Sentiment Dips as Consumers Stare Down Debt, Inflation and High Gas Prices

Americans appear tentative about the economy's prospects, and not without reason.

By Tim Smart   Sept. 15, 2023

Consumer sentiment dipped slightly in September, indicating Americans are tentative about the direction of the economy, according to the latest survey-based index from the University of Michigan.

The overall consumer sentiment index, released on Friday, retreated to 67.7 from 69.5 in August, while the current conditions assessment dropped to 69.8 from 75.7 and the forward-looking expectations index increased to 66.3 from 65.5.

"At 67.7 points, sentiment is currently about 35% above the all-time historic low reached in June of 2022 but remains shy of the historical average reading of 86," said Joanne Hsu, director of the Surveys of Consumers at the University of Michigan. "Sentiment this month was characterized by divergent movements across index components and across demographic groups with little net change from last month.

"Notably, though, both short-run and long-run expectations for economic conditions improved modestly this month, though on net consumers remain relatively tentative about the trajectory of the economy," Hsu added.

There was improvement in how consumers see inflation going forward.

"Year-ahead inflation expectations moderated from 3.5% last month to 3.1% this month," Hsu said. "The current reading is the lowest since March 2021 and is just above the 2.3-3.0% range seen in the two years prior to the pandemic."

The headwinds have been building for consumers. After hitting some $2 trillion during the pandemic, the excess savings balance of Americans – meaning the difference between actual savings and the pre-recession savings trend – sat at an estimated $190 billion as of June, according to an analysis published by the San Francisco Federal Reserve Bank. If recent rates of drawdown continued past June, the balance likely would be eliminated by the third quarter, researchers said.

Then there are gasoline prices, which have been rising of late amid oil production cuts instituted by both Saudi Arabia and Russia. The price of oil this week topped $93 a barrel, its highest level of the year, while the average per-gallon price of gas in the U.S. was $3.87 as of Friday.

At the same time, while wages have been growing at around a 4.6% annual rate, inflation ticked up a bit last month to a level of 3.7% annually. That means workers are keeping just ahead of inflation, although prices for necessities such as groceries and gasoline have increased.

"August may well represent the last hurrah for robust consumer spending," **Bernard Baumohl, chief global economist at The Economic Outlook Group,** said Thursday following earlier releases of both the consumer and producer price indices.

"Let's face it, households are feeling more financial pressures," **Baumohl** added. "They're not only paying more for fuel but also carrying a record level of debt, (more than $17 trillion) at a time when short term rates are at a 22-year high."

The squeeze from roughly a year and a half of higher interest rates from the Fed have already sent mortgage rates to above 7%, with rates on credit cards and other short-term borrowing up as well.

Next month, the first payments are due for millions of student loan borrowers who have had a 3 ½-year reprieve from paying back their loans. A forgiveness program that President Joe Biden championed was struck down in June by the Supreme Court, and interest on the loans began again as of Sept. 1. Average payments for many undergraduate degree borrowers are around $300 a month.

Other storm clouds are growing as well. The United Auto Workers this week began a strike against three major manufacturers – Ford, General Motors and Stellantis – and a government shutdown appears increasingly likely as the House and Senate have failed to agree on federal budget priorities with the end of the fiscal year approaching at the end of the month.

Despite all the negatives, a majority of top economists still believe the U.S. will escape a recession this year, though many see one as a probability in 2024. So far, the Fed has managed to tame inflation without seriously driving up the rate of unemployment.

“While we are sympathetic to the view that the Fed could temporarily achieve a soft landing, we are skeptical that it could stick that landing for very long,” BCA Research Chief Global Strategist Peter Berezin wrote Friday. “The reason is that once an economy achieves full employment, anything that pushes growth above trend could stoke inflation, while anything that pushes growth below trend could lead to rising unemployment. And due to feedback loops, once unemployment starts rising, it usually keeps rising.

“Our best guess is that the US will succumb to a recession in the second half of 2024,” Berezin added.

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