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Michigan Sentiment: Precarious

The headline October University of Michigan Consumer Sentiment index disappoints, falling 1.9 points (Consensus: +1.0 point; Decision Economics: +0.8 point), on declines of 1.1 points in the current conditions index and 2.4 points in the expectations index.

This largely quashes the hint of revival given in September--when the headline index rose 3.7 points, after having dropped 18.6 points between May and August.

The sore spot is the expectations index, which dropped 22.1 points between May and August, and is now down 0.4 point since August. The headline index is still up 1.8 points from August only because the assessment of current conditions is resilient, having fallen "only" 13.2 points between May and August, and now having bounced back 5.1 points from there.

Notably, both the headline and expectations indexes are back in the same general range that they were at the worst of the recession, while the current conditions reading is still up about 15 points.

That picture is quite precarious, and goes a long way to explain the depressed state of consumer-sector investment--notably in housing, and vehicles--where the running rate remains well below normal. There is no confidence in future stability, and little willingness to bet on it.

That situation will restrain consumer spending to the shy side of normal for the collection of people who are in reasonable, if somewhat deteriorated, financial shape--keeping them from the aggressive buying that could give some boost to the general economy, and re-employ workers from the large group of households who are in bad shape.

Financial-market stabilization would help correct the situation--but the biggest boost would come from renewed employment growth.

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