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US consumer confidence hits 3-month high

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Confidence among US consumers reached its highest level in three months, as a summer stock market rally and recent signs of economic stabilisation have raised optimism that a recovery could be in sight.

Separately on Friday, official figures showed that businesses were succeeding in shedding inventories and enjoyed an uptick in sales in July, signalling that consumer demand may be starting to resurface.

In its September preliminary report the Reuters/University of Michigan consumer survey rose from 65.7 to 70.2, beating Wall Street analysts' expectations. The rise was fuelled by a sharp gain in optimism about the coming 12-months, with the economic outlook index reaching its highest level in two years.

"Improved financial conditions almost certainly are at play as is some earlier steadying in energy prices, but any real lift to historic norms is going to have to come from a better jobs market that still looks like it is going to be slow to improve," said Alan Ruskin, a strategist at RBS Greenwich Capital.

Consumers were also more hopeful about current economic conditions in the first part of September, in spite of the stubbornly high unemployment rate - which in August reached a 26-year high of 9.7 per cent - and near-record rates of home foreclosure.

Meanwhile, consumers are less concerned about rising prices. According to the University of Michigan survey, US consumers expect a headline inflation rate of 2.6 per cent this year, down from last month's estimate of 2.8 per cent.

Consumer sentiment is closely watched as a gauge of future consumer spending, which accounts for about 70 per cent of economic activity in the US. Economists warn, however, that the rise in confidence could be largely due to temporary stimulus measures, such as the recent "cash for clunkers" car rebate programme, and that recent rises in sentiment and spending are being "borrowed from the future".

"Wage and salary income growth has evaporated, credit is very tight, asset values have been decimated, and balance sheets are generally a wreck," said Joshua Shapiro, chief US economist at MFR. "Fiscal stimulus will help to blunt this, but is unlikely to turn the tide completely."

Meanwhile, US companies are continuing to clear their stocks in hopes of a revival of consumer demand. The commerce department said on Friday that **wholesale inventories fell** for the 11th month running in July to the lowest level in nearly three years.

Inventories fell by a bigger-than-expected 1.4 per cent last month to $387.2bn and are down by 12.8 per cent from a year ago. Sales rose in July by 0.5 per cent to $314.5bn, on growing demand for cars, hardware and durable goods.

Economists are hopeful that as companies battle inventory overhang it will pave the way for greater production in the months ahead. July's inventory-to-sales ratio, which indicates how many months it would take to clear stocks at the current sales pace, slipped to 1.23 in April from 1.25 in June.