer Sentiment Index declined by 5.5% to 91.8 from a second quarter value of 97.2.

"This quarter was dominated by the rapid escalation in trade tensions with China and we are likely seeing the effects of the uncertainty on local consumer sentiment. The Port of Los Angeles is the nation's number one container port and a major economic driver for the region," 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.

The third quarter started with the United States implementation of its first round of tariffs on July 6th. On July 10th, a second round of tariffs was announced, this time on a much larger value of goods. In August, tariff levels on a subset of the second list were raised from 10% to 25% and China retaliated with its own 25% tariffs. In September, each side announced and then implemented a further round of tariffs.

"It does not appear that discussions between the U.S. and China have been productive and at this moment neither side appears to be backing down. This suggests these tariffs will likely remain in place for a significant length of time – a development that clearly weighed heavily on the trade-dependent Los Angeles area," Shelton observed.

Rising interest rates are also being felt by consumers. The Federal Reserve appears to be adhering to its planned schedule of interest rate hikes. It has raised the Federal Funds rate by 25 basis points in each of the last four quarters dating to its December 13, 2017 meeting.

"The last three raises have been unanimous, suggesting the Federal Reserve is united in its commitment to the gradual tightening, resulting in increasing consumer borrowing costs," he said. "Concern with rising interest rates is clearly reflected in the continued decline in sentiment regarding whether it is a good time to purchase an automobile, down 7.0% this quarter and down 16.4% over the past year."

While each of the seven questions comprising the Index declined, there is a big difference between sentiment on broad-based questions and sentiment on questions specific to an individual's situation, suggesting a continued divide between personal situations and interpretations of the news. For instance, when asked about U.S. business conditions over the next year, confidence declined by 10.1% compared to last quarter. However, when asked about the effect U.S. business conditions would have on a respondent's economic situation over the next year, the decline was only 2.9%. When asked about Los Angeles business conditions now versus a year ago, confidence declined by 6.4%. When asked to project whether the respondent's finances would be better or worse a year from now, confidence declined only 1.7%.

Despite this pattern, the decline is broad based, expressed equally across gender and socio-economic status. There is some evidence that it is deeper among Caucasians (-11.7%) and those with the highest education levels (-16.2%). Nonetheless, even in the face of this decline, the continued strength of the labor market is evident as those aged 18-24, just entering the labor market, are, contrary to trend, increasingly optimistic (up 7.4%). Similarly, while the Index as a whole fell 5.5%, sentiment regarding whether the next year would be a good time to look for a job fell only 3.2%.

Seeking to better understand the pessimism in the Los Angeles region — despite continued job growth, subdued inflation, a healthy stock market, and a record-setting expansion— new questions surveying political attitudes were added to the survey for this quarter. After responding to the traditional questions regarding economic sentiment, respondents were asked to rate each of the two major political parties on a scale of 0-100, a technique referred to as a "feelings thermometer" that is commonly used by political scientists. Respondents were then classified as preferring the Republican party, preferring the Democratic party, or having no strong preference between the two.

Among those without a clear partisan preference, the index is 99.7, indicating levels similar to those of the Index's base quarter – the second quarter of 2015 which was100.0. Since 2015 the national consumer sentiment, as measured by the University of Michigan, has risen a modest 4.1%. This suggests that, among respondents without strong partisan preferences, consumer sentiment in Los Angeles is not markedly different from nationwide average consumer sentiment. However, among those preferring the Democratic party, the Index is a frigid 84.0. Meanwhile, among those with a preference for the Republican party, the Index is a roaring 132.4.

"The vast difference in sentiment across partisan groups suggests a simple reconciliation between the national index, which is up strongly over the past two years, and the Los Angeles index which has declined persistently since the 2016 election. While the nation as a whole is generally balanced between Republicans and Democrats, with a large segment of the population identifying as Independent, Los Angeles County skews heavily Democratic," Shelton commented.

Providing this economic data, along with partner Chapman University, is an ongoing commitment from the Lowe Institute which was co-founded by Robert J. Lowe, Chairman of national real estate company Lowe which is headquartered in Los Angeles. The Institute has expanded its economic research to other major Southern California regions including an Orange

County Index, launched in 2017, and the Inland Empire Index which debuted with the first quarter of 2018.

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 analysis and context in a video presentation posted 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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