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Economics Group

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Consumer Sentiment Proves Resilient in September

The University of Michigan's Index of Consumer Sentiment fell 1.7 points in September, as concerns about hurricanes Harvey and Irma offset growing optimism about current economic and financial conditions.

Consumers Appear to be Weathering the Storms

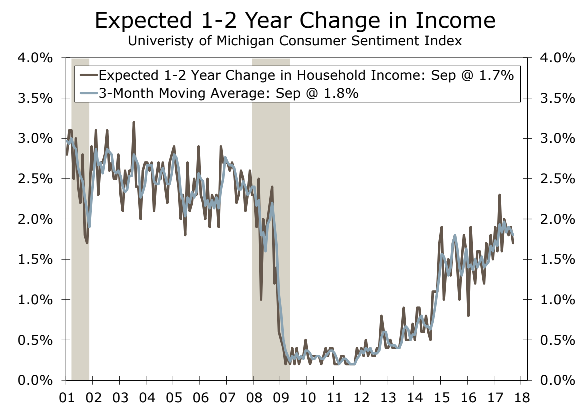
Consumer sentiment fell modestly in September, but views on the economy have largely held up well given the extent of damages from hurricanes Harvey and Irma. The survey is said to have included responses from Texans and Floridians, so it should be a fairly good assessment of how the economy will hold up after the storm. Consumers appear to be particularly upbeat about employment and income prospects and a relatively big proportion of consumers expect the country to have 'continuous good times over the next 12-months' and their household finances to improve.

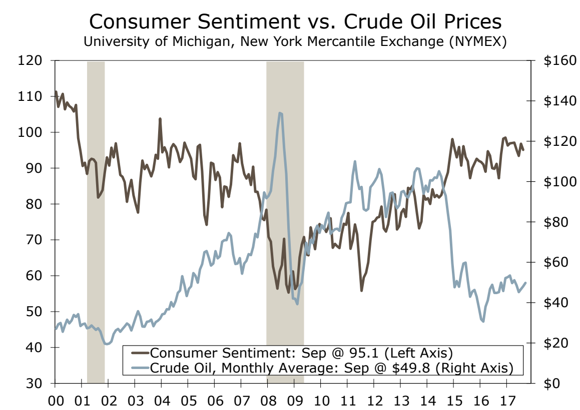
The mechanics of the University of Michigan Survey suggest the economy should withstand the hit from hurricanes Harvey and Irma. While the overall sentiment index fell 1.7 points over the month, it remains consistent with its recent average and the average for the past 12 months. September's drop was entirely in the expectations series, which fell 3.3 points to 84.4. The decline reflects increased concern about the disruption to households and businesses impacted by the storms. Expectations improved from their mid-September reading, which suggests that more businesses and households are returning to normal operations.

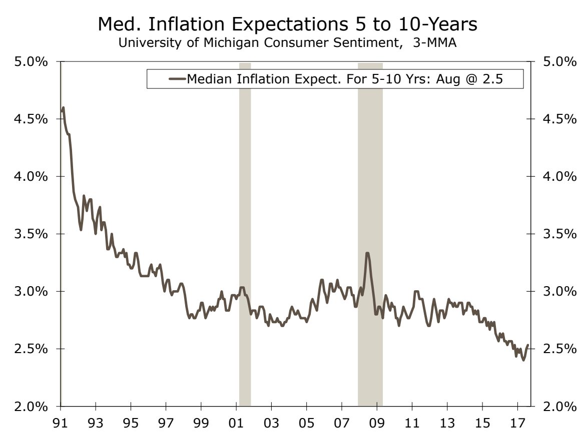
Given the extent of the damages from the storms and related interruptions to business activity, the small drop in consumers' assessment of their current finances is encouraging. The proportion of households reporting that their finances were better today than they were a year ago fell 2.0 points to 49 percent in September. The proportion expecting their finances to improve over the next year also fell by 2.0 points. Both series have been trending higher, however, and the proportion expecting their finances to improve remains near its cycle high. Household finances are being buoyed by growing confidence about employment and income prospects, as well as a resilient stock market, which has plowed right through a series of natural disasters and geopolitical concerns.

With a large proportion of households stating that their finances are in good shape, buying plans for major household appliances and motor vehicles remain near their highs for the cycle. The proportion of consumers that believe now is a good time to buy a home continues to decline, however, with consumers citing increasing concerns about affordability and the lack of for-sale inventory as their key concerns. Conversely, the proportion of consumers that say now is a good time to sell a home has increased, with rising home prices cited as the primary justification. Rising home values were reported by 66 percent of all homeowners, which is the highest reading in 10 years.

Rising home prices do not seem to be influencing consumers' view on overall inflation. Median inflation expectations for the next 5 to 10 years have trended lower over the past few years.







Source: University of Michigan, Bloomberg LP and Wells Fargo Securities

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