



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277
Jamie Feik, Economist
jamie.feik@wellsfargo.com • (704) 410-3291

Consumer Sentiment Ends October at Cycle High

The University of Michigan's Consumer Sentiment Index jumped 5.6 points in October to a new cycle high of 100.7, though it was slightly higher earlier in the month. The surge was driven by job and income prospects.

Consumers Are Feeling Very Good

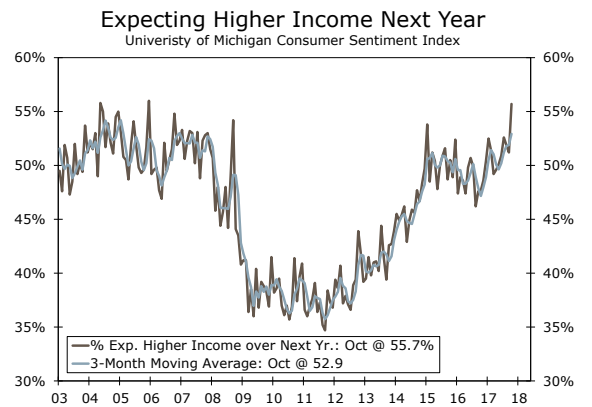
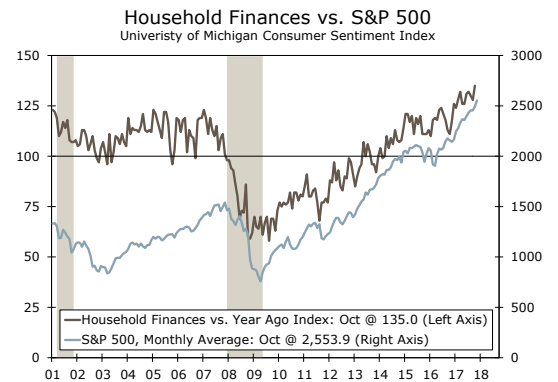
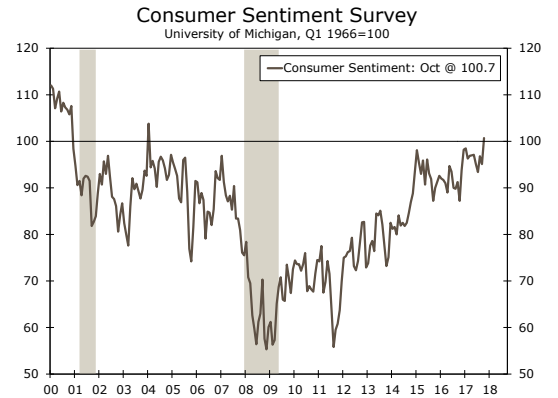
Consumer sentiment is at its highest level since 2004. One encouraging aspect of this month's survey was that much of the strength came from a broadening in positive consumer responses. A majority of consumers have seen their personal financial situation improve over the past year, and only seven percent are concerned their finances will be worse next year; most expect to be in the same financial situation as today. Consumers are also feeling good about the national economy. Over half expect good times to continue next year and, quite notably, 51 percent of consumers expect uninterrupted economic expansion over the next five years. That would put the current cycle as the longest on record, if consumers prove right.

Consumers have solid reasons for feeling upbeat about their economic situation. The low unemployment rate has reinforced confidence in the job market, and that is expected to continue—72 percent of respondents place the probability of losing their job during the next five years at 25 percent or lower. Income prospects are likewise broadly positive. The current financial situation index is at its highest in nearly 20 years, and respondents across the income distribution expect to be even better off financially in five years.

The continued run in the stock market and rising home values are helping boost income assessments. The probability of future stock market gains rose to its cycle high as well, suggesting consumers believe in the resilience of the current market. Two-thirds of all homeowners saw their homes increase in value over the past year. Better current financial outcomes have also translated into more confidence about retirement. The probability of having adequate retirement income increased to 38.2 percent, which is the highest point since the 1990s—a mark also hit once this year.

The high consumer sentiment in the first month of Q4 is a good sign for the personal consumption expenditure line in the GDP calculations. Consumer spending drove another strong print for GDP in Q3, with the first estimate this morning coming in at 3 percent. On the heels of a 3.1 percent gain in Q2, the economy appears to be on a winning streak. Consumer spending accounted for more than half of the increase in Q3 GDP. The roaring stock market has certainly helped with consumers' assessment of their finances, which appears to have translated into actual consumption in Q3. October's robust showing for consumer sentiment suggests this consumer demand-driven economic growth is slated to continue.

Consumers continue to assess now as a good time to go shopping. They were particularly favorable towards household durables buying conditions, which were rated at their highest since 2009. October was also a good time to buy vehicles and homes, with over 70 percent of respondents responding favorably for both. They did not appear too concerned about rising interest rates, though nearly 70 percent expected them to go up over the next year.



Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704)410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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