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ECONOMIC REPORT

Consumers descend further into economic funk Two-thirds in survey expect inflation, sluggish growth to persist for years

By [Rex Nutting](#), MarketWatch
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WASHINGTON (MarketWatch) -- Pummeled by high gas prices, rising foreclosures and weak job growth, U.S. consumers' mood turned even gloomier in June despite the stimulus checks they got from Uncle Sam, according to a survey released Friday by the University of Michigan and Reuters.

The consumer sentiment index fell to 56.4 in June, the lowest since 1980 and the third-lowest reading in the 56-year history of the survey. The index had read 59.6 in May and 56.6 in the mid-June preliminary report.

Economists surveyed by MarketWatch expected the index to fall to 56.5. [See Economic Calendar](#).

Despite the angst consumers are feeling, their spending has held up rather well so far. Boosted by the rebate checks, real consumer spending rose 0.4% in May and is up 2.2% in the past year.

The two subindexes in the UMich survey also fell to the lowest levels since 1980.

The expectations index fell to 49.2 in June from 51.1 in May, slightly better than the 49.0 at mid-month. The current conditions index fell to 67.6 from 73.3 in May and 68.7 in mid-June.

The plunge in sentiment came in as the last of \$110 billion in fiscal stimulus checks were being delivered by the IRS, which helped boost personal incomes in May by 1.9%. [See full story](#).

"Surging gas prices, high food prices, disappearing jobs, declining home values, and record foreclosures were cited by consumers as the basis for their pessimism, and most consumers expected each of these problems to continue to worsen in the months ahead," said Richard Curtin, who runs the survey for the university.

More consumers than ever before said their own finances had worsened, and the outlook for their real, or inflation-adjusted, incomes were the bleakest ever.

Nine of 10 said the economy was in recession. Two-thirds expect the slump to last several years.

Consumers' expectations for inflation over the next year climbed to the highest level in more than 20 years. They expect gasoline to average \$5 a gallon over the next five years.

Fewer consumers expected to buy durable goods and homes in coming months, with buying plans falling to the lowest levels since the early 1980s. "Consumers said that they favored the postponement of purchases given their uncertainty about their future income and job prospects as well as concerns about the future course of gas and food prices," Curtin said. ■

Rex Nutting is Washington bureau chief of MarketWatch.

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