

24096 **Are American consumers finally cheering up?**

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For the past year America's economy has suffered from an emotional disconnect. Analysts and investors have been impressed by its growth, which has consistently exceeded forecasts and run ahead of the country's rich-world peers. But Americans themselves have been much harder to please.

With a presidential election just months away, these downbeat feelings have become a big problem for Democrats. President Joe Biden already faces plenty of challenges in his bid for a second term, starting with concerns about his fitness to serve as an octogenarian. Polls giving him low marks on his handling of the economy are another major headwind.

But things are looking up for Mr Biden. On February 16th the University of Michigan published its latest survey results. Its sentiment index, measuring how optimistic consumers feel about their finances and the state of the economy, came in at 79.6, its third straight monthly increase. The rate of improvement is especially striking. The 30% increase since November marks the survey's biggest rise over any three-month period in more than three decades. The level remains glum by historical standards: about 15% below its average in the five years before the covid-19 pandemic.

Inflation has slowed appreciably: consumer prices rose 3% in January compared with a year earlier, down from a 9% pace in mid-2022. But relief at the slowdown in inflation is tempered by the reality that prices are still nearly 20% higher than on the eve of the pandemic. The price that is perhaps most noticeable for Americans is that of petrol : like inflation more generally, the price of petrol is well down from its mid-2022 peak but still quite a bit higher than before the pandemic.

If sentiment were about inflation alone, consumers would probably be even more depressed. But other economic trends that matter to them are more favourable. The labour market remains particularly strong, exemplified by an unemployment rate of just 3.7%.

That has led to robust nominal wage growth. Controlling for inflation, average earnings are basically back on their pre-pandemic path, and steadily rising. Finally, the upward march of the stockmarket to a record high adds weight to the argument that the economy is in good shape.

Add it all up, and you get a mixed result. A strong job market and resilient growth are positive. The lingering effects of high inflation push the other way. The extremely bleak sentiment surveys were overdone last year. But the more middling ones now seem about right.

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