

Datanote: U.S. Univ. of Michigan Consumer Sentiment, June prelim

In one line: A further slowdown in consumption growth seems increasingly likely.

- The University of Michigan's headline index of consumer confidence slipped to 65.6, from 69.1, well below the consensus, 72.0.

The further decline in the headline index to a seven-month low in June

following its slump in May, despite the drop in gas prices and the ongoing rally in stocks in recent weeks, seems to reflect a genuine pessimistic turn among consumers. Some of the decline in the headline probably reflects the survey's ongoing switch from a sample of responses gathered by phone to a sample gathered online, with 75% of the sample based on online responses in June, versus 50% in May. Data released by the University of Michigan suggests that consumers are consistently more downbeat when

responding online rather than to a phone interview. But we reckon this accounts for only around two points of the decline last week, roughly half of the overall fall. Moreover, the TIPPOne/RCM index of consumer confidence also dropped significantly last month. Most of the drop in the headline was to a 7.1-point drop in the current conditions index, with the expectations index falling by a much smaller 1.2 points.

The expectations index has probably

been less heavily affected than the headline by the shift in sampling method, and the fact it held up better is a silver lining, given that this index tends to have a better, if far from perfect, relationship with actual growth in consumers' spending. It currently points to annual growth in households' real expenditure slowing to about 2% in Q2, from 2.3% in Q1. That seems about right for now, but we anticipate a further slowdown in consumption in the coming quarters now that real income growth has already slowed sharply,

pandemic-era excess savings are largely gone, and cracks are starting to show in the labor market. The net share of survey respondents that expect the unemployment rate to rise over the next twelve months slipped to 23% in June, from 25%, but that remains consistent with the unemployment rate rising meaningfully from here.

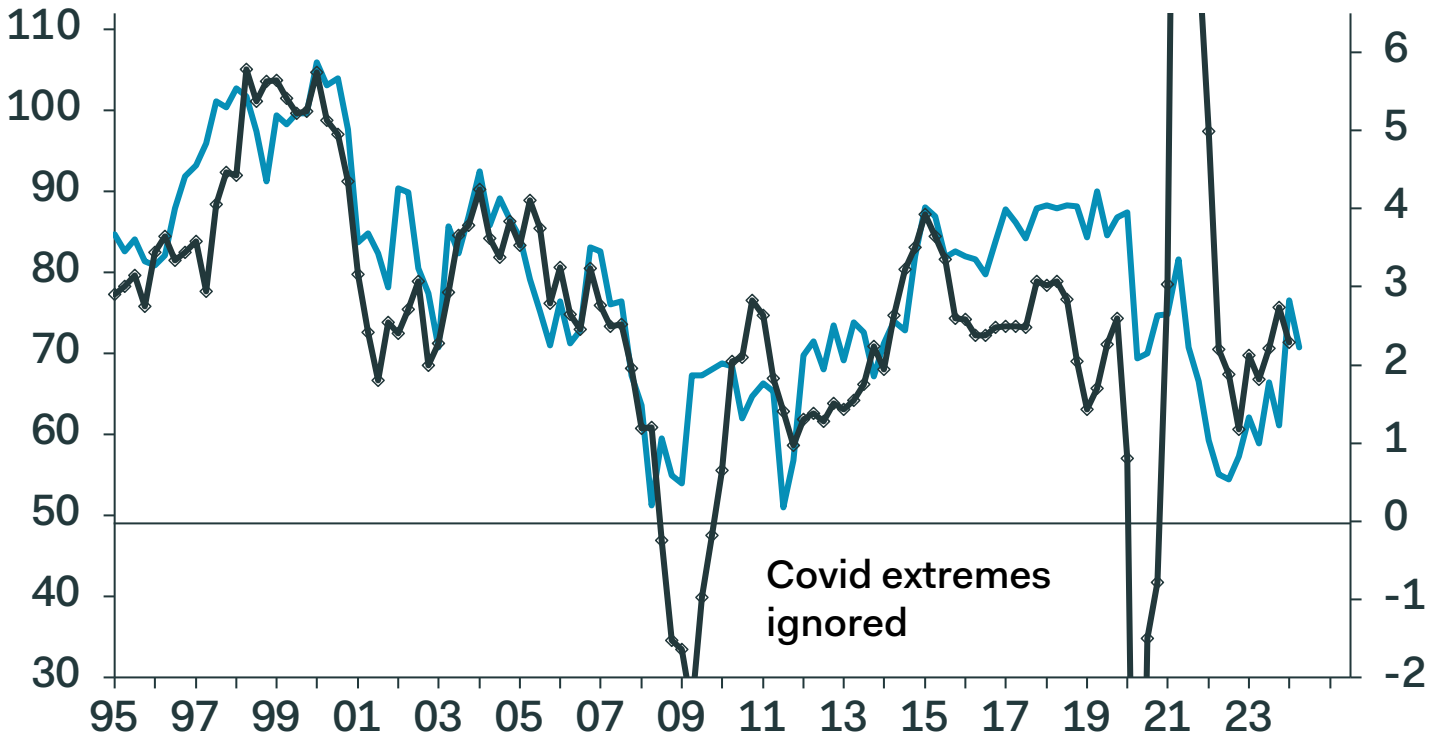
Finally, the uptick in consumers' medium-term inflation expectations, to 3.1% from 3.0%, takes those expectations back to the top end of

