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Consumer Sentiment: Potentially Shaky Still

The early-October reading of the University of Michigan Consumer Sentiment index is healthier than expected, rising 4.8 points (Consensus: -0.3 point; Decision Economics: +1.1 point), on a 2.9-point rise in the current conditions index and a 6.0-point jump in the expectations index.

The sentiment improvement was associated with declines in inflation expectations on both the one-year (3.1% versus 3.3%) and five-year (2.6% versus 2.8%) horizons--making the overall report a Fed dream.

However, there might be some unease with the fact that potentially volatile expectations have been the driving force in sentiment improvement for several months now. The overall index is now up 10.8 points from the recent low, in July, with the current conditions index up 5.9 points from then and the expectations index up 13.9 points.

Also, the current conditions reading appears to have been exceptionally flighty lately, with implicit movements (based on revisions) of +5.9 points between late July and early August, +3.3 points between early and late August, -2.6 points between late August and early September, -5.2 points between early and late September, and +6.5 points between late September and early October.

Those hints of potential vulnerability in consumer psychology accord well with the stop-and-go nature of most consumer spending in recent months--but the general upward trend in the sentiment measures is in line with the highly moderate upward trend that spending is tracking.

Thus, the numbers today are clearly encouraging to hopes for the same sort of consumer trend in the immediate future, but do not--at least for the moment--erase worries about potential shakiness. No perceptions at the Fed will change.

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