

Why Are Consumers Pessimistic?

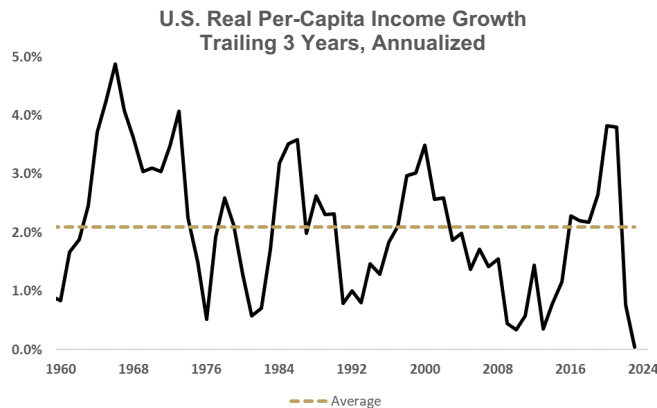
Last week's consumer sentiment report from the University of Michigan reaffirmed that consumers are feeling increasingly negative about the economy. These negative sentiments persist despite jobs growing at an average 242K jobs over the past six months and S&P 500 up 10% year-to-date. While it might be tempting to ask survey respondents to stop and smell the roses, it would be wiser to ask why consumers might feel so poorly about the economy and its path forward.

In our view, the cumulative effects of inflation following the pandemic-related lockdowns are a plausible explanation. Over the past three years, the price of food at home has increased 25%. The cost of rent has increased 23%. And while wages have also increased over this period, they have just barely kept pace with inflation. Since 1960, real, i.e., inflation-adjusted, incomes have grown at an average rate of 2%. As of the end of 2023, real per-capita income was \$50,104—only \$65 higher than three years prior.

In addition, last week's report on consumer credit balances suggests that consumers are feeling less comfortable using debt to fund their spending. Credit-card balances increased only \$152 million, the smallest monthly increase in three years.

In our view, the data suggest that the first quarter slowdown in growth was no aberration. While consumer spending proved surprisingly strong in 2023, the effects of higher prices and higher interest rates are beginning to take effect.

CHART OF THE WEEK



Sources: BLS, BEA, Federal Reserve, Bloomberg.

Index Returns (%)							Index Characteristics				
Equities	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.	NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld
S&P 500	5221	0.83	-0.50	10.01	28.54	9.57	21.6	16.7	2.8	1.6	1.4
Russell 1000 Growth	3389	0.31	-0.09	11.31	36.61	11.38	28.1	19.8	4.4	2.0	0.7
Russell 1000 Value	1738	1.27	-1.36	7.51	20.14	5.58	16.8	14.9	1.8	1.4	2.2
FTSE High Dividend Yield*	416	1.70	-0.99	8.03	19.80	7.02	12.6	14.4	1.5	1.6	4.1
S&P Small and Mid Cap	16599	0.78	-1.56	5.93	23.63	3.58	17.0	19.1	1.2	1.2	1.7
MSCI EAFE	2352	1.74	0.92	6.96	14.25	4.21	15.1	14.6	1.5	1.1	3.0
MSCI EM	1079	1.15	3.69	6.23	14.21	-3.40	13.0	12.6	1.4	1.3	2.7

* Bloomberg U.S. Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income							Levels				
Fixed Income	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.	Currencies	Last	1 Wk Ago	Prev YE	3 Yrs Ago
U.S. Aggregate	5.10	0.11	-1.08	-1.85	0.27	-3.03	DX	105.00	105.41	101.33	90.32
U.S. Int. Gov/Credit	4.94	0.00	-0.43	-0.57	1.54	-1.42	\$ per €	1.08	1.08	1.10	1.21
U.S. Corporates	5.54	-0.12	-1.15	-1.55	3.23	-2.62	\$ per £	1.26	1.25	1.27	1.41
High Yield	7.93	-0.16	0.01	1.48	10.54	1.82	¥ per \$	156.40	154.69	141.04	109.35
Municipals (1-10)	3.27	0.15	-0.24	-0.61	2.05	-0.23					

Key Rates							Levels				
Key Rates	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago	Commodities	Last	1 Wk Ago	Prev YE	3 Yrs Ago
2-yr Treasury	4.86	4.83	4.62	4.25	3.99	0.15	Oil (WTI)	78.12	78.38	72.12	55.03
10-yr Treasury	4.49	4.46	4.20	3.88	3.47	1.63	Gasoline	3.62	3.64	3.12	3.04
30-yr Treasury	4.63	4.60	4.34	4.03	3.79	2.34	Natural Gas	2.64	2.21	2.51	2.96
3-mo. LIBOR	5.66	5.58	5.56	5.59	5.32	0.16	Gold	1924	2314	2063	1843
6-mo. CD rate	5.77	5.42	5.35	5.28	5.25	0.13	Copper	8350	9894	8464	10215
Prime Rate	8.50	8.50	8.50	8.50	8.25	3.25	Wheat	604	625	628	727
30-yr fixed mortgage	7.38	7.36	7.25	6.99	6.89	3.06	BBG Index	241.51	239.91	226.43	196.40

LAST WEEK IN REVIEW

- **Senior Loan Officer Opinion Survey (SLOOS):** Banks tightening lending standards. Higher rates slowing loan demand.
- **Initial and Continuing Jobless Claims:** 231K initial claims, 1,785K continuing claims. Higher than prior period and higher than expected.
- **U. of Mich. Sentiment and Current Conditions (May - Preliminary):** Headline sentiment fell nearly 10 points to 67.4.

THIS WEEK

- **Producers Price Index (Apr.):** 5/14
- **Consumer Price Index (Apr.):** 5/15
- **Retail Sales (Apr.):** 5/15
- **Housing Starts & Permits (Apr.):** 5/16
- **Industrial Production (Apr.):** 5/16
- **Leading Index (Apr.):** 5/17

S & P SECTOR RETURNS

