

# **CALIFORNIA CONSUMER CONFIDENCE SURVEY**

*Survey and Policy Research Institute at San Jose State University*

Survey Director Dr. Melinda Jackson: 408.924.5293

SPRI Director Philip J. Trounstine: 831.662.2652

## Consumer confidence up sharply, fueled by future expectations

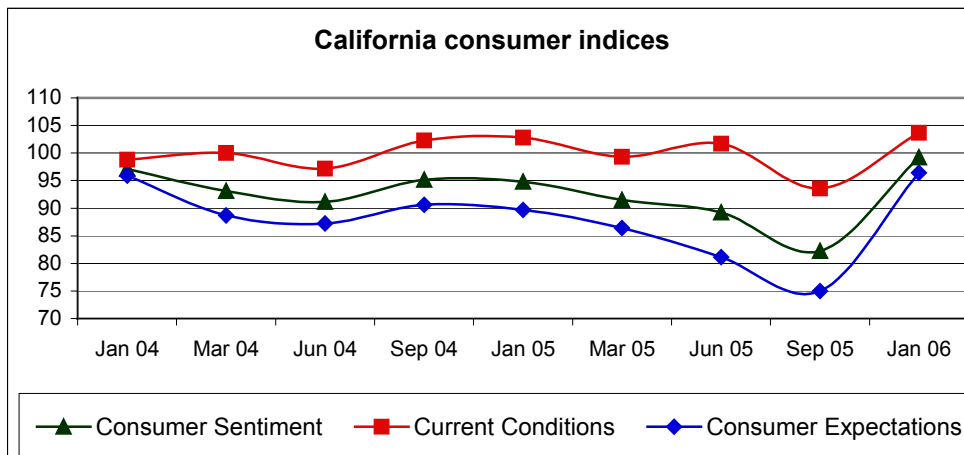
SAN JOSE (January 16, 2006) -- California consumer confidence rebounded from record low in September to new high in January, driven by dramatic gains in future expectations, the Survey and Policy Research Institute at San Jose State University has found.

Overall, the Index of Consumer Sentiment for California now stands at 99.2 – its highest level since January 2004 when SPRI began measuring consumer confidence statewide – up from a record low of 82.3 in September. The dramatic 17-point gain mirrors a 15-point increase for the U.S. over the same period – from 76.9 to 91.5 – reported by the University of Michigan.

"Consumers across the state are clearly feeling more optimistic about the economic future, especially business conditions in the nation as a whole," said survey director Dr. Melinda Jackson, assistant professor of political science at San Jose State University.

"While consumers' assessments of their own current conditions are still more positive than future expectations, that gap is starting to close. People are much less anxious about what lies ahead than they were last fall, and this may indicate a renewed willingness to spend on consumer goods and services in the coming months," Jackson said.

Concerns about rising prices, unemployment, and interest rates have all diminished. While 68% of California consumers say they expect prices to go up in the next 12 months, this is down from 85% in September. Likewise, only 30% of Californians expect unemployment to increase in the coming year, compared to 45% in September, and 69% think that interest rates will go up, down from 75% in September.

