surveys of consumers
UNIVERSITY OF MICHIGAN

Monitoring trends for over 60 years

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Although consumer confidence backtracked in the second half of the month, the January reading was just 0.6 Index-points below last month's level. Most of the downward revisions that occurred in late January were due to stock market declines, reflected in the erosion of household wealth as well as weakened prospects for the national economy. The interviews conducted from last Friday until early this week provide no evidence that the East Coast blizzard influenced the data. To be sure, the overall level of confidence is below last January's peak, but thus far the decline amounts to just 6.2%, a drop that does not indicate an impending recession but rather a somewhat slower pace of economic growth in 2016. Importantly, consumers anticipate that the growth slowdown will be accompanied by smaller wage gains and slight increases rather than further declines in unemployment by the end of 2016. Very low inflation rates have maintained inflation-adjusted income expectations at the highest levels since 2007. The Fed's success at pushing the inflation rate higher may well outdistance the pace of wage gains, thus erasing a critical strength in consumers' financial expectations. Consumers will actively demonstrate their resistance by moderating their purchases in the face of price hikes, acting to offset the Fed's rationale for higher rates. Overall, the data indicate that real consumption expenditures can be expected to advance by 2.7% in 2016.

The fewest consumers in a year reported that their finances had recently improved, and consumers expected the smallest gains in their nominal income since the summer of 2014. Although consumers were as positive as anytime during the past year about recent income changes, losses in wealth due to stock market declines were more frequently mentioned, especially among upper income households. When asked about expected wage gains during the year ahead, the median expected increase fell to just 0.8% in January, half of December's 1.6% and the lowest since 0.5% was recorded in August 2014. Despite the falloff in nominal income expectations, inflation-adjusted income expectations remained unchanged at very favorable levels. More than ever, favorable financial prospects have become dependent on a very low inflation rate. This is a dramatic change from a half century ago when inflation was the scourge, not the benefactor, of better financial prospects.

The year-ahead expected inflation rate was 2.5% in January, down from 2.6% last month, and equal to last January's level. The last time year-ahead inflation expectations were significantly lower was during the recession-depressed levels in 2008 and 2009. One-fifth of all consumers expected an inflation rate of zero or less, and nearly half (48%) anticipated an inflation rate of 2% or less. Long term inflation expectations were stable at 2.7%, between last month's 2.6% and last year's 2.8%.

Stock price declines and a weakened global economy were spontaneously mentioned by one-third of all households with incomes in the top third, the highest level since the Asian Tiger crisis in 1997-98. Despite the recognition of these problems, consumers did not voice any less favorable expectations for the domestic economy, even among those with incomes in the top third. While consumers viewed current prospects for the economy favorably, they expected some slowing in the pace of growth during 2016. Consumers' primary concern is that the pace of growth is expected to be insufficient to significantly lower the national unemployment rate during the year ahead. Just 18% anticipated a lower unemployment during the year ahead, while 29% expected a higher unemployment rate, the reverse of a year ago, and the worst outlook since March 2014.

Buying plans remained very favorable due to the availability of discounted prices and low interest rates. Buying conditions for household durables were rated favorably by 81% of all consumers for the past two months, the highest level since January 2006. Vehicle buying conditions were viewed more favorably on balance than anytime since January 2004. Home buying conditions remained unchanged from the closing quarter of 2015, and slightly below a year ago. Borrowing-in-advance of higher mortgage rates was favored by 10% in January, up from 8% last month and 5% last year. Home values were judged to have increased by 47% of all homeowners, down from 49% last month and the recent peak of 55% three months ago. An annual gain of 2.1% was expected in home values over the next five years, down from 2.2% last month and 2.3% last year.

	Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	June 2015	July 2015	Aug 2015	Sept 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016
Index of Consumer Sentiment	98.1	95.4	93.0	95.9	90.7	96.1	93.1	91.9	87.2	90.0	91.3	92.6	92.0
Current Economic Conditions	109.3	106.9	105.0	107.0	100.8	108.9	107.2	105.1	101.2	102.3	104.3	108.1	106.4
Index of Consumer Expectations	91.0	88.0	85.3	88.8	84.2	87.8	84.1	83.4	78.2	82.1	82.9	82.7	82.7
Index Components													
Personal Finances—Current	121	121	117	120	111	119	116	120	111	111	111	113	110
Personal Finances—Expected	122	126	122	124	123	125	122	124	121	127	122	124	124
Economic Outlook—12 Months	132	118	116	124	113	125	115	111	100	101	106	103	107
Economic Outlook—5 Years	112	109	105	109	102	104	101	100	93	101	105	105	102
Buying Conditions—Durables	162	156	155	158	150	163	161	152	151	154	160	167	166