METHODOLOGICAL NOTE

Source of Data:

Nationwide surveys with representative samples of consumers conducted by the Survey Research Center every quarter since 1960 and at irregular intervals between 1952 and 1960. The sample size varies between 1300 and 3000 family units.

The Index of Consumer Sentiment:

Constructed from five questions asked in each survey on attitudes toward and expectations about the personal financial situation, general economic conditions, and the market for durable goods.

Background:

In our affluent society consumers have great latitude of action to undertake or postpone discretionary expenditures, primarily by spending larger or smaller amounts of money on durable goods, housing, and leisure-time pursuits, as well as by incurring or not incurring debt. Discretionary expenditures are a function of both consumers' ability to buy and their willingness to buy. Ability to buy depends on income received, and also on the availability of liquid assets and access to credit. Changes in willingness to buy are measured by the Index of Consumer Sentiment.

Performance:

Over the last fifteen years the movements of the Index helped to explain a large part of the substantial fluctuations in purchases of automobiles and other durable goods and foreshadowed forthcoming changes and turning points, for instance, in 1954, 1957, and 1966. Data that serve to evaluate the past performance the Index have been published in the April 1967 issue of the American Statistician.

Related Studies:

Numerous questions not included in the Index are asked in each quarterly survey. These are questions on reasons for expectations, as well as on the level of information about and the attitudes toward new developments (e.g., changes in prices, taxes, interest rates, etc.). Analysis of these data contributes to an understanding of past and expected trends in consumers' discretionary expenditures. Past studies have been summarized in George Katona's book, The Mass Consumption Society (New York, 1964).

Chairman PROXMIRE. Thank you very much, Mr. Katona, for a fine statement. I understand that your survey has just been completed and this is your first opportunity to disclose it.

Mr. KATONA. Yes, sir. We had our data yesterday on the basis of 90 percent of the sample.

Chairman PROXMIRE. This is the unveiling of your data?

Mr. KATONA. Yes, sir.

Chairman PROXMIRE. We are delighted and flattered that you have chosen this occasion to unveil this information.

Mr. KATONA. The timing was very good.

Chairman PROXMIRE. Mr. Paradiso?

STATEMENT OF LOUIS J. PARADISO, ASSOCIATE DIRECTOR, OFFICE OF BUSINESS ECONOMICS, U.S. DEPARTMENT OF COMMERCE

Mr. PARADISO. Mr. Chairman and members of the Joint Economic Committee, thank you for inviting me to discuss the present position and near-term prospects for new plant and equipment expenditures and business inventories. First, I shall consider the outlook for fixed nonresidential investment.

Prospects for Fixed Nonresidential Investment by Business. No major source of demand has surged so strongly and for so long a period of time as that for fixed capital goods by business. Indeed, the expansion of this sector, which began after the second quarter of 1961, accelerated after mid-1965 due to the sharp upturn in defense ordering and output attending the escalation of the Vietnam war—a recent