

Economics Group

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Consumer Sentiment in Edges Higher in September

The University of Michigan's Consumer Sentiment index edged higher in September, rising 1.4 points to 91.2. The bulk of the improvement came in the expectations series, largely among higher income households.

Sentiment Rise More Modestly Than Confidence

The University of Michigan's index of consumer sentiment rose modestly in late September, ending the month 1.4 points above its mid-September reading of 89.8, which was also the final reading for August (top chart). While both current conditions and expectations rose from their mid-month levels, all of September's overall gain came from the 4-point rise in the expectations component. By contrast, consumers' assessment of current economic conditions fell 2.8 points in September to 104.2.

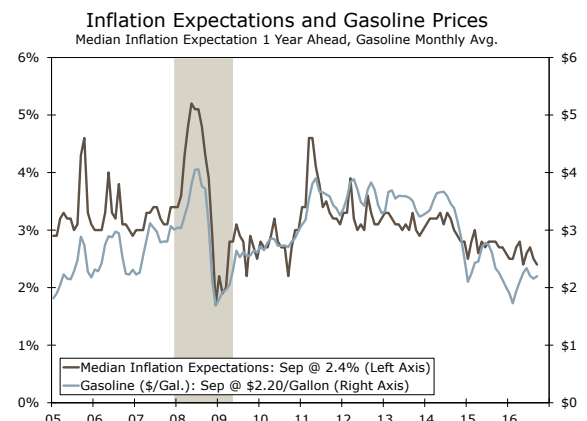
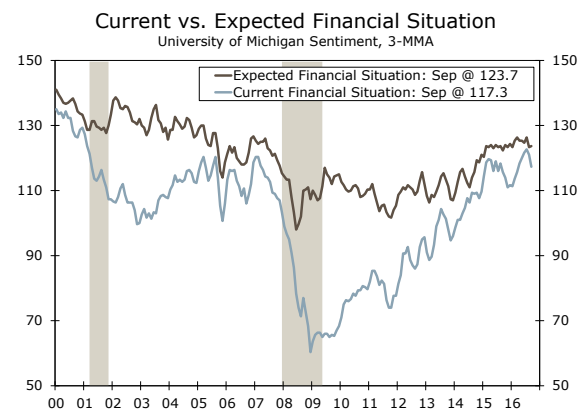
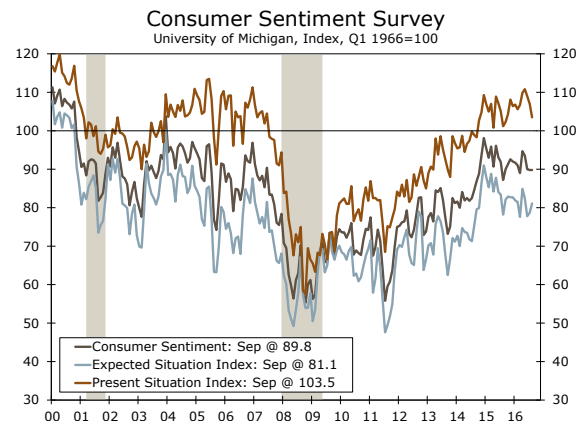
The stronger expectations figure is likely tied to the stronger than expected bounce back in the stock market since the post-Brexit vote selloff. Most of the improvement in consumer sentiment has occurred among households with annual incomes above \$75,000. By contrast, the weaker current conditions reading appears to be tied to disappointment about the pace of income growth over the past year, with the number proportion reporting that their income had risen over the past year falling 4 points in September to 31 percent, while those stating that their income had fallen rising 4 points to 25 percent. For households earning less than \$75,000 a year, sentiment has been roughly unchanged for the past three months.

On the surface, the University of Michigan consumer sentiment survey does not show anywhere near the oomph that the Conference Board's Consumer Confidence survey has shown recently. Consumer confidence has come in above expectations for the past two months and is at its highest levels since the recession, while consumer sentiment remains mired in the same range that it has been for much of this year. One possible explanation for this apparent split is that the Conference Board survey focuses much more on the availability of jobs, while the University of Michigan survey asks many more questions about income, the stock market, interest rates and inflation. The jobs data have been much more positive than the income data have been, hence the better reading for the Conference Board survey.

Talk of Higher Interest Rates May Be Clouding Consumers' View

After falling to a low 52 percent in August, consumer expectations for higher interest rates over the next 12 months rose 9 points to 61 percent in September. The rise was one of the larger moves in the consumer sentiment survey and coincides with the more hawkish rhetoric from many Federal Reserve Board Governors. Expectations of higher interest rates do not appear to be spurring more borrowing ahead of potential rate hikes.

The more modest rise in consumer sentiment this year probably provides a better read on consumers than the stronger recent consumer confidence data. Gains in income and wealth vary considerably across the economy. Moreover, with the slide in gasoline prices now behind us, the benefit it provided to lower and middle income families has faded.



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