

Subject: May 2016 survey results
From: Richard Curtin, Director

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Consumers were a bit less optimistic in late May than earlier in the month, but sentiment was still substantially higher than last month. The late month falloff was due to a slightly less favorable outlook for the overall economy, although economic prospects were still more favorable than any time during the past nine months. There have only been four prior months since the January 2007 peak in which the Sentiment Index was higher than in May, all recorded at the start of 2015. Despite the meager GDP growth as well as a higher inflation rate, consumers became more optimistic about their financial prospects and anticipated a somewhat lower inflation rate in the years ahead. Positive views toward vehicle and home sales also posted gains in May largely due to low interest rates. The biggest uncertainty consumers see on the horizon is not whether the Fed will hike interest rates in the next few months, but the outlook for future government economic policies under a new president. This has increased their emphasis on maintaining precautionary savings, although the savings rate is not expected to increase much beyond its current level. Although small stock gains are anticipated, household wealth is more likely to benefit from rising home prices, with gains now more frequent than in a decade. 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. Overall, the data indicate that inflation-adjusted consumer expenditures can be expected to rise by 2.5% in 2016 and 2.7% in 2017.

Consumers voiced quite positive assessments of their personal finances. Recently improved finances were cited by 49% in May, the highest level since early 2005. When asked to explain how their finances had changed, more consumers cited income gains (40%) than any time since late 2000, and fewer consumers complained that price increases had reduced their living standards (9%) since 2003. When asked about their financial prospects for the year ahead, the last time a higher proportion of consumers expected improved finances was in 2006. Overall, one-in-four households reported recent gains as well as expected continued improvement in their finances, the highest level since late 2006. This optimism is based on rather modest expected income gains, 1.6% in May, which was higher than the annual average during the prior seven years. Moreover, more consumers anticipated inflation-adjusted income gains in May than any time during the prior decade.

A year-ahead inflation rate of 2.4% was expected, down from 2.8% one month and one year ago, and the lowest level since the aftermath of the Great Recession. Over the next five years, an average rate of 2.5% was expected, remaining at nearly a half-century low, recorded for the fourth time in the past eight months. Importantly, consumers expressed no fears of deflation, as just 1% anticipated deflation during the year ahead and just 2% expected deflation over the next five years.

Favorable credit conditions were cited by consumers as justification for their improved buying plans. For vehicles, more consumers spontaneously mentioned improved credit conditions than any time since late 2004; for household durables, the last time more consumers cited favorable credit conditions was in mid 2005. The data suggest that these recent gains were due to consumers judging that credit had become more accessible. The biggest change for the housing market was not in home buying conditions, which remained favorable, but how current home owners viewed home selling conditions. The May survey recorded the most positive views of home selling conditions in a decade, with the recent gains due to owners expecting to sell their homes for higher prices. Indeed, after more than a decade when homeowners believed that if they sold their home it would be at a net loss, the May survey found homeowners anticipating no net loss, down from a peak of 24% in 2012.

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 over the next five years were anticipated by 47% of all consumers in May, returning to its high level during the past year. When asked about job prospects for the year ahead, the jobless rate was expected to be somewhat lower in May than last month. To be sure, the majority anticipated no significant change in the unemployment rate, with the balance of opinion nearly 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 2016
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	94.7
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	109.9
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	84.9
Index Components													
Personal Finances—Current	111	119	116	120	111	111	111	113	110	118	119	118	123
Personal Finances—Expected	123	125	122	124	121	127	122	124	124	128	127	121	128
Economic Outlook—12 Months	113	125	115	111	100	101	106	103	107	97	100	95	107
Economic Outlook—5 Years	102	104	101	100	93	101	105	105	102	104	100	95	106
Buying Conditions—Durables	150	163	161	152	151	154	160	167	166	159	155	158	162