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Consumer Sentiment: Too Flighty

The headline August University of Michigan Consumer Sentiment index unexpectedly firms by 1.3 points (Consensus: -0.3 point; Decision Economics: +0.7 point), on a 4.9-point jump in the "current conditions" reading and a 1.1-point decline in the expectations index.

Certainly, the mild firmness in the overall index is reassuring--marking the second month of relative stability after a 6.1-point drop in June--but the oddly exuberant current conditions reading does raise doubts about the fundamental validity of the survey methodology.

Is consumer psychology really so flighty? Perhaps the heavier weight of the expectations reading in the calculation of the headline index appropriately dampens the volatility of the current conditions reading--but there would be greater confidence in the stable headline-index outcome if it reflected stability in the components.

Inflation-expectations readings also show strong bubbling, with the year-ahead index jumping to 3.6% from 3.0% and the five-year-ahead reading surging--relatively speaking--to 3.0% from 2.7%. Not even Fed hawks will take those moves seriously--though nobody on the FOMC will be totally comfortable with the lack of "anchoring" in expectations demonstrated today.

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