surveys of consumers UNIVERSITY OF MICHIGAN

Monitoring trends for over 60 years

Subject: Preliminary data from the June 2016 survey June 10, 2016
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Consumers were a bit less optimistic in early June due to increased concerns about future economic prospects. The recent data magnified the growing gap between the most favorable assessments of Current Economic Conditions since July 2005, and renewed downward drift of the Expectations Index, which fell by a rather modest 8.6% from the January 2015 peak. The strength recorded in early June was in personal finances, and the weaknesses were in expectations for continued growth in the national economy. Consumers rated their current financial situation at the best levels since the 2007 cyclical peak largely due to wage gains. Prospects for gains in inflation-adjusted incomes in the year ahead were also the most favorable since the 2007 peak, enabled by record low inflation expectations. Long term inflation expectations were the lowest ever recorded. On the negative side of the ledger, consumers do not think the economy is as strong as it was last year nor do they anticipate the economy will enjoy the same financial health in the year ahead as they anticipated a year ago. A sustained reduction in the pace of job creation could prompt consumers to hold down spending to increase their precautionary savings. Overall, as of now, the data still indicate that real consumer expenditures can be expected to rise by 2.5% in 2016 and 2.7% in 2017.

Consumers voiced record positive assessments of their financial situation in early June. Recently improved finances were cited by 49%, unchanged from May, and the highest level since the February 2005 survey. When asked about their financial prospects during the year ahead, most anticipated an improved (35%) or an unchanged (51%) financial situation; just one-in-ten anticipated worsening finances. Expected annual income gains of 1.6% were reported in June as well as May, which was slightly below last June's 1.7%. Anticipated gains in inflation-adjusted incomes rose to the highest levels since the January 2007 peak. Indeed, compared with a year ago, the sole reason for more favorable financial prospects was lower inflation.

A year-ahead inflation rate of 2.4% was expected in early June, unchanged from May, and the lowest anticipated inflation rate since the aftermath of the Great Recession. More importantly, long term inflation expectations fell to their lowest level recorded in nearly a half century. Consumers anticipated an average inflation rate of just 2.3% over the next five years in early June, down from 2.5% in the prior two months, and 2.6% last June. What makes these declines all the more remarkable is that they came in the face of rising gas prices and higher long term inflation pressures due to (small) increases in wages.

May's disappointing job report was preceded by the April increase in consumers' reports of unfavorable news about jobs. Fortunately, the early June survey recorded a ten percentage point decline in net unfavorable references to job creation from April, indicating more positive job reports can be anticipated. Nonetheless, consumers became less optimistic about future growth prospects for the economy. The economy was judged to have recently improved by 51% in early June, down from 63% last June, and the economy was expected to worsen by 22% up from 14% last June. As a result, although good times in the economy as a whole were anticipated by more consumers than bad times during the year ahead (43% versus 36%), that favorable balance of opinion is quite a bit less than a year ago (55% versus 30%). The national unemployment rate was anticipated to remain unchanged or to decline a bit further by three-quarters of all consumers in early June as well as May.

Favorable attitudes toward buying conditions for durables, vehicles, and homes were largely unchanged from a year ago, due to shifts in consumers' price and interest rate rationales. For household durables, the largest improvement from a year ago was among consumers under age 45, due to more favorable price perceptions. For vehicles, the largest negative change was among households with incomes in the top third, due to the lessened appeal of low prices and favorable credit conditions. For home buying, the largest positive shift was among high income households, due to a greater reliance on low mortgage rates instead of low prices; for home selling, owners over age 65 were much more negative about both selling prices as well as future credit conditions. Overall, the changing mix of reasons across demographic subgroups for essentially unchanged market assessments compared with a year ago reflects a trendless churning and sideward movement typical at market peaks.

	June 2015	July 2015	Aug 2015	Sept 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	June Prelim
Index of Consumer Sentiment	96.1	93.1	91.9	87.2	90.0	91.3	92.6	92.0	91.7	91.0	89.0	94.7	94.3
Current Economic Conditions	108.9	107.2	105.1	101.2	102.3	104.3	108.1	106.4	106.8	105.6	106.7	109.9	111.7
Index of Consumer Expectations	87.8	84.1	83.4	78.2	82.1	82.9	82.7	82.7	81.9	81.5	77.6	84.9	83.2
Index Components													
Personal Finances—Current	119	116	120	111	111	111	113	110	118	119	118	123	123
Personal Finances—Expected	125	122	124	121	127	122	124	124	128	127	121	128	125
Economic Outlook—12 Months	125	115	111	100	101	106	103	107	97	100	95	107	107
Economic Outlook—5 Years	104	101	100	93	101	105	105	102	104	100	95	106	101
Buying Conditions—Durables	163	161	152	151	154	160	167	166	159	155	158	162	167