

Subject: Preliminary results from the May 2016 survey
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Consumer sentiment rebounded in early May due to more frequent income gains, an improved jobs outlook, and the expectation of lower inflation and interest rates. The largest gains were recorded among lower income and younger households, although the gains were recorded among all income and age subgroups as well as across all regions. Nearly all of the gains were in the Expectations Index, which rose to its highest level in nearly a year. It would appear that consumers discounted the 1st quarter GDP report as a misleading indicator; instead, they have based their expectations more on their own direct experiences and informal sources of information about the economy. To be sure, the data still indicated the negative impact of uncertainty about future economic policies associated with the Presidential election, but its overall impact was overwhelmed by favorable economic developments. It is too early to judge the potential impact of the election on consumers' expectations, and one month's rebound in consumer confidence is insufficient to increase the current forecast for consumer spending from 2.5% during 2016. Nonetheless, the early May data are a welcome sign of an impending shift toward spending and away from savings, although policy uncertainty is likely to continue to emphasize the need for higher savings. Renewed economic strength is likely to encourage higher labor force participation rates, acting to raise aggregate incomes and limit further declines in the jobless rate. Despite all the caveats, the May data has provided the most positive news in nearly a year.

Consumers voiced quite positive assessments of their personal finances in early May. Recently improved finances were cited by 48% in early May, the highest level since 50% reported improved finances in February 2005. When asked to explain how their finances had changed, 41% mentioned income gains, up from 37% last month, and the highest level since November of 2000. Moreover, when asked about their financial prospects for the year ahead, consumers expected the best financial outlook in ten years. Consumers expected annual income gains of 1.6% in early May, up from 1.2% last month and 1.3% last May. Combined with low inflation, consumers anticipated greater real income gains than anytime in the past ten years.

A year-ahead inflation rate of 2.5% was expected, down from 2.8% one month and one year ago, and equal to the same lows recorded in January and February. Over the next five years, an average rate of 2.6% was expected, just above last month's quarter-century low of 2.5%. Although interest rate hikes were still anticipated by 54% in early May, this was the lowest proportion since the start of 2015. More importantly, the availability of low interest rates on credit improved buying plans.

Buying attitudes toward vehicles and large household durables improved in early May mainly due to more favorable references to interest rates on credit purchases. For vehicle purchases, more consumers spontaneously mentioned low interest rates in early May than any other time since December of 2004. For household durables, references to low interest rates were the most frequent since mid 2005. For home buying, falling mortgage rates were offset by rising prices, leaving overall home buying attitudes unchanged in early May from last month. Higher home prices prompted home selling attitudes to improve to their best level in a decade. Indeed, 58% of all homeowners reported the value of their homes had risen during the past year, the highest proportion since August 2006. While the anticipated gain in home values during the year ahead was the highest recorded since this question was first asked in January 2007, the anticipated percentage gain was just 0.6% in early May.

The economy recently improved according to the majority of consumers, with the largest gains by younger and lower income households. Eight-in-ten consumers anticipated that the economy would continue to grow at or better than its recent pace in the year ahead. Good times financially in the economy as a whole were anticipated by 47% of all consumers in early May, up from 39% last month, and close to last year's 49%. Just 38% of all consumers in May anticipated a downturn over the next five years, the lowest level recorded since 2004. When asked about job prospects for the year ahead, the jobless rate was expected to be somewhat lower in early May than last month. To be sure, the majority anticipated no significant change in the unemployment rate, with the balance of opinion evenly split between anticipating slight increases and slight declines.

	May 2015	June 2015	July 2015	Aug 2015	Sept 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May Prelim
Index of Consumer Sentiment	90.7	96.1	93.1	91.9	87.2	90.0	91.3	92.6	92.0	91.7	91.0	89.0	95.8
Current Economic Conditions	100.8	108.9	107.2	105.1	101.2	102.3	104.3	108.1	106.4	106.8	105.6	106.7	108.6
Index of Consumer Expectations	84.2	87.8	84.1	83.4	78.2	82.1	82.9	82.7	82.7	81.9	81.5	77.6	87.5
Index Components													
Personal Finances—Current	111	119	116	120	111	111	111	113	110	118	119	118	121
Personal Finances—Expected	123	125	122	124	121	127	122	124	124	128	127	121	129
Economic Outlook—12 Months	113	125	115	111	100	101	106	103	107	97	100	95	112
Economic Outlook—5 Years	102	104	101	100	93	101	105	105	102	104	100	95	111
Buying Conditions—Durables	150	163	161	152	151	154	160	167	166	159	155	158	161