



Popular Economics

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Consumers' Spirits Lift

Lower inflation numbers combined with rising personal incomes are lifting consumers' spirits. This is reflected in the 5 percent rise in pending home sales for July, which are for signed contracts that take from 30-60 days to close. June new-home sales also rose slightly. The improving conditions are beginning to show up in consumer confidence surveys.

The Pending Home Sales Index based on contracts signed in June, was 5.0 percent higher from the downwardly revised May index of 97.5, though still below June 2006 when it stood at 112.0. This 5.0 percent monthly gain is the largest in more than three years, since a 6.1 percent increase in March 2004.

Lawrence Yun, NAR senior economist, said it is encouraging that the increase occurred in all four major regions. "However, it is too early to say if home sales have already passed bottom," he said. "Still, major declines in home sales are likely to have occurred already and further declines, if any, are likely to be modest given the accumulating pent-up demand." The West had the biggest increase, up 8.6 percent for contracts signed in June.

More good news this week was the increase in personal income, which didn't cause prices to rise. Core consumer inflation has increased just 1.9 percent over the past year, within the Federal Reserve's acceptable range. The reason is consumers are earning more and spending less, which has caused the personal savings rate to improve to 0.6 percent.

This is showing up in rising consumer confidence. The Conference Board's Consumer Confidence index rose to the highest level in 6 years. "The rebound in Consumer Confidence has catapulted the Index to 112.6, its highest reading since August 2001, (at 114.0)," said Lynn Franco, Director of The Conference Board Consumer Research Center:

"An improvement in business conditions and the job market has lifted consumers' spirits in July. The Present Situation Index is also at a near six-year high. Looking ahead, consumers are more upbeat about short-term economic prospects, mainly the result of a decline in the number of pessimists, not an increase in the number of optimists. This rebound in confidence suggests economic activity may gather a little momentum in the coming months," she said.

The U. of Michigan consumer sentiment survey also rose in July to 90.4, the highest reading since February. Lower gas prices and higher stock prices fueled the increased optimism.

A higher second quarter GDP growth estimate of 3.4 percent, up from 0.6 percent in Q1, is also lifting economists' spirits. The wide fluctuation in growth was in part because businesses had to rebuild product inventories after letting them run down in Q1. Exports were also higher, as manufacturing activity has increased.

And lastly, our fully employed economy is certainly behind much of the rising consumer sentiments. Employment is up mostly in the service jobs of restaurant workers (consumers eat out more when feeling good), health care (an older population mix), and construction.

Construction jobs are holding steady because the need for office and industrial commercial real estate is still growing robustly. But housing construction starts also upticked 2.3 percent in June. All in all, it shows consumers in a cautious (thrifter), but optimistic mood at the moment. This might even encourage Federal Reserve officials to think about easing interest rates this fall. The August 7 FOMC meeting should tell us if there is a shift in the Fed's sentiment, as well.

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