

Economic Analysis

# Consumers Lower their Expectations for the Economy

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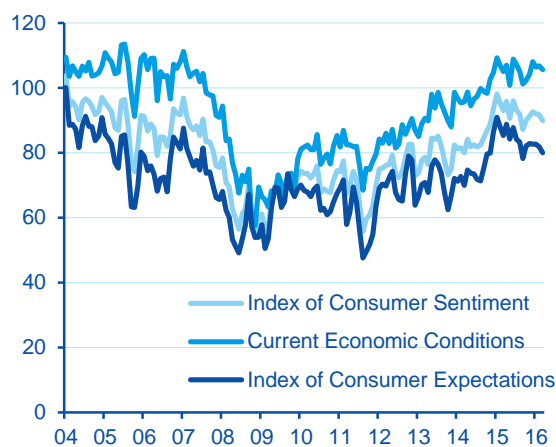
- **Consumer sentiment, while strong, declined 1.9% MoM to 90 in early March**
- **The expectations index fell 2.3% MoM, while the current conditions index declined 1.1% MoM**
- **The downturn should not negatively affect the labor market in the coming months**

The most recent survey of consumers conducted by the University of Michigan showed the index of consumer confidence decreasing to 90 in early March from 91.7 in February. The expectations index decreased more than the current conditions index. The index of consumer sentiment was down 3.2% YoY. The index of current economic conditions was up 0.6% YoY, while the index of consumer expectations was down 6.2% YoY. Despite the softening, the indexes are still pretty strong and well within the range of the pre-recession period. The expectations for inflation in the next twelve months increased to 2.7% from 2.5%.

This latest report is in line with the weakness in retail sales seen in many product categories in February, but not with February's strong jobs report. According to the University of Michigan, the current data are consistent with a 2.7% rate of growth in real personal consumption expenditures during 2016, lower than the 3.1% achieved in 2015, but still quite healthy. The indexes are not very good at predicting changes in the labor market (Chart 2), so we don't expect the decline in consumer confidence to negatively affect the positive trends in the labor market, as long as consumer confidence does not deteriorate significantly further.

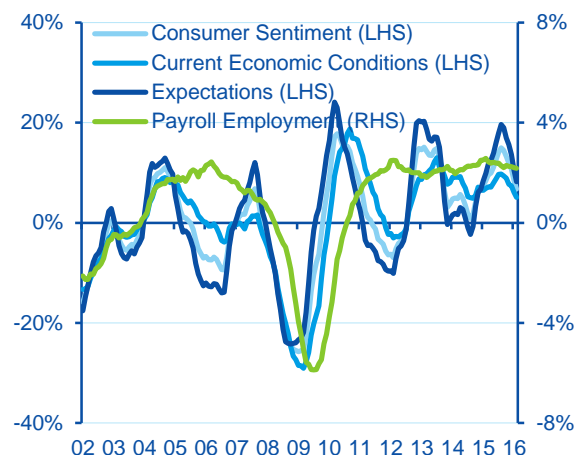
The preliminary results for March show that consumers are adapting to the possibility of lower growth in the upcoming period compared to the last two years. The ample uncertainty that has been present in financial markets since the beginning of the year, as well as the relatively weak performance of the stock market, could also have made an impact on consumers' expectations.

Chart 1  
**Index of Consumer Sentiment and its Components**



Source: University of Michigan & BBVA Research

Chart 2  
**Consumer Sentiment and Employment 12mma YoY % and YoY%**



Source: University of Michigan & BBVA Research

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