

Economic Indicators

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28 Oct 2022

The interest and importance of economic indicators are increasing due to the U.S. FED's interest rate hike this year. Accordingly, the KIS Research Center aims to help investors understand by preparing reports that introduce major global economic indicators, starting with the U.S market. We hope that this report will be helpful in understanding global economic indicators centered on the U.S.

The Michigan Consumer Sentiment (MCSI)

The increase in consumer spending in turn helps the economy sustain its expansion. If for some reason consumer confidence declines, consumers become less certain about their financial prospects, and they begin to spend less money; this in turn affects businesses as they begin to experience a decrease in sales.

The MCSI overview

The Michigan Consumer Sentiment Index (MCSI) is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan. The survey is based on telephone interviews that gather information on consumer expectations for the economy.

The MCSI was created in the 1940s by Professor George Katona at the University of Michigan's Institute for Social Research.

Understanding of the MCSI

The Michigan consumer sentiment survey queries consumers on their views of their own personal finances, as well as the short-term and long-term state of the U.S. economy. The Michigan sentiment index includes two major components, a "current conditions" component and an "expectations" component.

Each month, the Michigan Consumer Sentiment will be updated twice: The first one is the preliminary estimates and the second one is the final.

Why should we check it at this time?

As can be known that The Michigan Consumer Sentiment Index has provided a relatively accurate forecast of future consumer confidence and spending for the past several decades.

The final data for the Michigan's indexes will be released on Monday (VN time: October 28 at 9p.m; US time: October 28 at 8a.m) and we expect that it will have some impact on the FED decision in November.

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I. The Michigan consumer sentiment index overview

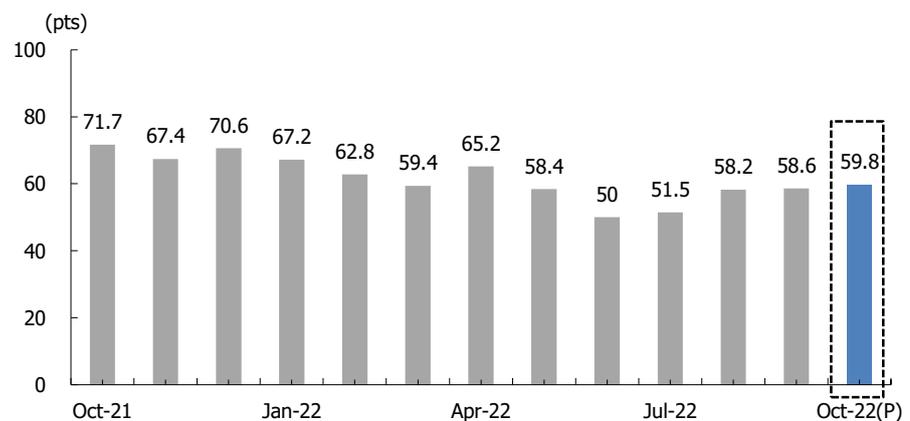
DEFINITION

- The Michigan Consumer Sentiment Index (MCSI) is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan. The survey is based on telephone interviews that gather information on consumer expectations for the economy.
- The MCSI was created in the 1940s by Professor George Katona at the University of Michigan's Institute for Social Research. The December 1964 index is based on 100.
- The survey queries consumers on their views of their own personal finances, as well as the short-term and long-term state of the U.S. economy.
- This indicator takes into account investor's feelings toward their current financial health, the health of the economy in the short term, and the prospects for longer-term economic growth.

WHY IT IS IMPORTANT

- In the U.S., consumer spending accounts mostly of the economic output. As much as 70% of gross domestic product (GDP) is driven by a consumer spending component, so the sentiment or attitude of consumers goes a long way in gauging the health of the economy.
- Consumer sentiment is a statistical measurement of the overall health of the economy as determined by consumer opinion.
- Market participants will be keeping an eye on analysts' predictions of the data ahead of their release.

Figure 1. Historical data of Michigan Consumer Sentiment index



Source: Bloomberg, KIS
Note: October figure is a preliminary estimate

According to the data of Michigan University, the Michigan consumer sentiment for the US rose to 59.8 in October of 2022, the highest in six months, increase from 58.6 in the previous month and beat the market consensus of 59, a preliminary estimate showed. The increase in consumer spending in turn helps the U.S. economy sustain its expansion.

