Subject: July 2016 survey results July 29, 2016
From: Richard Curtin, Director

Although confidence strengthened in late July, for the month as a whole the Sentiment Index was still below last month's level mainly due to increased concerns about economic prospects among upper income households. The Brexit vote was spontaneously mentioned by record numbers of households with incomes in the top third (23%), more than twice as frequently as among households with incomes in the bottom two-thirds (11%). Given the prompt rebound in stock prices as well as the tiny direct impact on U.S. trade, it is surprising that concerns about Brexit remained nearly as high in late July as immediately following the Brexit vote. While concerns about Brexit are likely to quickly recede, weaker prospects for the economy are likely to remain. Importantly, the two main components of the Sentiment Index—the Expectations and Current Index—have diverged to a significant extent. Consumers' assessments of current economic conditions are now comparable to prior cyclical peaks, while expectations about future economic prospects are well below all but one prior cyclical peak. To be sure, the gap between current and expected economic conditions is not as extreme as it was in 1974, 1979, 1990, or 2006. Nonetheless, those prior gaps acted as a very early warning signal of potential future downturns. Of course, past trends may not predict the future since the Expectations Index has been held down by years of lackluster growth that has been well below the pace of past recoveries. The best antidote for the aging expansion would be for expectations for growth to strengthen in the 2nd half of 2016, a challenging task given the uncertainty surrounding global prospects and the presidential election. Based on the strength in personal finances and low interest rates, real consumer spending is now expected to rise by 2.6% to mid 2017.

Consumers were asked in June and July who they *expected* to win the presidential election—not who they intended to vote for or favored—to determine how the expected winner would influence their economic expectations. Clinton was expected to win by a large margin (58% versus 37%, with the balance uncertain), and those who expected a Clinton victory had a significantly higher Expectations Index (+9.7 points). When asked whether their personal financial prospects would be better if Clinton or Trump were elected, however, there was nearly an even split between the two candidates: Clinton 25% versus Trump 26%; the most common response was that it wouldn't make any difference who was elected, voiced by 48%. The same was true for who would be better for overall economy: Clinton 31%, Trump 30%, and no difference was cited by 36%.

Consumers remained upbeat about their current finances. The smallest proportion reported that their finances had worsened during the past year—24%—than anytime since the last peak in 2007. Past income gains were reported somewhat less often in July, mostly among upper income households. Positive financial prospects have hardly changed in the past year, although income expectations among households with incomes in the top third fell in July. The median income expectation of top income households fell to 1.8% from 3.1% in June, which lowered the overall expected gain to 1.4% from 1.6% in June.

Year-ahead inflation expectations rose to 2.7% in July, between last month's 2.6% and last year's 2.8%. Long term inflation expectations remained steady at 2.6% in July, the same as last month and down from 2.8% last July. Interest rates were expected to rise during the year ahead by 53%, down from 63% three months ago and the ten year peak of 69% in late 2015.

Prospects for the national economy weakened in July, especially the year-ahead outlook, which fell to its lowest level in two years. Consumers' primary concern was that a slower pace of economic growth would diminish the new job creation rate. When specifically asked about prospects for unemployment, 31% anticipated a higher jobless rate by this time next year, tying the April level, and the least favorable since February 2014. Importantly, the entire decline was among households with incomes in the top third and was correlated with concerns about Brexit, which can be expected to ease in the months ahead.

Buying attitudes remained favorable and dependent on low interest rates. Although net favorable references to prices were three times as frequent as net interest rates for durables (35% vs. 12%), net interest rate mentions were three times more frequent than price references for homes (43% vs. 14%), and twice as frequent for vehicle buying conditions (27% vs. 15%).

	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 2016
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	90.0
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	109.0
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	77.8
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	126
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	95
Buying Conditions—Durables	161	152	151	154	160	167	166	159	155	158	162	164	162