

Subject: March 2016 survey results
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Consumer confidence inched upward in late March due to somewhat more favorable economic expectations, but the gain still left the Sentiment Index slightly below last month's level. Despite the recent small monthly variations, the overall level of confidence has remained largely unchanged during the past nine months: the Sentiment Index in the 1st quarter of 2016 averaged 91.6, barely different from the 91.3 in the 4th quarter or the 90.7 in the 3rd quarter of 2015. The overall stability reflected more positive personal finances being offset by less favorable prospects for the economy. The difference was sizable as consumers viewed their finances as favorably as a decade ago, while the outlook for the economy was evenly split between those who expected gains and those who anticipated bad times ahead. While rising gas prices were the primary cause of an uptick in inflation expectations, it had no impact on consumers' inflation-adjusted income expectations, which remained at the highest level since 2007. The slowdown in the pace of economic growth has meant that consumers also anticipated a slower pace of growth in employment during the year ahead. It would appear that consumers have accommodated slower employment growth as well as rising gas prices without an accompanying rise in uncertainty about their own personal finances. This positive outlook is contingent on the majority's view that the jobless and inflation rates will be maintained at low levels in the year ahead. Overall, the data still indicate a 2.7% rate of growth in personal consumption during 2016.

Consumers provided quite favorable assessments of their current finances in March, with 38% mentioning that their incomes had recently increased, the second highest percentage since 2005, and the fewest consumers since 2003 complained about high prices during the past five months. 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 1.4% in their households' income during the year ahead, down from last month's 1.9% and equal to last year's 1.4%. Importantly, the fewest consumers since 2008 anticipated inflation-adjusted income declines.

The median annual expected change in gasoline prices rose to 14.6 cents in March, up from just 0.5 cents in February. The anticipated increase in gas prices meant that the median expected year-ahead overall inflation rate rose to 2.7% in March from 2.5% in the prior two months. Gas prices were expected to increase by 99.6 cents over the next five years, up from 74.7 cents last month and 50.3 cents three months ago. As a result, long term inflation expectations rose to 2.7% from 2.5% in February.

Consumers were less aware of positive and negative economic developments in March as campaign coverage dominated the media. The mix of news showed no change in either the impact of the election on the economy or in the slight negative cast of news about jobs. There was little change in how consumers judged the recent pace of growth in the economy, and no change in the proportion that anticipated the economy to worsen or improve during the year ahead. What consumers expected was another year of a somewhat slower pace of economic growth. Indeed, consumers were evenly split between expecting good and bad times in the economy as a whole during the year ahead as well as over the next five years. Importantly, this meant that consumers expected slight increases rather than any further declines in the jobless rate by the 1st quarter of 2017.

Attitudes toward buying household durables and vehicles have declined slightly over the past several months, 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 from 43% in February to 32% in March, and favorable price mentions for vehicles fell from 33% to 21%, the lowest level in fifteen years. This made durable and vehicle purchase decisions more dependent on low interest rates, especially among households with incomes in the top third (who account for half of all spending). Home buying plans showed only very minor declines in the past few months with net favorable references to current mortgage rates more than twice as frequent as net favorable price references. A continued slow expansion in home sales will benefit from a rise in the investment value of homes, expected to rise annually by 2.5% during the next five years, up from 2.0% last March.

| | 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 2016 |
|--------------------------------|----------|----------|----------|-----------|-----------|----------|-----------|----------|----------|----------|----------|----------|------------|
| 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 | 91.0 |
| 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 | 81.5 |
| Index Components | | | | | | | | | | | | | |
| Personal Finances—Current | 117 | 120 | 111 | 119 | 116 | 120 | 111 | 111 | 111 | 113 | 110 | 118 | 119 |
| Personal Finances—Expected | 122 | 124 | 123 | 125 | 122 | 124 | 121 | 127 | 122 | 124 | 124 | 128 | 127 |
| Economic Outlook—12 Months | 116 | 124 | 113 | 125 | 115 | 111 | 100 | 101 | 106 | 103 | 107 | 97 | 100 |
| Economic Outlook—5 Years | 105 | 109 | 102 | 104 | 101 | 100 | 93 | 101 | 105 | 105 | 102 | 104 | 100 |
| Buying Conditions—Durables | 155 | 158 | 150 | 163 | 161 | 152 | 151 | 154 | 160 | 167 | 166 | 159 | 155 |