



June 27, 2014

## Healthy Job Growth Offsets Dismal Wage Prospects

Index of Consumer Sentiment				
Jun '14	May '14	Jun '13	M-M Chng	Y-Y Chng
82.5	81.9	84.1	+0.7%	-1.9%

Index of Consumer Expectations				
Jun '14	May '14	Jun '13	M-M Chng	Y-Y Chng
73.5	73.7	77.8	-0.3%	-5.5%

Current Conditions Index				
Jun '14	May '14	Jun '13	M-M Chng	Y-Y Chng
96.6	94.5	93.8	+2.2%	+3.0%

**ANN ARBOR.** The small June gain in consumer confidence was not as meaningful as the fact that the Sentiment Index has remained largely unchanged at its current level for the past six months. This was remarkable given the sizeable 1st quarter drop in GDP. Consumers believe the 1<sup>st</sup> quarter decline in economic activity was due to the harsh winter weather, and that the economy has already returned to positive economic growth. The dismissal of the economy's poor performance was made possible by healthy job growth. Indeed, the June survey recorded the largest proportion of households that reported making financial gains in nearly seven years.

### Surveys of Consumers chief economist, Richard Curtin



“Consumers did not expect such a negative GDP report, but it will not cause them to revise their expectations of future economic growth. Given that they ignored the dismal 1st quarter results, they are also likely to ignore the announcement of more favorable 2nd quarter GDP results in the months ahead. Unlike the usual seasonal adjustments that require established patterns, consumers had no trouble adjusting their expectations for a unique one-time event. This adjusted base must be considered when assessing the implications of consumers' expectations that the economy will remain largely unchanged in the year ahead.”

### Personal Finances

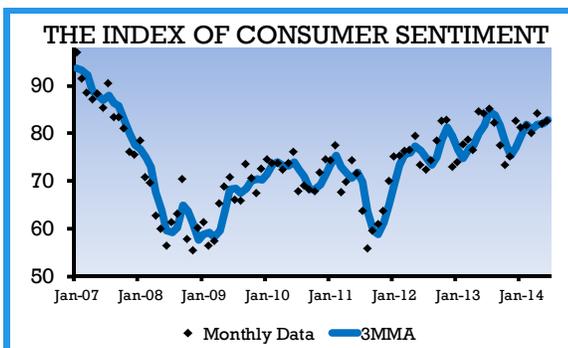
More consumers reported that their financial situation had improved in the June survey than anytime since 2007. The proportion of households that reported improved finances over the past year was 40% in June, up from 35% one month and one year ago. Consumers, however, were a bit less optimistic about their future financial prospects. Just one-in-four households expected their finances to improve in the year ahead in the June survey. The biggest concerns were focused on expected wage growth, which most households expected would not exceed the inflation rate, meaning that nearly half of all households anticipated declining living standards.

### Home Selling

Since most home buyers must sell their current home, home selling conditions are critical. In the June 2014 survey, half of all homeowners reported home selling conditions were favorable for the first time in eight years, with the largest proportion since the May 2006 survey reporting home prices had improved making the sale more attractive. Moreover, the smallest proportion reported that they would lose money if they sold their home.

### Consumer Sentiment Index

The Sentiment Index was 82.5 in the June 2014 survey, between the 81.9 in May and last June's 84.1. During the first half of 2014, the Sentiment Index remained remarkably stable. The largest June gains were recorded in the Current Conditions Index (96.6, up from May's 94.5). The June Index of Consumer Expectations was barely below May level (73.5, down from 73.7), but was below last June's 77.8.



### 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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