

Economics Group

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Consumer Sentiment Tops Expectations in January

The University of Michigan's Consumer Sentiment Index slipped 0.2 points in January from its December level but edged higher from its mid-month reading. Consumers are upbeat about the economy's future prospects.

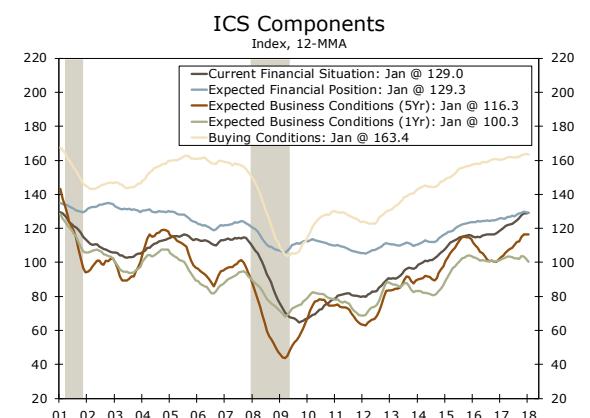
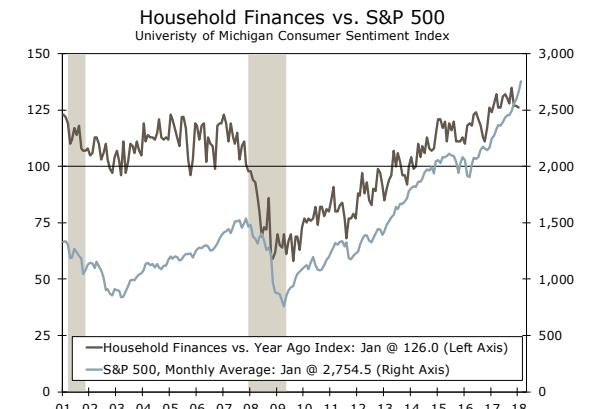
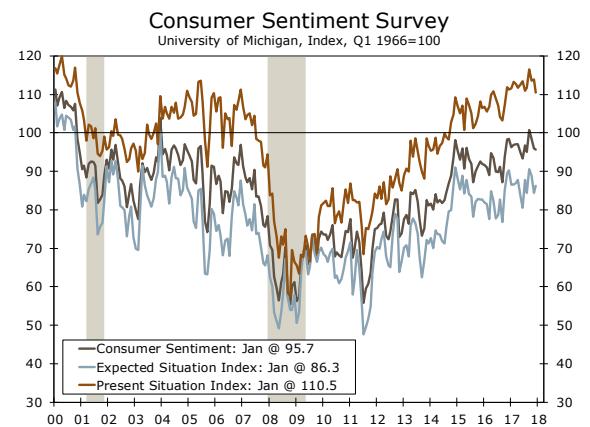
Tax Reform is Providing A Boost to Consumers' Psyche

The final reading for the University of Michigan's Index of Consumer Sentiment came in slightly better than expected in January. The overall index rose 1.3 points from its preliminary reading but was still 0.2 percentage points less than it was in December. Tax cuts and the buoyant stock market have clearly helped pull consumer confidence higher. The survey noted that stock price increases and tax reform were mentioned by an all-time record numbers of consumers. The survey was completed too early to reflect this past week's sell-off. We had noted this in earlier our write-up of the Conference Board's survey that the stock market often pulls back just as consumer confidence begins to get a boost from rising stock prices.

While the stock market and tax cuts are on the top of consumers' minds, confidence appears to be taking its cue more from improving employment and income conditions. The present situation index fell 3.3 points in January to 110.3. The series remains extraordinarily high, however. Rising asset prices have helped support the present situation index. For 2017 as a whole, consumers' assessment of the present situation averaged 112.7, which is the highest since 2000. Consumers' assessment of their personal finances was essentially unchanged in January at 126.0, and remains near its highest level since 2000. When asked why they felt so positive about their finances, a rising proportion noted rising asset values.

Tax reform is clearly providing a boost to consumer psyche. Buying conditions, expected financial position and expected business conditions all remain at or near their highest levels since 2000. Expectations for future economic conditions rose 2.0 points in January to 86.3. The improvement reflects both recent gains in the stock market and optimism about the likely impact of tax reform. Consumers are asked each month what news they have recently heard over the past month that affects their view on economic conditions. Thirty-five percent mentioned government economic policies, which was the highest in more than 50 years. Most of these open-ended spontaneous responses mentioned tax reform, with 22 percent of consumers stating tax reform would have a positive impact on the economy and just 6 percent stating it would have a negative impact.

The strength in consumer sentiment did not carry over into buying plans. Plans to purchase big-ticket items fell 8 points in January to a still very robust 160. Buying plans had averaged 168 during the fourth quarter and did a good job of anticipating the strong holiday shopping season. Consumers may have overdone it, however. The saving rate fell to a 12-year low of just 2.4 percent in December, indicating that consumers are spending a larger portion of their take-home pay. Given the large proportion of consumers citing tax reform as the reason they feel so upbeat about the economy, we would expect consumer confidence measures and spending to get another boost when these tax cuts begin to show up in mid-February and March.



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