



Economics Group

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Tax Cuts Pull Consumer Sentiment Higher in Early March

University of Michigan's early read on March consumer sentiment rose 2.3 points to 102.0. Sentiment is now at its highest level since 2004, and consumers' assessment of current conditions is now at its highest level ever.

Tax Cuts Offset Concerns About Tariffs and Market Volatility

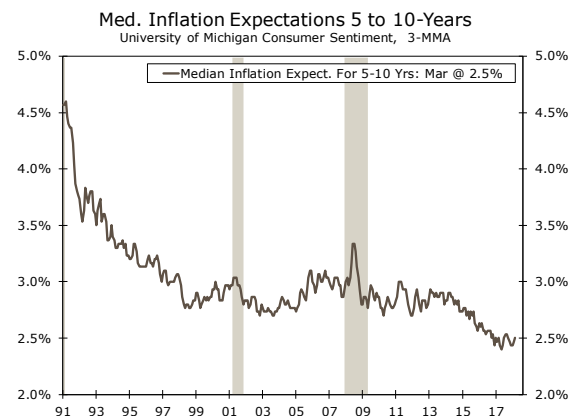
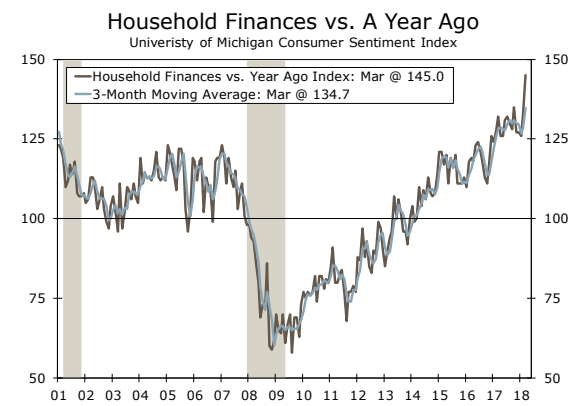
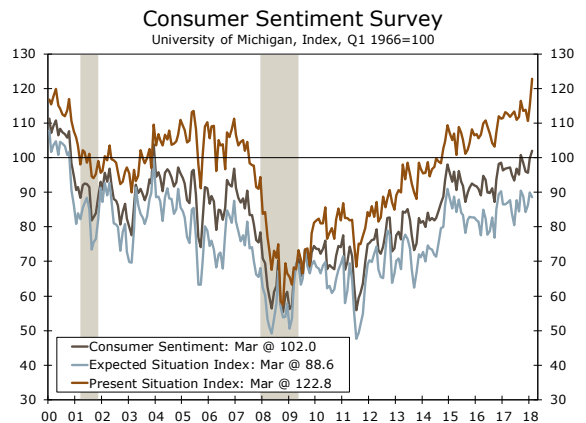
Consumer sentiment once again surprised to the upside, as consumers' assessment of current economic conditions jumped nearly 8 points in early March. The bulk of the increase came from the proportion of consumers stating that their household finances had improved over the past year. The proportion stating that their finances had improved rose 5 points from February, while the proportion stating their finances worsened fell 7 percentage points.

The recently-enacted tax cuts and rollout of the new withholding schedules is likely behind the improvement. The proportion of consumers stating that their income had increased over the past year rose 8 percentage points to 47 percent, while the proportion stating that their income had fallen declined by 4 percentage points to 12 percent. The rising proportion of consumers noting that their income has increased is an encouraging sign for consumer spending, which has been disappointing the past two months.

The latest data show a decisive split between upper income and lower income households in their assessment of current economic conditions and the economic outlook. Households with incomes at the bottom third of the spectrum have clearly been bolstered by the tax cuts, with 15.7 percent reporting an improvement in conditions. By contrast, households with incomes at the top third of the income spectrum were somewhat more cautious in early March. Upper income households are much more likely to view the prospect of steel tariffs with some trepidation, as it introduces another element of volatility into the financial markets. All of the improvement in household finances came from consumers noting that their incomes had risen, while the proportion of consumers noting that asset prices had risen actually declined slightly.

All the talk about tariffs and continued volatility in the financial markets also helps explain the split between attitudes about current economic conditions, which rose 7.9 points in early March, and expectations for future economic conditions, which fell 1.4 points during the same period. Slightly fewer consumers stated that they expect their income to improve over the next year compared to last month. While expectations slipped, consumers remain relatively upbeat, with 41 percent expecting their household finances to improve over the coming year and 48 percent expecting them to remain the same. Just 11 percent expect their finances to worsen over the next year.

Expectations for inflation over the next year ticked up to 2.9 percent from 2.7 percent the prior month. The early data have often noted an increase in inflation expectations, however. Inflation expectations for the next 5 to 10 years have been much more stable. An overwhelming proportion of consumers, 81 percent, expect interest rates to rise. That share has increased substantially in recent months, reflecting the improved economic outlook.



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