

Subject: Preliminary results from the April 2016 survey  
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Consumer confidence continued its slow overall decline in early April, marking the fourth consecutive monthly decline. To be sure, the sizes of the recent losses have been quite small, with the Sentiment Index falling just 2.9 Index-points since December 2015, although it was down 6.2 Index-points from a year ago and 8.4 points below the peak in January 2015. None of these declines indicate an impending recession, although concerns have risen about the resilience of consumers in the months ahead. Most of the recent declines can be attributed to two distinct factors. The first is a slowdown in the pace of income and job growth, and the second is economic uncertainty aroused by the election campaigns. Consumers reported a slowdown in expected wage gains, weakening inflation-adjusted income expectations, and growing concerns that slowing economic growth would reduce the pace of job creation. These apprehensions should ease as the economy rebounds from its dismal start in the first quarter of 2016. The other factor involves how consumers judge what impact the election will have on economic policies, which presumably will come into clearer focus after the nominated candidates formally begin their campaigns. The University of Michigan's surveys have measured the impact of the election on economic expectations since the election of President Kennedy. Typically, the questions are asked following the conventions. In early April, however, an unusually large number of consumers spontaneously mentioned negative implications of the election or government policies when asked about what economic news they had heard. The Sentiment Index among the nearly one-in-five who made negative comments was significantly lower, with nearly all of the difference accounted by much more negative expectations for the overall economy. Although one month's data is hardly conclusive, this bears close monitoring during the months ahead. Overall, the data now indicate that inflation-adjusted personal consumption expenditures will grow by 2.5% in 2016.

When asked to identify what economic news they had recently heard, negative references to the election and government policies rose to 19% in April, up from 10% last month and 9% last year—although much higher levels were recorded during the “fiscal cliff” era. It was not possible to accurately parse comments by candidates, and no attempt was made to only include the policies identified by a candidate. Consumers who made negative comments had a Sentiment Index that was 10.9 points lower than those who did not make any negative references, with the one-year outlook for the economy lower by 28 balance-points and the five year outlook by 39. If these differences become more widespread as the campaigns unfold, it could have a significant impact on consumer spending, which has been the primary driving force of the economic expansion.

Recent personal financial progress remained favorable, although expectations for future financial gains were less promising. An improved financial situation was expected by 31% in early April, down from 36% last month and the lowest level in eighteen months. The median expected gain in nominal household incomes was 1.0% in early April, down from 1.4% last month and 1.5% last year. As a result, inflation-adjusted income declines were anticipated by 48% in early April, the highest level since May 2014. Unemployment was expected to increase by 30% of all consumers, up from 20% last April and the highest in two years. This reflects a slowing rate of economic growth that is unable to keep up with an expanding labor force.

A year-ahead inflation rate of 2.7% was expected, unchanged from March, but higher than the 2.5% in the prior two months. Over the next five years, an average rate of 2.5% was expected, returning to the quarter-century low first set in February and last October. The data indicate that falling wage expectations rather than rising inflation lowered real income expectations.

The largely unchanged outlook for the national economy resulted from the much more negative expectations of those that reported unfavorable references to the election being offset by small advances among the other four-fifths of consumers. Nonetheless, the proportion expecting good times during the year ahead fell to 43% this April from 56% last year, and the proportion that expected good times in the overall economy fell to 44% from last year's 50%. Although both represent significant declines, neither indicate that consumers anticipate an overall downturn in the economy during the year ahead.

	Apr 2015	May 2015	June 2015	July 2015	Aug 2015	Sept 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	April Prelim
Index of Consumer Sentiment	95.9	90.7	96.1	93.1	91.9	87.2	90.0	91.3	92.6	92.0	91.7	91.0	89.7
Current Economic Conditions	107.0	100.8	108.9	107.2	105.1	101.2	102.3	104.3	108.1	106.4	106.8	105.6	105.4
Index of Consumer Expectations	88.8	84.2	87.8	84.1	83.4	78.2	82.1	82.9	82.7	82.7	81.9	81.5	79.6
Index Components													
Personal Finances—Current	120	111	119	116	120	111	111	111	113	110	118	119	117
Personal Finances—Expected	124	123	125	122	124	121	127	122	124	124	128	127	118
Economic Outlook—12 Months	124	113	125	115	111	100	101	106	103	107	97	100	102
Economic Outlook—5 Years	109	102	104	101	100	93	101	105	105	102	104	100	99
Buying Conditions—Durables	158	150	163	161	152	151	154	160	167	166	159	155	156