Consumer Sentiment Drops Month Over Month, Rises Year Over Year

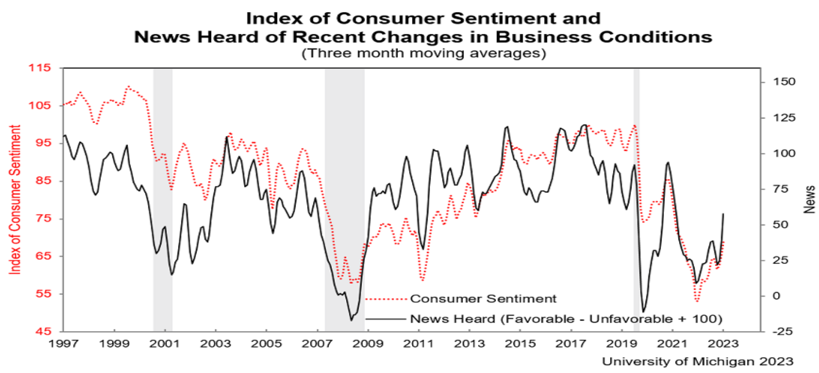
The University of Michigan tracks consumer sentiment and shares monthly updates. For August 2023, they found sentiment had reached 71.2 index points, a slight drop off from previous gains in consumer sentiment. The projections for current economic conditions came in at 77.4, a small increase from 76.6 in July, while the Consumer Expectations Index fell only one point month over month (68.3 to 67.3).

These changes might seem meager, but consumer sentiment shows substantial growth from where it stood in the summer of 2022. The index reached a historic low point of 50% in 2022, comparable to levels seen during the 2008 housing crash. The disparity between the listed month over month change to consumer sentiment (-0.6%) and the year over year change (+22.3%) tells it all.

Even so, why does the average level of consumer sentiment–defined by the University of Michigan as 86 index points–remain elusive?

In response to the news of consumer sentiment, Investor and Obama administration alum Steven Rattner tweeted: "Though consumer sentiment has improved in recent months, it is still far below what we might expect given the 'actual' state of the economy (as measured by unemployment and inflation)."

Observers have suggested that even though slowing inflation has given consumers sentiments a boost, tangible economic conditions are not changing enough for a larger one. Ryan Sweet, chief U.S. economist at Oxford Economics, said that rising gas prices (a near-universal economic condition and bellwether) will likely drag sentiment down further.



"In general, consumers perceived few material differences in the economic environment from last month, but they saw substantial improvements relative to just three months ago," said the University of Michigan's director of surveys, Joanne Hsu.

The Federal Reserve recently raised interest rates by 25 basis points at their July 2023 meeting. It remains to be seen if this will reign in inflation, which recently experienced a slight bump. Even so, it seems that lower inflation alone may not be enough to bolster consumer sentiment.

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Paul Dart Honored with the 2023 Five Star Real Estate Agent Award, a 13-Time Winner

Named one of metro Denver's outstanding real estate agents with fewer than 5 1/2% of all metro agents awarded.

Boulder, CO – Five Star Professional is pleased to announce that Paul Dart, RE/MAX of Boulder, has been chosen as one of the Denver metro area's Five Star Real Estate Agents for 2023. Paul is in a very select group of just 5 1/2% of all Denver area real estate agents who provide quality services to their clients.

About the research process

The Five Star Real Estate Agent award program is the largest and most widely published real estate agent award program in North America. Five Star Professional conducts in-depth, market-specific research in more than 45 markets across the United States and Canada to identify premium service professionals. Agents are nominated by their clients and measured using an objective, in-depth research methodology with significant focus on customer feedback and overall satisfaction.

There is always some angst when I have different metrics telling me different stories about our local market. This usually means we are in a time of change and not all of the metrics have caught up to the new direction yet. After a first half of the year that largely went according to expectation, the market at the beginning of August is flashing conflicting signals.

You can see our office Showing Appointments, top left, has largely been tracking the long term average since early May. Now, within the last week, we see showing activity starting a new upward trend that might be indicative of us leaving the typical summer slump, but doing so in a stronger than expected fashion.

This is happening at the same time that 30 Year Fixed Mortgage Rates are hitting highs for 2023, top right chart, and have almost matched the highs since the Fed started raising interest rates. We have seen that buyer demand moderates when the rates rise, so it is curious to see rates and the numbers of showings rising together. This may be the clearest sign to date that buyers have finally accepted higher mortgage rates that are likely to remain elevated for some time.

Boulder County Single Family Home # Under Contract, middle left chart, shows that the number of homes under contract in Boulder County remains well below the five year average. I don't have a Boulder County Homes Sold chart included in this newsletter, but when compared to 2022, the number of sales is down 20% YTD in 2023, which was also down in sales about 25% compared to 2021. This is on top of the number of Available Inventory (homes for sale,) middle right chart, tracking right at the levels we saw in 2022 and 2020. Supply is low but stable while the number under contract is more suppressed. If supply is stable and demand is low, the pressure on prices should be downward. Instead, we still see some homes being fought over by the limited number of buyers in the market. Sellers are frustrated as they don't know if they will be one of those that will take time on the market or receive multiple bids right out of the gate. Agents are also frustrated as we have no indication of where or what price range buyers may be week-to-week.

% of Homes Under Contract, bottom left, shows the various cities in Boulder County and the percentage of their homes under contract is flashing another possible red light. The average for Boulder County is 34%. We have historic data indicating that home prices rise in an area that is 35% or more under contract. Areas at 35% are flat, below that prices are falling. Said another way, above 35% is a seller's market, around that percentage is a balanced market, and below is a buyer's market.

A normal fall season would bring an increase in sales activity. But to date, this year has been exceptional to any of the past 10 years. Potential sellers are in "golden handcuffs," comfortable in a low interest rate but facing the current rates if they sell and buy. And why not wait to see if a recession materializes or not? This is keeping available inventory low. I'll be watching, reading the tea leaves and letting you know what my data partner and I think. Always feel free to contact me if you have questions or would like to see additional metrics before the next newsletter. Cheers!