

Subject: Preliminary results from the July 2016 survey
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The early July decline in consumer sentiment was due to increased concerns about prospects for the national economy that were mainly voiced by high income households. Prior to the Brexit vote, virtually no consumer thought the issue would have the slightest impact on the U.S. economy. Following the Brexit vote, it was mentioned by record numbers of consumers, especially high income consumers. Nearly one-in-four (24%) households with incomes in the top third mentioned Brexit when asked to identify any recent economic news that they had heard. For these households, the initial impact on domestic stock prices translated Brexit into personal wealth losses. While stock prices quickly rebounded, an underlying sense of uncertainty about global prospects as well as for the domestic economy have not faded. To be sure, the overall decline in the Sentiment Index was rather minor, and could be anticipated to recover some of those losses in late July or early August. In the next few weeks, however, the occurrence of both national conventions is bound to focus consumers' attention on the claims and counterclaims of the two candidates. While past elections have generally engendered renewed optimism, the negative baggage of each candidate may generate more angst and uncertainty. Luckily, the least affected components have been personal finances and buying plans. Real consumer spending can be expected to rise by 2.7% in both 2016 and 2017.

Consumers' assessments of their personal finances remained positive. While consumers were slightly less likely to report recent gains in their finances in early July, the smallest proportion since 2007 reported that their finances had worsened (24%). Most of the softness was due to high income households who reported less favorable changes in their income and wealth. When asked about the year ahead, declines in financial prospects among those in the top third of the income distribution were offset by gains in the bottom two-thirds. Median expected income gains showed the same pattern, with the overall small decline due to much larger, but still positive, income expectations among those with incomes in the top third. Inflation-adjusted income gains were slightly lower as a result of both smaller income gains and higher expected inflation.

Year-ahead inflation expectations rose to 2.8% in early July from 2.6% in June, matching last July's reading. Most of the gain from last month was due to households in the bottom third of the income distribution. Long term inflation expectations remained steady at 2.6% in July, the same as last month and down from 2.8% last July. The unchanged figure in early July from June was due to small declines among households with incomes in the top third offset by increases among those in the bottom third. Consistent with the recent Fed decision, interest rate increases during the year ahead were expected by 50% in early July, down from 60% last month, and the lowest level to anticipate rising interest rates during the past three years.

When asked about what recent economic news that they had heard, an all-time record number of people mentioned changes in the global economy mostly related to Brexit. Twice as many households with incomes in the top third as the bottom two-thirds mentioned Brexit (24% versus 12%). The impact on prospects for the domestic economy was significant, however, only among top income households. This heightened sensitivity of domestic economic prospects to Brexit among the highest income households would only be more surprising if it didn't quickly disappear. Even employment prospects were dimmed due to concerns among high income households, who also displayed a steep drop in confidence in government policies.

Buying attitudes toward large household durables and vehicles were marginally lower than last month but equal to last year's levels. References to low prices for household durables were just as frequent as last month or in last July, mentioned by 36%. References to discounted prices and low interest rates on vehicle purchases were slightly more common this July (cited by 60%) than either last month (53%) or last year (56%). Overall, the data suggest little change in unit vehicle sales during the year ahead from its current high level. For the housing market, buying conditions slipped a few points and selling conditions improved by an equal amount, leaving the overall positive level unchanged. Importantly, just one-in-ten homeowners expect a future decline in their home's value, but the overall annual rate of anticipated gain was just 2.1% over the next five years.

	July 2015	Aug 2015	Sept 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	July Prelim
Index of Consumer Sentiment	93.1	91.9	87.2	90.0	91.3	92.6	92.0	91.7	91.0	89.0	94.7	93.5	89.5
Current Economic Conditions	107.2	105.1	101.2	102.3	104.3	108.1	106.4	106.8	105.6	106.7	109.9	110.8	108.7
Index of Consumer Expectations	84.1	83.4	78.2	82.1	82.9	82.7	82.7	81.9	81.5	77.6	84.9	82.4	77.1
Index Components													
Personal Finances—Current	116	120	111	111	111	113	110	118	119	118	123	124	121
Personal Finances—Expected	122	124	121	127	122	124	124	128	127	121	128	125	124
Economic Outlook—12 Months	115	111	100	101	106	103	107	97	100	95	107	104	91
Economic Outlook—5 Years	101	100	93	101	105	105	102	104	100	95	106	102	94
Buying Conditions—Durables	161	152	151	154	160	167	166	159	155	158	162	164	161