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Consumer confidence (Michigan preliminary survey, 7/09) declines more than forecast

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The preliminary University of Michigan consumer confidence index for July fell substantially more than expected, driven by declines in both the current conditions and expectations components. Respondents' inflation expectations were little changed. The survey results are likely to reflect concern about employment conditions and the failure of income other than government benefits to increase.

- The aggregate index fell to 64.6 in July compared with a final June reading of 70.8. (The preliminary June figure had been 69.0.) Consensus forecasts had been for 70.0, with individual forecasts ranging from 65 to 72. (The average level of the Michigan index over the past 30 years is 87.3, and its base year value is 100 for 1966.)
- The current conditions index, which has about 40% weight in the total, fell to 70.0 from 73.2 in June. This is based on questions concerning how well respondents think they are doing financially now compared with a year ago, and on whether they think now is a good time to make major purchases.
- The future expectations index, about 60% of the total, fell to 60.9 from 69.2 in the final June report. (The preliminary June reading had been 64.5.) This index is based on respondents' expectation of their financial situation a year from now, their expectation of business conditions nationwide over the next year, and their assessment of likely economic conditions for the next five years.
- Inflation expectations in the report on balance showed little change. Respondents' one-year inflation expectation fell 0.10% to 3.0%, but the five-year expectation rose 0.10% to 3.1%. As I have pointed out in past reports, these expectations have historically been nearly 1% above actual inflation rates..

Source: University of Michigan

It is clear from several, although not all, recent economic releases that momentum toward economic recovery paused in late spring and early summer. Consumer confidence has now declined on both the Michigan and Conference Board measures. For the present, it looks as though households are saving the vast bulk of benefits and tax cuts received through the fiscal stimulus program. We continue to expect a gradual revival of consumption spending growth following its unusually severe decline in late 2008, but recognize that an improvement in sentiment is an important condition for this. ■