



Consumer Confidence Declines Sharply As Gas Prices And Mortgage Rates Spike, According to RBC CASH Index

New York, NY, May 5, 2006 — Amid concern over rising gas prices and interest rates, consumer confidence dropped sharply in May after holding steady in April, according to the most recent results of the RBC CASH (Consumer Attitudes and Spending by Household) Index, which measured the attitudes of 1,000 Americans this week. Economic attitudes weakened across the board, with consumers increasingly viewing the current economy negatively and displaying growing pessimism about the future. As a result, the RBC CASH Index for May, released today by RBC Financial Group, stands at 67.1, compared to 89.4 in April.

"The collapse in U.S. confidence during May is not surprising, considering that consumers were rocked by multi-year high mortgage rates, gas prices near \$3.00 per gallon, a high since just after last year's hurricanes, the immigration debate and demonstrations, and the increasing potential for conflict with Iran," said T. J. Marta, Economic and Senior Currency Strategist for RBC Capital Markets. "For perspective, the current situation and expectations components are both at extremely low levels - near those observed in the two months after last year's hurricanes. Although some of the factors weighing on people could dissipate in coming weeks, the decline in confidence is consistent with our view that U.S. economic growth has peaked for the cycle and will moderate through the remainder of the year."

The RBC CASH Index is a monthly national survey of consumer attitudes on the current and future state of local economies, personal financial situations, savings and confidence to make large investments. The Index is composed of four sub-indexes: RBC Current Conditions Index; RBC Expectations Index; RBC Investment Index; and, RBC Jobs Index. The Index is benchmarked to a baseline of 100 assigned at its introduction in January 2002. This month's findings are based on a representative nationwide sample of 1,000 adults polled May 1-3, 2006 by survey-based research company Ipsos Public Affairs. Highlights of the survey results include:

- Consumers' economic outlook has plummeted sharply during the past month, as seen in the **RBC Expectations Index**, which stood at 6.3 in May, a dramatic drop from April's 56.9. A quarter of Americans (24%) think their local economy will be weaker six months from now, up from 16 per cent last month. Women aged 18-44, Midwesterners, rural residents and those with household incomes of less than \$25,000 annually all are more pessimistic than the country as a whole.
- Negative views of the *current* state of the economy now outweigh positive views, with one in four Americans (25%) rating their local economy as weak, slightly more than the 21 per cent who rate their local economy as strong. The **RBC Current Conditions Index** dropped to 90.3 in May from 98.0 in April, the second straight month of declining perceptions about the strength of respondents' local economies.
- As Americans' views of both the current economy and their future prospects darken and interest rates increase, they are less confident of their ability to make investments or major purchases. The **RBC Investment Index** saw its third straight month of decline, dropping to 79.9, down from 86.7 in April and a 16-month high of 101.5 in February 2006. More than half (53%) of all Americans believe the next 30 days will be a bad time to invest in the stock market and a strong majority (60%) believe the next month will be a bad time to buy real estate. Half (51%) of all Americans are less comfortable in making a major purchase such as a house or car and 47 per cent say they are uncomfortable making other household purchases.
- In spite of broader pessimism about the economy, concern over job security is not widespread among Americans. However, early signs of anxiety are becoming visible. The **RBC Jobs Index** for May 2006 stands at 110.3, a 14 point drop from April's 124.5. However, early signs of anxiety are becoming visible. Confidence about personal job security slipped somewhat, with 45 per cent of Americans saying they are less confident about job security than they were six months ago (versus 39 per cent in April). Moreover, 36 per cent of American reported they or someone they know has lost a job due to economic conditions, compared to 30 per cent in April.



The impact of rising gasoline prices on consumer confidence can be seen dramatically in the number of Americans who think the country is on the wrong track. In May, 73 per cent of respondents to the RBC CASH Index survey said they thought “things in this country” are off “on the wrong track” – up from 69 per cent in April, and 59 per cent one year ago in May 2005.

In addition, the May 2006 RBC CASH Index survey came during the height of debate over immigration and proposals for granting immigrants guest worker status, which could have increased consumer anxiety.

The entire RBC CASH Index report can be viewed at www.rbc.com/newsroom/rbc-cash-index.html.

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