

## Macro Roundup Article

**Headline:** [The Cost of Money is Part of the Cost of Living: New Evidence on the Consumer Sentiment Anomaly](#)

**Article Link:** <https://www.nber.org/papers/w32163>

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**Summary:** We show that the variation in the current University of Michigan Index of Consumer Sentiment, which cannot be explained by inflation and unemployment, has historically shown a strong correlation with proxies for the growth of consumer borrowing costs, such as the growth of interest rates for mortgages or car loans and the willingness of banks to extend consumer installment loans. We show that the other questions in the survey that measure consumer sentiment provide direct evidence that concerns of consumers about borrowing costs are at historic highs, surpassed only by the Volcker-era. We develop alternative CPI measures that explicitly incorporate the cost of money. When interest paid is considered as a cost borne by consumers and included in the CPI, the year-on-year inflation rate increases by one percentage point throughout the last year. When both personal interest payments and the cost of homeownership are accounted for in the CPI, the inflation rate increases from 3 to 9 percent in November. In January, after most of the research for this paper was completed, consumer sentiment jumped to its highest level since 2021. Although this is just one month of data, it appears consistent with our hypothesis. If high borrowing costs explain the consumer sentiment anomaly of 2023, then the recent moderation of the growth rate of borrowing costs in recent months could help consumers significantly in 2024, but further rises could prolong consumer dissatisfaction.

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**Primary Topic:** Growth

**Topics:** Academic paper, Database, GDP, Growth, Important!, Inflation, Monetary Policy, Politics, Weekly

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