Subject: April 2016 survey results April 29, 2016
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Consumer sentiment continued its slow decline in late April due to weakening expectations for future growth, although their views of current economic conditions remained positive. All of the April decline was in the Expectations component, which fell by 4.8% from one month ago and by 12.6% from a year ago and by 14.7% from its January 2015 peak. The retreat from the 2015 peaks was clearly evident across a wide range of expectations about prospects for the economy, and the size of the decline, while troublesome, is still far short of indicating an impending recession. The dismal pace of GDP growth in the 1st quarter 2016, the third consecutive 1st quarter slump, is likely to be dismissed as a signal that the economy is about to fall into recession; it is more likely to set a low bar for judging economic gains during the balance of the year. To be sure, this wait-and-see view among consumers has been aided by the maintenance of relatively favorable assessments of their current finances and buying plans. Nonetheless, consumers have hedged these views by upping their savings rate in the 1st quarter in each of the past three years. The top concerns of consumers involve whether the slowdown in economic growth will result in a slower pace of income and job gains, and growing uncertainty about future economic policies depending on the outcome of the presidential election. On both counts, consumers have already adopted a more defensive stance. Strong job and income gains would neutralize these concerns. Overall, the data indicate that real personal consumption will grow by 2.5% in 2016.

Consumers' assessments of their personal financial situation remained favorable in the April survey. Recently improved finances were cited by 45% in April, and just 11% anticipated that their financial situation would worsen during the year ahead. Income gains were reported by 37% of all consumers, not much below the decade high of 40% in January 2015. Consumers, however, were somewhat more guarded about their future financial prospects. For the year ahead, consumers expected income gains of 1.2% in April, down from 1.4% last month and 1.5% last year. Although inflation-adjusted income gains remained favorable, the anticipated gains were the smallest in the past year in the April survey. Moreover, when asked about the outlook for the unemployment rate, although two-thirds anticipated it to remain as low or even lower than at present in the year ahead, the proportion who expected the jobless rate to increase rose to 31% in April from just 20% last year.

A year-ahead inflation rate of 2.8% was expected, up from 2.7% in 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 consumers view the recent increase in the year-ahead inflation rate will be temporary.

The slight decline in job and income prospects has been due to growing concerns about the health of the economy. Although half of all consumers reported that the economy had posted annual gains in April, when asked about prospects for the year ahead, consumers were much less optimistic. Good financial times in the economy as a whole were anticipated by just 39% of all consumers, down from 56% last April, and 42% expected favorable economic conditions over the next five years, down from 50% last April. Indeed, over the near and longer terms, consumers were more likely to anticipate a weaker rather than a stronger economy, with GDP expected to dip below the 2.4% during the past two years. While such diminished prospects are hardly surprising in an era of secular stagnation, it may suggest a greater vulnerability to economic policy shocks.

When asked to identify what economic news they had recently heard, negative references to the election and government policies rose to 18% 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 Expectations Index that was 22 points lower than those who did not make any negative references, with the one-year outlook for the economy lower by 36 balance-points and the five year outlook by 47. 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.

	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 2016
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	89.0
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	106.7
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	77.6
Index Components													
Personal Finances—Current	120	111	119	116	120	111	111	111	113	110	118	119	118
Personal Finances—Expected	124	123	125	122	124	121	127	122	124	124	128	127	121
Economic Outlook—12 Months	124	113	125	115	111	100	101	106	103	107	97	100	95
Economic Outlook—5 Years	109	102	104	101	100	93	101	105	105	102	104	100	95
Buying Conditions—Durables	158	150	163	161	152	151	154	160	167	166	159	155	158