II. Understanding of the Michigan Consumer Sentiment

The Michigan consumer sentiment survey queries consumers on their views of their own personal finances, as well as the short-term and long-term state of the U.S. economy. The Michigan sentiment index includes two major components, a "current conditions" component and an "expectations" component.

Each month, the Michigan Consumer Sentiment will update twice

- The first one is the preliminary estimates.
- The second one is the final

Beside the Michigan Consumer Sentiment, there are three popular indexes as follows

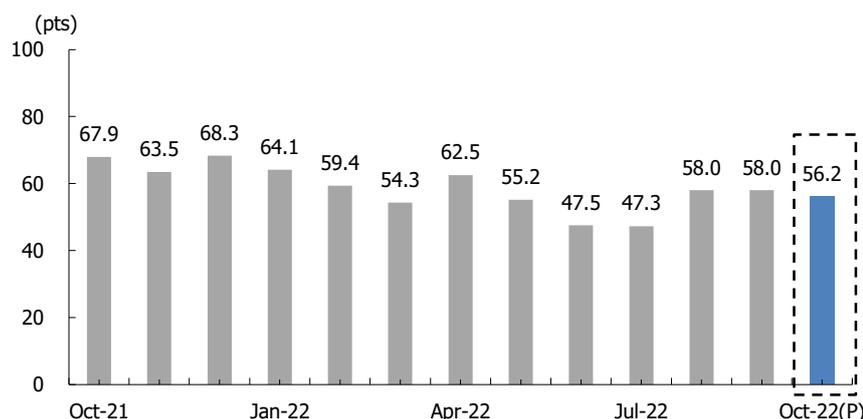
The Michigan Consumer Expectations

The Index of Consumer Expectations focuses on three areas:

- How consumers view prospects for their own financial situation
- How they view prospects for the general economy over the near term
- Their view of prospects for the economy over the long term.

Each monthly survey contains approximately 50 core questions, each of which tracks a different aspect of consumer attitudes and expectations.

Figure 2. Historical data of Michigan Consumer Expectation index



Source: Bloomberg, KIS
Note: October figure is a preliminary estimate

As can be observed that the University of Michigan Consumer Expectations sub-index in the United States decline to a 3-month low of 56.2 points in October of 2022 from 58 in the previous month, below market expectations of 58.5, preliminary estimates showed.

The Michigan Current Conditions

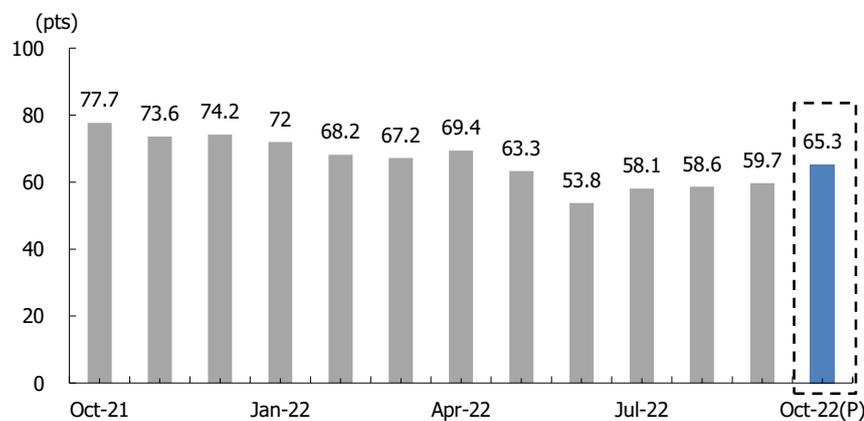
This indicator shows how US consumers assess current economic conditions in the country. The index is calculated monthly based on a telephone survey of at least 500 US households, which the University of Michigan conducts to calculate five different indices, including this one.

Respondents are polled to answer various questions, including the following ones:

- Whether their families' financial conditions have become better or worse than a year ago
- Whether it is a good time to purchase large household items and make other large purchases.

The University of Michigan Current Conditions index allows evaluating near-term outlook for the consumer demand, inflation and economic growth. Higher readings indicate that US households spend money, demand increases, consumer activity expands and pushes forward both inflation and the entire national economy. On the contrary, a fall in the index can become a leading indicator of economic slowdown.