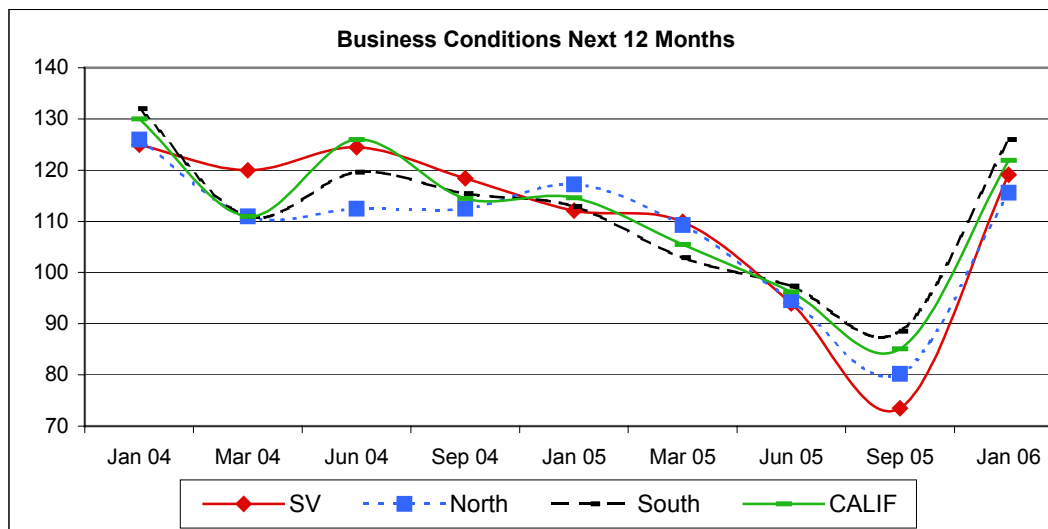


NOTE: The Index of Consumer Sentiment (ICS) combines consumer perceptions about Current Economic Conditions (CEC) and the Index of Consumer Expectations (ICE).

The strengthening of confidence corresponds with consumers' more positive sense of how things are going in the country. In January 42% of Californians said that things in the country are on the right track, up from just 31% in September. While a majority of California consumers gives the government only fair (36%) or poor (34%) marks for its handling of the economy, the percentage saying the government is doing a good job managing the economy is now up to 25% from just 16% in September.

Polling data shows the most dramatic turn-around in consumers' expectations about business conditions in the country as a whole. In September, just 29% of California consumers said they believed the country would experience good times financially in the next 12 months. But now, 43% say they expect financial good times in the coming year.

At the same time, the number of people predicting bad times financially in the next 12 months has been more than halved, falling from 44% to 21%. Business expectations are now at their highest level in the state since June 2004.



Note: Index numbers = % positive responses - % negative responses + 100

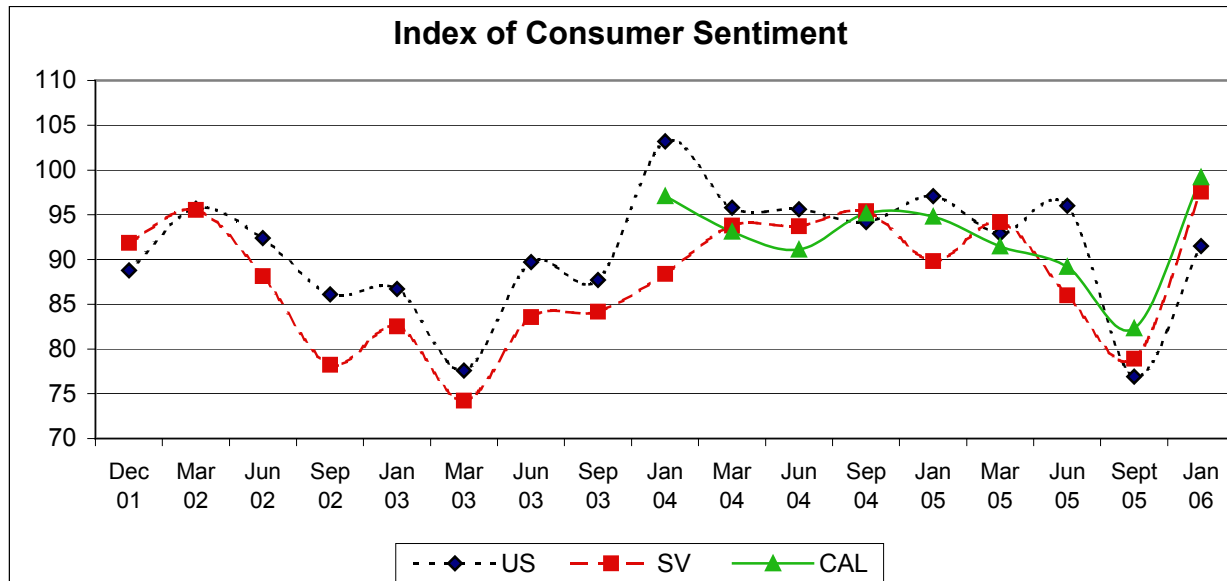
The long-term outlook for the national economy has also risen sharply, with 47% of Californians now saying that they expect the country as a whole to experience good times financially during the next five years, up from 27% in September.

