surveys of consumers UNIVERSITY OF MICHIGAN

Monitoring trends for over 60 years

Subject: Preliminary results from the July 2015 survey July 17, 2015
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Consumer confidence continued to meander sidewards with no indication of a potential break in the prevailing positive trend in sentiment. Although the small loss in early July was equally shared by the current and expected components of the overall index, all of the decline was recorded among households with incomes under $75,000. The losses were largely due to a slight decline in prospects for the national economy during the year ahead as well as a slight decline in buying plans for large household durables. Greece, the slowdown in the Chinese economy, and the Trans-Pacific Partnership on trade were mentioned as negative factors by one-in-eight consumers when asked about recent economic developments. Although those who mentioned these issues were a bit more negative about the anticipated state of the domestic economy for the year ahead, even among these consumers the overall Sentiment Index was still a very favorable 92.1. Positive news on job and wage growth were far more important determinants that acted to sustain the favorable level of confidence—the early July reading was the eighth month above 90.0, the best record since seventeen months were recorded from late 2003 to early 2005. Consumption expenditures will remain the driving force in the economy, with the data indicating an expansion by 3% in 2015.

The proportion of consumers that reported improved finances rose to 46% in early July from 44% in June and well above last July's 39%. When asked to explain how their finances had changed, more households mentioned income gains (38%, up from 32% in June, and 33% last July). Most of the income gains were reported by those under age 45 and among households with incomes in the top third. Importantly, wealth gains were reported by middle-aged and middle income households. Slowly improving finances were anticipated for the year ahead, largely unchanged during the past six months. Across all households, a median income increase of 1.8% was expected, the highest level since January's 1.9% and well above last July's 0.6%.

Although six-in-ten consumers thought the economy continued to improve, the small proportion of consumers concerned with international economic conditions meant that the proportion that anticipated a weaker pace of growth in the year ahead rose to 20% from June's low of 14%. When asked whether economic conditions would be good or bad during the next twelve months, those who mentioned Greece, China, or the Trans-Pacific treaty were slightly more likely to expect bad times than those who didn't mention these problems—43% versus 35%. Importantly, these concerns had no impact on long-term economic prospects, which remained unchanged from last month's reading. Although the majority anticipated interest rate hikes in the year ahead, consumers were slightly less likely to expect rate hikes in July than since the start of the year. Nonetheless, the continued strength in prospects for economic growth, suggest only minor rate hikes were anticipated.

Consumers did not expect the unemployment rate to decline much further in the year ahead, although the majority anticipated that it would remain largely unchanged at its current low. The year-ahead inflation rate was expected to be 2.8% in early July, barely above last month's 2.7% and equal to the May reading. The annual long term expected inflation rate rose to 2.7%, just between last month's 2.6% and May's 2.8%. A long-term inflation rate of 2% or less was expected by 41% in July.

Attitudes toward home buying and home selling conditions remained unchanged in early July from the very favorable levels recorded in June. Currently low home prices or low mortgage rates were mentioned by 86% of all consumers. While the majority of consumers expected interest rate increases, the proportion that cited the advantage of borrowing-in-advance of those increases fell to just 5% in early July, down from 6% one month ago and the recent high of 7% two months ago. The data indicate that consumers are more likely to reduce home purchases when confronted with rising mortgage rates rather than to advance the timing in anticipation of further rate hikes. This reaction, which differs from their behavior in the past several decades, is supported by low appreciation rates in the value of homes—an annual rate of 2.4% over the next five years—as well as modest income expectations. Even among families with incomes in the top third of the distribution, home price appreciation is expected to reach only 2.8% over the next five years. This makes monetary policy more potent than ever.

	July 2014	Aug 2014	Sept 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	June 2015	July Prelim
Index of Consumer Sentiment	81.8	82.5	84.6	86.9	88.8	93.6	98.1	95.4	93.0	95.9	90.7	96.1	93.3
Current Economic Conditions	97.4	99.8	98.9	98.3	102.7	104.8	109.3	106.9	105.0	107.0	100.8	108.9	106.0
Index of Consumer Expectations	71.8	71.3	75.4	79.6	79.9	86.4	91.0	88.0	85.3	88.8	84.2	87.8	85.2
Index Components													
Personal Finances—Current	106	113	108	107	108	114	121	121	117	120	111	119	117
Personal Finances—Expected	113	118	116	124	116	123	122	126	122	124	123	125	123
Economic Outlook—12 Months	90	88	99	105	104	116	132	118	116	124	113	125	116
Economic Outlook—5 Years	84	80	88	90	100	108	112	109	105	109	102	104	104
Buying Conditions—Durables	146	145	148	147	158	158	162	156	155	158	150	163	158

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