Figure 3. Historical data of Michigan Current Conditions index



Source: Bloomberg, KIS
Note: October figure is a preliminary estimate

According to the University of Michigan data, the Michigan Current Economic Conditions sub-index in the United States rose to 65.3 points in October of 2022 from 59.7 in the previous month, the highest reading in six months and above market expectations of 59.9. This shows that U.S. households will spend more money for their demand which will push not only the national economy but also the inflation. Besides, this index also has a positive impact on the greenback.

The Michigan Inflation Expectations

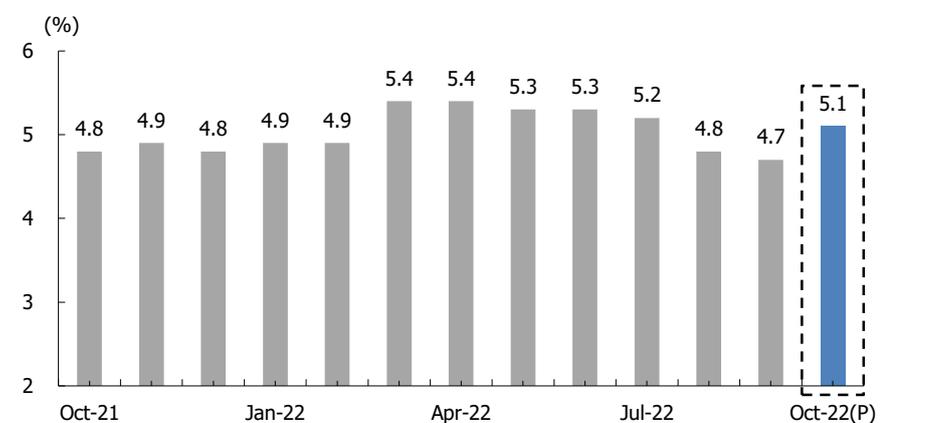
University of Michigan Inflation Expectations demonstrate how US consumers estimate the possibility of growth in prices for goods and services for the next 12 months. The index is calculated monthly based on data collected from a telephone survey of at least 500 US households. The questionnaire includes more than 50 questions on three broad areas of consumer sentiment: personal finance, business conditions and purchasing power.

Inflationary expectations are evaluated based on how respondents answer the following questions:

- Do you think prices in general may rise, fall or remain unchanged in the next 12 months?
- What percentage of growth/fall do you expect in the next 12 months?

Lower readings indicate that consumers do not expect prices to rise. Conversely, the index growth suggests that households are ready for price increase. The Michigan Inflation Expectations index growth is generally seen as positive for the US dollar.

Figure 4. Historical data of Michigan Inflation Expectation index



Source: Bloomberg, KIS
Note: October figure is a preliminary estimate

According to the data of the Michigan University, the preliminary estimate inflation expectation was around 5.1% in October, beat the market forecast at 4.7 percent. This figure indicated that households are ready for price increase. Furthermore, the Michigan Inflation expectation is considered as a positive sign to push the rise of the U.S dollar.

III. How is the Michigan Consumer Sentiment used?

The Michigan CSI has grown from its inception to be regarded as one of the leading indicators of consumer sentiment in the United States.

When consumer confidence increase (people feel more optimistic about the economy) which signals higher consumer spending and hence faster economic growth. The increasing interest from international investors as a result of this expansion raises the value of the U.S dollar in relation to other foreign currencies. According to the historical data, the value of the greenback has typically increased whenever the Michigan CSI came in higher than expected and decreased whenever the index came in lower.

The dollar's value also tends to fluctuate in accordance with the rise and fall of the MCSI, so traders and speculators can take positions to profit from sudden moves that may occur when the index is posted.

When analyzing the data, it is important to determine trends graphed out over a longer time frame, such as four or five months. The media often shines a light on changes from one month to the next or the last month against the same month the prior year. Commentary that focuses only on single period values, without looking at the deeper trend, is misleading.

IV. Why should we check it at this time?

At the moment, the U.S MCSI the preliminary estimate Michigan consumer sentiment for the US rose to 59.8 in October of 2022, the highest in six months, increase from 58.6 in the previous month and beat the market consensus of 59. It is expected that the MCSI will decrease to around 50.0 points at the end of the year.

As can be known that The Michigan Consumer Sentiment Index has provided a relatively accurate forecast of future consumer confidence and spending for the past several decades.

The final data for the Michigan's indexes will be released on Monday (VN time: October 28 at 9PM ; US time: October 28 at 8AM) and we expect that it will have some impact on the FED decision in November.

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