

It should be noted that the index is not adjusted for population growth or rising incomes. The substantial increase in consumers' discretionary expenditures from 1961 to 1966 reflects both these gains and the advance in the index. It was possible to trace the powerful stimuli which made for a steady growth of optimism and confidence during these years.

I shall list the more recent developments. The tax cut of 1964 not only increased consumers' disposable income, but also made people realize that purchasing power would grow and insure good times. In 1964-65 a larger proportion of families experienced sizable gains in wages or salaries than in any of the preceding 10 years. In 1965 people learned that unemployment was declining. While early in the 1950's the belief that a depression was not in the cards came to be widely held, in 1965 the notion that short recessions were also improbable spread to an increasing number of people. Finally, in 1965, the war in Vietnam was viewed by very many people as contributing to the growth of the domestic economy.

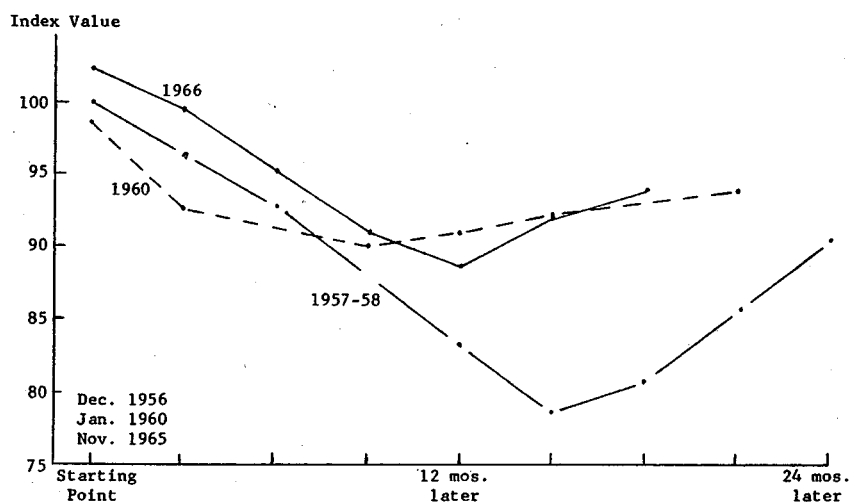
Beginning with early 1966 consumer sentiment deteriorated sharply. Table 1 shows the steady decline of the index from its 1965 level. The decline indicated in advance the easing of automobile demand in the summer of 1966 and its sharp drop in the winter of 1966-67.

It may be seen from chart 1 that the deterioration in consumer attitudes and expectations in 1966 was similar to that in 1957, though it started at a higher level and terminated earlier and at a higher level than the decline which ushered in the recession of 1958.

(Chart 1 follows:)

CHART 1

SRC Index of Consumer Sentiment in Three Periods
(Five questions)



Source: Survey Research Center, The University of Michigan