Future expectations appear to be buoyed by recent positive economic news, with 27% of California consumers reporting that they have heard about favorable changes in business conditions in the last few months, while 18% say they have heard about unfavorable changes. This is a reversal from September, when just 17% of Californians had heard positive economic news and 34% had heard unfavorable news.

Index	Consumer Sentiment				Current Economic Conditions						Consumer Expectations				
	Jan 05	Mar 05	Jun 05	Sep 05	Jan 06	Jan 05	Mar 05	Jun 05	Sep 05	Jan 06	Jan 05	Mar 05	Jun 05	Sep 05	Jan 06
North	93.2	91.3	87.2	79.7	96.8	100.7	98.7	98.8	91.4	103.5	88.5	86.6	79.7	72.1	92.5
South	95.9	91.5	90.5	84.0	101.2	104.2	99.6	103.6	94.9	104.6	90.5	86.3	82.2	77.1	99.0
<b>SVall</b>	<b>89.6</b>	<b>94.2</b>	<b>86.0</b>	<b>78.9</b>	<b>97.6</b>	<b>93.8</b>	<b>101.2</b>	<b>93.9</b>	<b>91.5</b>	<b>104.2</b>	<b>86.8</b>	<b>89.7</b>	<b>80.9</b>	<b>70.8</b>	<b>93.3</b>
BayA	89.2	92.7	84.8	79.5	97.4	95.6	100.8	95.2	91.4	103.5	85.1	87.5	78.0	71.9	93.5
LA	90.7	90.4	89.9	81.3	100.2	101.3	99.4	102.1	94.0	102.9	83.9	84.7	82.0	73.2	98.4
OthrSoCal	100.2	94.3	92.9	86.1	102.2	106.5	100.4	107.0	94.1	105.8	96.2	90.4	83.8	80.9	99.8
CentVall	100.9	92.4	87.3	80.0	98.6	108.2	99.3	100.9	88.8	103.0	96.3	88.0	78.6	74.4	95.8
<b>CA</b>	<b>94.8</b>	<b>91.5</b>	<b>89.2</b>	<b>82.3</b>	<b>99.2</b>	<b>102.8</b>	<b>99.3</b>	<b>101.7</b>	<b>93.5</b>	<b>103.7</b>	<b>89.7</b>	<b>86.5</b>	<b>81.1</b>	<b>75.0</b>	<b>96.4</b>
US	97.1	92.9	96.0	76.9	91.5	106.7	107.3	113.2	98.1	109.1	90.9	83.6	85.0	63.3	80.2

Note: Index numbers = % positive responses - % negative responses + 100

Consumers' judgments of their personal financial situations have also risen somewhat since September. Statewide, 46% of Californians report that they are better off financially today than they were a year ago, compared to 42% in September, and 48% expect to do better in the coming year as well.