their post-pandemic range, perhaps reflecting the worse headlines on inflation linked to the stronger run of inflation reports from January to April. That said, 3.1% is only a touch higher than the pre-Covid average of around 2.7%, and part of the recent uptick may reflect the shift in the survey's sampling method. If, as we expect, inflation continues to normalize while the labor market weakens meaningfully, slightly elevated medium-term expectations among consumers won't be a barrier to significant easing.

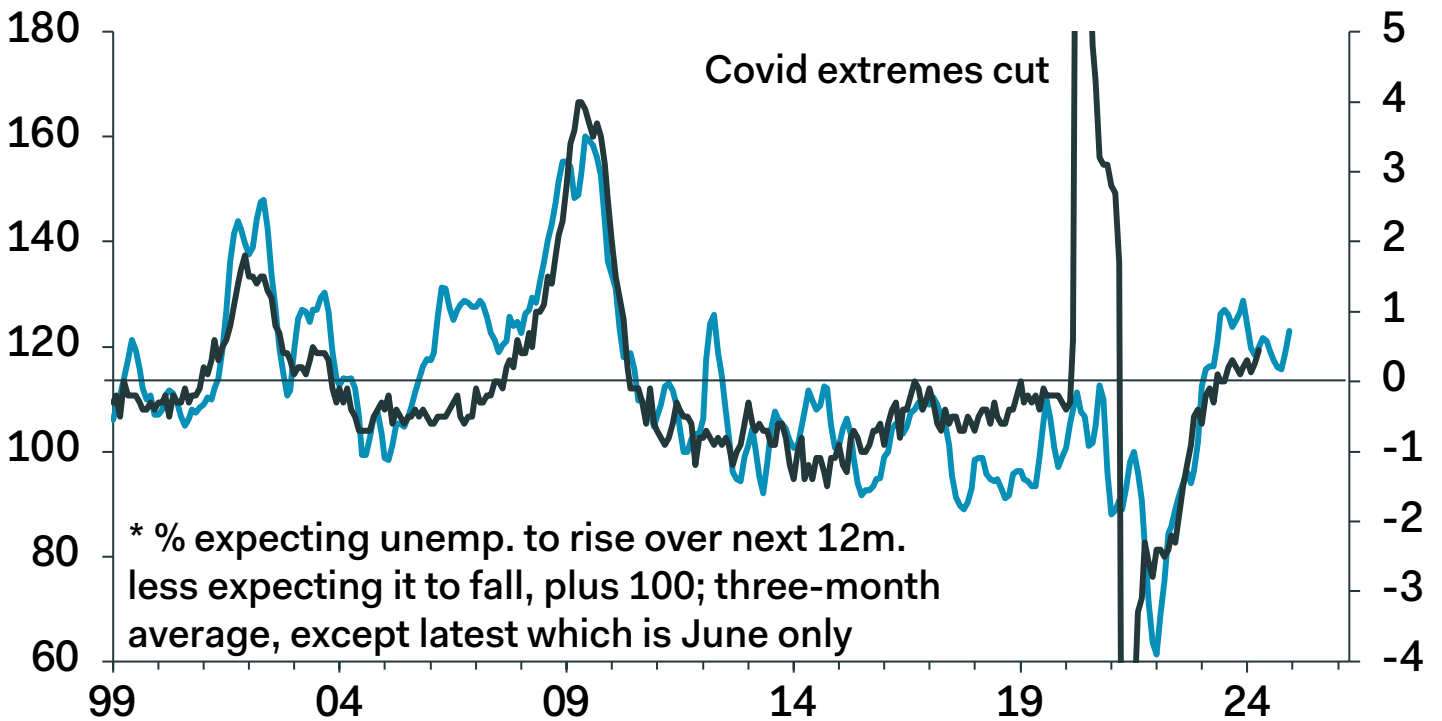
— University of Michigan consumer sentiment index (Left)
 —◆— TIPPOne economic optimism index (Right)



— Michigan survey expectations index (Left)
 —◆— Real consumption, y/y% (Right)



- Mich. consumer survey, expected change in unemp.*, adv. 6m. (Left)
- Unemployment rate, year-to-year change, percentage points (Right)



- Headline CPI, y/y% (Left)
- Michigan five-to-10 year inflation expectations, % (Right)

