



# Economics Group

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## Consumer Sentiment Holds Near Its Recent High

*The University of Michigan's Consumer Sentiment index rose 0.1 point to 97.1 in May and remains roughly even with its average of 97.3 maintained in the six months following the November election.*

### Consumers Remain Relatively Upbeat

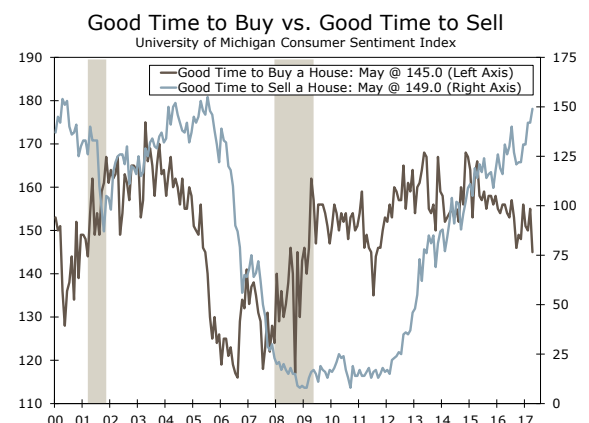
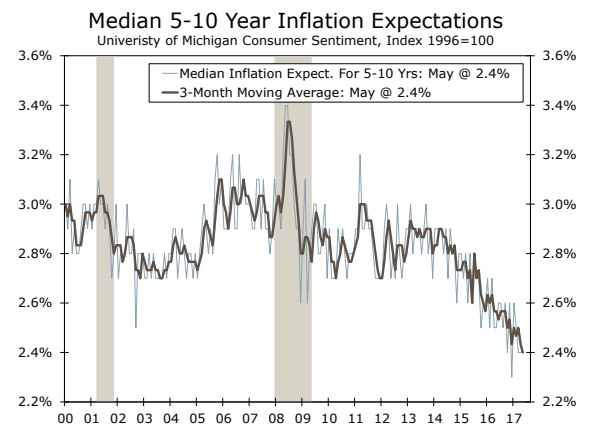
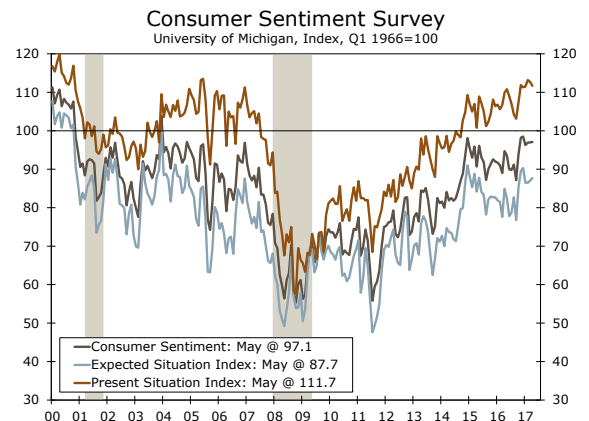
Consumer sentiment was little changed over the month, although the final May reading did fall slightly from the mid-month report. Consumer sentiment has remained near its recent highs since the presidential election, although the survey also shows a sharp partisan divide. Republicans and Democrats have largely switched views on the economy since election day, with Republicans much more upbeat about employment and income prospects, while Democrats see more trouble ahead. The partisan gap has narrowed slightly in recent months, with attitudes on the economy's near-term performance improving as the stock market has hit new highs and the unemployment rate has fallen to a cycle low 4.4 percent.

The May data were little changed from the prior month or the average for the past six months. The current economic conditions series fell 1 point to 111.7 in May, which is just slightly below its average of 112.1 over the past six months. The expectations component rose by 0.7 points to 87.7, which left it just under the 87.9 averaged since November.

While the overall index and major components were little changed, consumers do seem to feel more secure about their finances. The proportion expecting their household finances to improve over the next year remained unchanged at 41 percent, which marks a 12-month high for this series and is the third month the index has been at this level this year. The stronger appraisal of household finances follows news that aggregate household assets hit a new high earlier this year, benefitting from the recent run-up in the stock market and strong increases in home prices.

Consumers' attitudes toward the inflation outlook are also likely to be closely scrutinized in coming weeks. Several Federal Reserve Bank presidents have voiced concerns that inflation has consistently fallen short of the Fed's 2 percent objective. Inflation expectations for the next 12 months inched up to 2.6 percent in May but expectations for the next 5 to 10 years remain at their all-time low of 2.4 percent. Consumers' muted view on inflation is somewhat surprising in that nearly half of consumers expect gasoline prices to rise over the next 12 months and only 5 percent expect them to decline. Moreover, a growing proportion of consumers have expressed concern about the recent increase in home prices.

Rising home prices have caused consumers to shy away from buying a home. For the first time since 2006 more consumers complained about high home prices than cited low home prices. As a result, the proportion of consumers that believe now is a good time to sell a home has continued to trend higher, while the proportion that feels now is a good time to buy a home has continued to trend lower. The steady rise in the good time to sell series may be a sign that listings are set to increase. That would certainly help the housing market, which has been starved for inventory.



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