



Economics Group

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Consumers Remain Unfazed By Market Volatility

Consumers appear to be unfazed by recent volatility on Wall Street. Consumer sentiment rose 4 points in February to 99.7, as rising optimism about jobs and income easily outweighed any fears about low share prices.

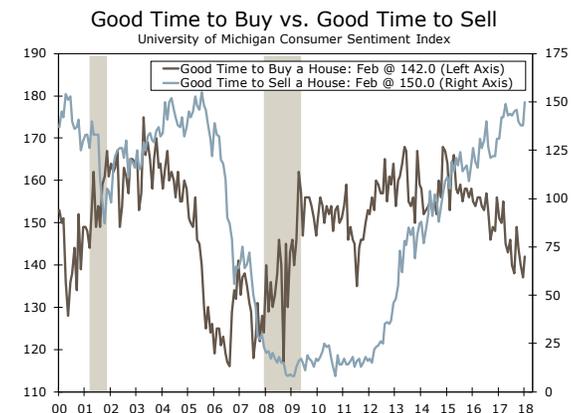
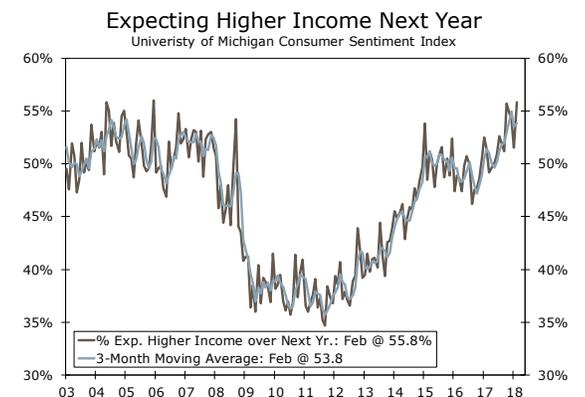
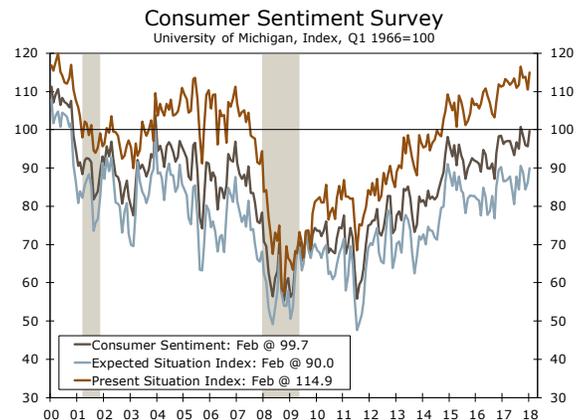
Consumers Remain Upbeat About the Economy and Incomes

Consumer sentiment rose 4 points in February to 99.7 and is just 1 point below its recent high hit in October of last year. Consumers appear to be unfazed by the recent volatility on Wall Street. Relatively few consumers cited the stock market as a factor influencing their views on the economy and, surprisingly and reassuringly, a larger proportion of those that cited it as having an impact said it was positive for the economy rather than negative. Consumers are clearly more focused on the underlying fundamentals. Our top chart shows consumers' assessment of current economic conditions, which rose 4.4 points in February to 114.9. The University of Michigan noted that more consumers reported they had recently heard favorable news about the economy in February than any other time since 1984. Two-thirds of consumers reported their attitudes were influenced by the recently enacted tax cuts and stronger overall employment growth.

The persistent improvement in consumer sentiment provides some relief for folks concerned about ballyhooed threats, such as rising interest rates or steel tariffs. Consumers are not turning a blind eye towards the threats, but appear to be balancing them against expectations for stronger job and income growth. Consumers' assessment of their finances has improved greatly over the past year. Fifty-four percent of consumers said that their finances had improved over the past year, which is the highest share since January 2000.

Consumers are also optimistic about the labor market and income growth going forward, with a significantly larger share of consumers expecting the unemployment rate to fall over the next year (35 percent) than expecting it to rise (23 percent). The percentage of consumers expecting their income to rise over this year rose 3.8 percentage points to 55.3 percent. An even larger share (57 percent) of consumers stated that they expect the country will have continuous good times over the next 12 months, up 3 percentage points from January. The increased confidence in job and income prospects should be good news for consumer discretionary spending, which has recently shown some signs of cooling off following a strong holiday shopping season.

While consumers are remarkably upbeat, they are still aware of many of the key risks present today. An overwhelming 77 percent of consumers said that they expect interest rates to rise over the next 12 months and 48 percent expect gasoline prices to increase. Consumers just seem to be doing a better job than the financial markets in putting these risks into perspective. Stronger economic growth and increased job security are far more important to consumers and that is apparent in buy plans for major household items, which rose 6 points in February. On a more cautionary note, plans to buy a car or a house both rose much less during the month, although the proportion of consumers stating that now is a good time to sell a house jumped 7 points to 73 percent.



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