



RBC Consumer Outlook Index : U.S. Consumer Confidence Edges Down as Consumers Search for a Signal on the Economy's Direction

Survey Shows Lack of Confidence in State and Local Government Bonds

New York, NY, February 3, 2011 - U.S. consumer confidence for February declined slightly for a second month as consumers await a definitive signal on the direction of the economy, according to the monthly RBC Consumer Outlook Index. The Index for February declined to 44.5, down 0.4 points from January's 44.9 but still above the 42.6 points recorded a year ago. In line with the volatility in the municipal bond market, the survey also found that a majority of Americans are not confident in municipal bonds as an investment.

"Although the RBC Consumer Outlook Index has done nothing but move sideways since hitting a post-recession high in December, it's surprising that consumer confidence didn't fall even more, given recent events," said RBC Capital Markets Chief U.S. economist Tom Porcelli. "The survey was conducted in the midst of daily headlines about unrest in Egypt, rising fuel prices and a sharp decline in the markets - all of which historically weigh on confidence. It appears that the Index was backstopped by future expectations, which reached their highest level in a year. This suggests that consumers view current events as transitory and are willing to look past them."

State and local governments' budgets, already strained by falling tax receipts and rising expenditures, could soon face another challenge: investors who lack confidence in their financial health and are less willing to buy their bonds. A large majority of consumers surveyed (62 per cent) are not confident in municipal bonds as an investment, according to the RBC Consumer Outlook Index, with only 22 per cent saying they find these bonds to be a good investment. Weakening demand for bonds could push up borrowing costs for governments, further pressuring their budgets.

"The consumer response confirms that the continual stream of news stories about state and local government fiscal problems is having a negative impact on investor perception," said Chris Mauro, head of Municipal Bond Research. "The results are consistent with the sizable outflows from municipal bond mutual funds that we have seen over the last several weeks. Given the current challenging budget environment, consumers will likely continue to see these negative headlines for at least the next several months."

This month's decline in the RBC Consumer Outlook Index is driven mainly by a weaker **Current Conditions Sub-Index**, which edged down to 34.4 from 35.0 last month, and softening of confidence in the labor market, with the **Jobs Sub-Index** declining for the first time in four months, slipping to 50.9 from January's 52.1.

When asked where they think new jobs will appear over the next three months, most consumers expect the healthcare industry (45 per cent), information technology field (31 per cent), and manufacturing sector (27 per cent) will produce the most jobs.

In contrast to the findings of the Current Conditions and Jobs Sub-Indices, the **Expectations Sub-Index** perked up slightly to 56.8, from 55.3 in January, indicating that more Americans think the economy will get better in the next year. One-in-four consumers (23 per cent) say they think the economy in their community will be stronger in six months, compared to 20 per cent who say



it will be weaker. Moreover, 30 per cent expect their personal finances to strengthen in the next six months, compared with only 20 per cent who expect them to weaken.

While expectations for strengthening personal finances could potentially generate higher spending, consumers' expectations of price increases continue to climb. Gasoline and fuel prices show the highest increase, with 88 per cent of consumers expecting fuel prices to go up in the next year. Overall, 56 per cent of consumers expect inflation to increase over the next five years.

The **Investment Confidence Sub-Index** held steady at 39.0, a tick above last month's 38.9. One-in-four consumers (22 per cent) think it is a good time to invest in stocks, compared to 29 per cent who believe it is a bad time to invest, the highest level of confidence in the markets in more than a year.

Three-in-five Americans (60 per cent) say the country is on the wrong track, compared to 40 per cent who say it is headed in the right direction. The "wrong track" number, although improved from last month, remains above the 60 per cent level for the tenth consecutive month.

The RBC U.S. Consumer Outlook Index provides the most up-to-date and comprehensive outlook of U.S. consumers based on data collected from interviews with a nationally representative sample of more than 1,011 U.S. adults conducted over a multi-day polling period each month by Ipsos, the world's second-largest market and opinion research firm. The results in this news release reflect some of the findings of the Ipsos poll of 1,011 U.S. adults conducted January 28-31, 2011. The RBC Consumer Outlook Index is released within 36 hours after the U.S. online panel members are interviewed. Weighting is employed to balance demographics and ensure that the survey sample's composition reflects that of the U.S. adult population according to Census data and to provide results intended to approximate the sample universe.

The entire RBC Consumer Outlook Index report can be viewed at:
<http://www.rbc.com/newsroom/rbc-consumer-outlook-index-releases.html>

For more information on this release, please contact:

Michael Gross, Ph.D.
Director
Ipsos Public Affairs
(202) 463-7300
publicaffairs@ipsos-na.com

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Media contact:

Kait Conetta, RBC, (212) 428-6409