

Subject: Preliminary results from the March 2016 survey.

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From: Richard Curtin, Director

Consumer confidence eased in early March due to increased concerns about prospects for the economy as well as the expectation that gas prices would inch upward during the year ahead. All of the early March decline was among lower income households. Moreover, all of the decline during the past year has been in the Expectations Index, which was due to a weakening outlook for the pace of growth in the national economy. While consumers do not anticipate a recession, they no longer expect the economy to outperform the 2.4% rate of economic growth recorded in the past two years. In contrast, personal financial expectations remained strong in early March, comparable to the levels recorded nearly a decade ago. While rising gas price expectations caused inflation expectations to modestly increase, this had no impact on consumers' real income expectations as job and income prospects remained strong. The early March survey did record a falloff in references to the availability of low prices on household durables and vehicles, with net references to vehicle prices falling to the least favorable level in fifteen years. Rather than signaling a surge in vehicle prices, it is more likely a reflection of habituation, as references to low vehicle prices have been falling for several years. Overall, it would appear that consumers have accommodated slower economic growth as well as rising gas prices without an accompanying rise in uncertainty about their own personal financial situation. The most important element supporting consumers' optimism is their conviction that the slower pace of economic growth will not have an appreciable impact on maintaining the jobless rate at about its current very low level. The data are still consistent with a 2.7% rate of growth in personal consumption expenditures during 2016.

Consumers provided quite favorable assessments of their current finances in early March, with 39% mentioning that their income had recently increased. The last time net income gains were cited more frequently was in the April 2007 survey. When asked about their financial prospects for the year ahead, consumers were more optimistic about their finances during the first three months of 2016 than anytime since the closing quarter of 2006. Overall, consumers expected an increase of 1.7% in their household's income during the year ahead, between last month's 1.9% and last year's 1.4%. Importantly, given the low inflation rate, the fewest consumers in early March since 2008 anticipated real income declines during the year ahead.

Following several months when most consumers anticipated no increase in gas prices, in early March, a median increase of 10.3 cents was anticipated during the year ahead, up from 0.5 cents last month. The anticipated increase in gas prices meant that the median expected year-ahead overall inflation rate rose to 2.7% in early March from 2.5% in the prior two months. Gas prices were expected to increase by 99.7 cents over the next five years, nearly twice as high as January. Long term inflation expectations also rose to 2.7% in early March from 2.5% in February. Just 3% anticipated long term deflation.

Attitudes toward buying conditions for household durables and vehicles have declined slightly, although they are still quite favorable. The more interesting change was in how consumers justified their assessments: favorable mentions of low prices for durables fell to 32% in early March from 43% in February, and favorable price mentions for vehicles fell to 20% from 33%. The 20% that favorably mentioned vehicle prices in early March was the lowest level in fifteen years. Nonetheless, favorable views of vehicle buying conditions remained only slightly below the January decade high (69% versus 73%).

Consumers who reported hearing news of job losses slightly outnumbered those that reported hearing of job gains for the seventh consecutive month. When specifically asked about how they expected the unemployment rate to change during the year ahead, half of all consumers anticipated no change in its current low rate. Among the other half, consumers were slightly more likely to anticipate very small increases rather than further declines by the start of next year. This somewhat more cautious outlook on jobs was due to the expected slowdown in the pace of economic growth. Although consumers were still more likely to expect the expansion to continue, the proportion that expected good times during the year ahead fell to 40% in early March from 53% last year, and those that anticipated good times over the longer run fell to 43% from 48% last year.

	Mar 2015	Apr 2015	May 2015	June 2015	July 2015	Aug 2015	Sept 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	March Prelim
Index of Consumer Sentiment	93.0	95.9	90.7	96.1	93.1	91.9	87.2	90.0	91.3	92.6	92.0	91.7	90.0
Current Economic Conditions	105.0	107.0	100.8	108.9	107.2	105.1	101.2	102.3	104.3	108.1	106.4	106.8	105.6
Index of Consumer Expectations	85.3	88.8	84.2	87.8	84.1	83.4	78.2	82.1	82.9	82.7	82.7	81.9	80.0
Index Components													
Personal Finances—Current	117	120	111	119	116	120	111	111	111	113	110	118	118
Personal Finances—Expected	122	124	123	125	122	124	121	127	122	124	124	128	126
Economic Outlook—12 Months	116	124	113	125	115	111	100	101	106	103	107	97	98
Economic Outlook—5 Years	105	109	102	104	101	100	93	101	105	105	102	104	97
Buying Conditions—Durables	155	158	150	163	161	152	151	154	160	167	166	159	156