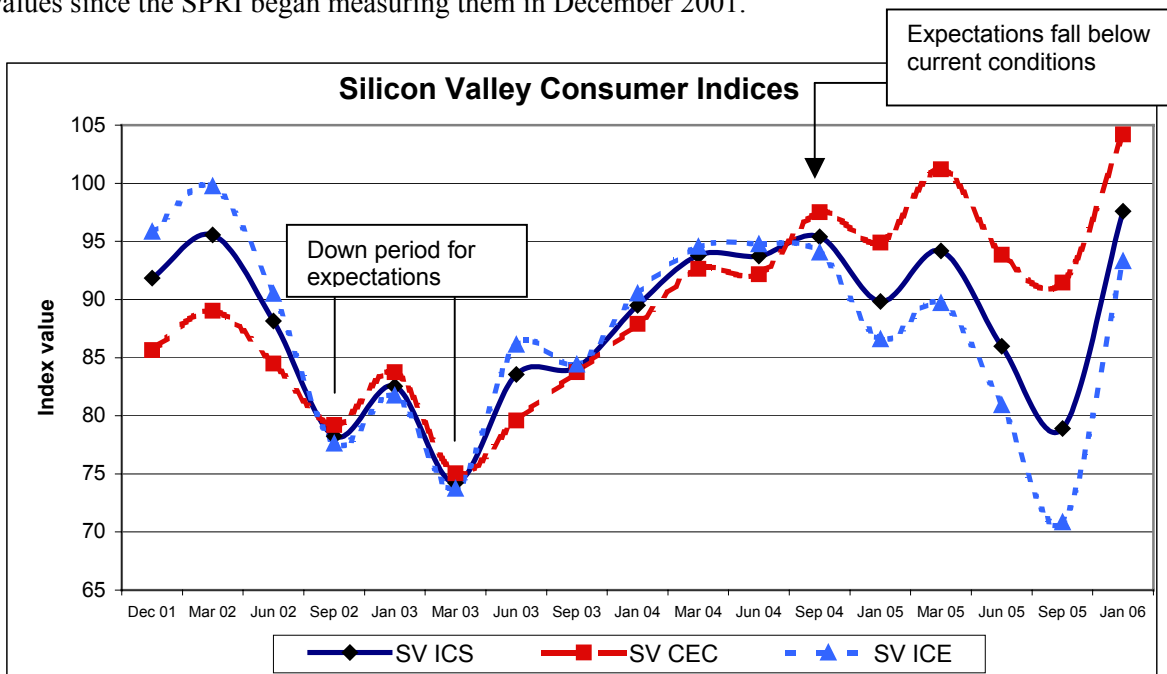
Note: Index numbers = % positive responses - % negative responses + 100

Overall, consumer confidence in California is slightly stronger than in the rest of the country, as reported by the University of Michigan.

The most significant difference between California and the rest of the country in January was in consumers' expectations for the future. Expectations were up sharply in California, with the ICE rising from 75.0 in September to 96.4 in January, an increase that eclipsed even the 17-point gain in the nationwide ICE, which rose from 63.3 in September to 80.2 in December.

**Silicon Valley**

In January, both the overall Silicon Valley Index of Consumer Sentiment and the Current Economic Conditions index reached new highs of 97.6 and 104.2 respectively -- their highest recorded values since the SPRI began measuring them in December 2001.



As SPRI noted about a year ago, Silicon Valley's expectations for the future – unlike other parts of California -- had been stronger than current conditions going back to December 2001, except for the period from September 2002 to March 2003. But in late summer of 2004, expectations for the future began to fall below current economic conditions. While that trend has continued in Silicon Valley, the gap between current economic perceptions and future expectations has begun to narrow, perhaps marking the beginning of a return to the region's historically buoyant optimism.

In January, Silicon Valley's Index of Consumer Expectations rose more than 22 points to 93.3, its highest value since September 2004. The gap between perceptions of current conditions and future expectations in Silicon Valley also shrank from 21 points in September to 11 points in January.

Silicon Valley consumers, like those in the rest of the state, are increasingly optimistic about the future of business and financial conditions in the nation. In January, 41% of those in Silicon Valley said that they expect the country to experience good times financially in the next year, up from 22% in September, while just 22% expect to see bad times financially in the country over the next 12 months.

As for the long-term outlook, 41% of Silicon Valley consumers also anticipate good times over the next five-years -- up from 27% in September.

Looking at conditions in the Silicon Valley itself, 62% say conditions in the region are better than they were a year ago, up from 48% in September. And looking ahead, 56% of consumers anticipate good financial times in Silicon Valley in the next 12 months, compared to just 37% in September.

### **About the Study**

The Survey and Policy Research Institute polled 975 California adults January 2-6 in English, Spanish and Vietnamese. The margin of error for statewide results is plus or minus 3.1%. The sub-sample in the survey for Silicon Valley included 352 respondents for a margin of error of plus or minus 5.2%