



September 26, 2014

Consumer Sentiment Strengthens

Index of Consumer Sentiment				
Sep '14	Aug '14	Sep '13	M-M Chng	Y-Y Chng
84.6	82.5	77.5	+2.5%	+9.2%

Index of Consumer Expectations				
Sep '14	Aug '14	Sep '13	M-M Chng	Y-Y Chng
75.4	71.3	67.8	+5.8%	+11.2%

Current Conditions Index				
Sep '14	Aug '14	Sep '13	M-M Chng	Y-Y Chng
98.9	99.8	92.6	-0.9%	+6.8%

Surveys of Consumers chief economist, Richard Curtin



“The defining aspect of the current recovery has been that optimism about future prospects has not improved in advance of actual economic gains. Typically, optimism generates increased spending which helps to improve current economic conditions. Surprisingly, an improved economy has not sparked renewed optimism, at least until recently. The renewal of income growth is particularly important for sparking increased consumer spending in the year ahead. Moreover, given the anticipated changes in monetary policy, strong income gains will be needed to bolster spending given the diminished positive role of household wealth.”

ANN ARBOR. Consumer confidence posted a healthy September gain due to more favorable prospects for the domestic economy as well as more favorable personal income expectations. The September reading, the second highest in the last seven years, points toward renewed strength in consumer spending. While the September rebound brought confidence back to its highest levels since the Great Recession, confidence has repeatedly failed to move above this level (see the chart below). The improved income expectations recorded in September have the potential to reinvigorate personal financial optimism that is the key driving force of behind large discretionary expenditures, especially those involving debt. Needless to say, it will take repeated and cumulative gains to reverse the impact of stagnant incomes on spending.

Economy Expected to Improve

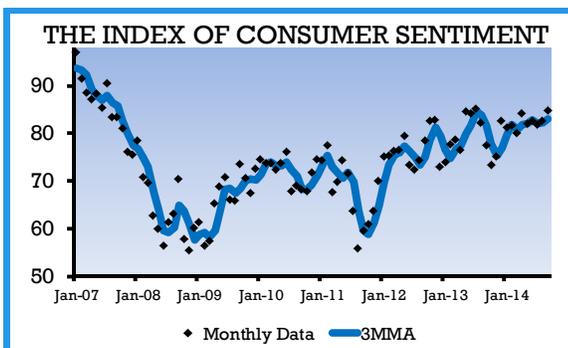
The recent survey recorded widespread reports that the economy had improved and the economy was expected to continue to post gains in the year ahead. The creation of jobs is the most important aspect of a strengthening economy for consumers. On this count, consumers expected modest growth in jobs in the year ahead. The unemployment rate, however, was expected to remain largely unchanged rather than to post substantial improvement.

Higher Income Gains Expected

More households expected income gains in the year ahead in the recent survey than anytime in the last six years—since September of 2008. Just as importantly, the median increase of 1.1% expected by all households was the highest since late 2008. While still meager, this improvement, along with a decline in the expected inflation rate, meant that more households expected their income gains to keep pace or exceed the rate of inflation.

Consumer Sentiment Index

The Sentiment Index was 84.6 in the September 2014 survey, up from 82.5 in August and 77.5 in last September's survey. The entire September gain was concentrated in the Expectations Index, which rose to 75.4 from 71.3 one month ago and 67.8 one year ago. Although the Current Conditions Index slipped to 98.9 in September from 99.8 in August, the August reading was the highest since July of 2007.



About the survey

The Survey of Consumers is a rotating panel survey based on a nationally representative sample that gives each household in the coterminous U.S. an equal probability of being selected. Interviews are conducted throughout the month by telephone. The minimum monthly change required for significance at the 95% level in the Sentiment Index is 4.8 points; for Current and Expectations Index the minimum is 6.0 points.

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