

Subject: June 2016 survey results
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Consumers were a bit less optimistic in late June due to rising concerns about prospects for the national economy. While no recession is anticipated, consumers increasingly expect a slower pace of economic growth in the year ahead. Importantly, the persistent strength in personal finances will keep the level of consumer spending at relatively high levels and continue to support an uninterrupted economic expansion. Over the past 18 months, the Sentiment Index has shown only minor fluctuations about a very positive trend, with the June 2016 level a bit higher than the overall average (93.5 vs. 92.6). This relative stability stands in sharp contrast to the much more volatile path of GDP. The stability in the overall Sentiment Index reflects a gradual improvement in assessments of current conditions being offset by a downward drift in the economic prospects. The Current Conditions Index reached in the June survey its highest level since January of 2007, while the Expectations Index declined a modest 9.5% from its January 2015 peak. Although the data are consistent with GDP growth falling slightly below 2.0% in 2016, real consumer spending can be expected to rise by 2.5% in 2016 and 2.7% in 2017.

Consumers voiced the most positive assessments of their finances since late 2000 due to near record references to income increases and nearly the fewest complaints about inflation. Recently improved finances were cited by 49%, unchanged from May, and the highest level in the last decade. Indeed, expected gains in inflation adjusted incomes reached their highest level since January 2007 despite the fact that consumers anticipated nominal income gains of just 1.6% in June, which was slightly below last year's 1.7%. The last time real income gains were as favorable as in the June 2016 survey, consumers anticipated income gains of 2.7%, a full percentage point higher than now. Overall, these favorable assessments represent an accommodation for financial planning purposes, but not an acceptance of the inevitability of such a lackluster outcome. Indeed, nearly twice as many consumers in June judged current economic policies poor rather than favorable (39% vs. 21%).

Inflation expectations rose from mid-month, but still remained quite low. A year-ahead inflation rate of 2.6% was expected in the June survey, between the 2.4% in the prior month and last year's 2.7%. Long term inflation expectations also increased in June, as consumers expected an average rate of 2.6% over the next five years, up from 2.5% in the prior two months, and equal to last June's level. The small uptick in inflation expectations hardly diminished the prevailing view that inflation was expected to remain near record lows and remain well anchored. Near and long term gas price expectations, in contrast, inched downward in the June 2016 survey, providing no obvious explanation for the tiny rise in overall inflation expectations.

Although consumers still anticipated in June that the growth rate in jobs will slow during the year ahead, they have tempered these views considerably since the April low-point. Nonetheless, consumers are slightly more likely to anticipate slower job growth in the year ahead than during the past year and that the unemployment rate is likely to be a bit higher in mid 2017 than now. The slowdown in job gains was attributed to a slowing pace of economic growth. While it is still true that more consumers anticipate a continued expansion than a contraction, the margin of difference has narrowed in the past year. Slower but still positive growth meant that 28% of all consumers anticipated a higher jobless rate in the year ahead, up from 24% in May and last June's 20%, while a declining jobless rate fell to 18% in June from 21% last month and 25% last year.

Buying attitudes edged upward for large household durables and downward for vehicles and homes. All of the changes were quite minor, when compared with a year ago. Vehicle buying plans were dominated by low interest rates on credit purchases, especially among higher income and middle age groups, the most likely to purchase new vehicles. Home buying and home selling conditions both declined slightly in the June survey. Compared with a year ago, selling conditions benefitted from higher prices and buying conditions grew slightly less favorable due to those same price gains. Low mortgage rates, however, have dominated both buying and selling conditions, especially among households who have a higher probability of purchase.

	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 2016
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	93.5
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	110.8
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	82.4
Index Components													
Personal Finances—Current	119	116	120	111	111	111	113	110	118	119	118	123	124
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	104
Economic Outlook—5 Years	104	101	100	93	101	105	105	102	104	100	95	106	102
Buying Conditions—Durables	163	161	152	151	154	160	167	166	159	155	158	162	164