surveys of consumers UNIVERSITY OF MICHIGAN

*Monitoring trends for over 70 years*

Subject: Preliminary results from the August 2016 survey — August 12, 2016

From: Richard Curtin, Director

Confidence inched upward in early August due to more favorable prospects for the overall economy offsetting a small pullback in personal finances. Most of the weakness in personal finances was among younger households who cited higher expenses than anticipated as well as somewhat smaller expected income gains. Concerns about Brexit have faded amid rising references to the outcome of the presidential election as a source of uncertainty about future economic prospects. Increasing uncertainty probably reflects each candidate's focus on the negative economic outcomes if the other candidate is elected. Although consumers increasingly expect a Clinton victory, consumers are nearly equally split on whether either candidate would actually improve overall economic conditions or their own personal finances. Nonetheless, consumers who expected a Clinton victory also voiced much more positive economic prospects, which presumably would need to be quickly moderated after her election to more achievable near-term goals. Overall, the data remains consistent with real personal consumption expenditures improving by 2.6% through mid 2017, with new and existing home sales benefitting from low mortgage rates.

The surveys continued to track which candidate consumers *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 growing margin over Trump (+39 percentage point in August, up from +27 in July and +14 in June), and those who expected a Clinton victory had a significantly higher Expectations Index (+22.2 Index-points, up from +13.1 in July and +7.2 in June). When asked whether their personal financial prospects would be better if Clinton or Trump were elected, there was nearly an even split between the two candidates in early August as in past months: Clinton 30% versus Trump 31%; the most common response was that it wouldn't make any difference who was elected, voiced by 39%. The same was true for who would be better for overall economy: Clinton 34%, Trump 30%, and no difference was cited by 35%.

Consumers remained upbeat about their current finances. Among all households, 45% reported that their financial situation had recently improved, unchanged from one month or one year ago. One-third of all households reported recent income gains in early August, the same as in July. Financial prospects for the year ahead declined in August, as just 30% expected their finances to improve, the lowest level since late 2014, with all of the decline among those under age 45. The median expected income increase fell to 1.1% from 1.4% one month and one year ago, while inflation adjusted income expectations improved.

Inflation expectations fell to near record lows. Year-ahead inflation expectations fell to 2.5% in early August, from last month's 2.7% and last year's 2.8%. Long term inflation expectations remained steady at 2.6%, the same as last month and down from 2.7% last August. Importantly, just 4% anticipated deflationary trends in prices during the next five years or so.

Prospects for the national economy rebounded from last month but still remained below a year earlier. Good times financially were expected in the economy as a whole during the year ahead by 42% in early August, up from last month's 38% but still below last year's 48%. Unfortunately, nearly equal numbers of consumers anticipated bad economic times during the year ahead in early August (41%). A continuous expansion was expected slightly more frequently than a downturn sometime during the next five years (46% versus 44%), a slight improvement over last month and last August's survey. Importantly, the expected year-ahead unemployment rate improved in early August, as three-quarters of consumers anticipated no increase during the year ahead. Improved prospects for the economy were related to vanishing concerns about the impact of Brexit.

Buying attitudes remained at favorable levels. Home buying has become particularly dependent on low interest rates, with net references to low interest rates mentioned by 48%—this figure has been exceeded in only two months in the past ten years. In contrast, low housing prices were cited by just 25%, the lowest figure in ten years. For vehicle buying conditions, net favorable references to low interest rates were mentioned twice as often as net low prices (22% vs. 12%). Household durables were negatively affected by pricing rather than interest rates, with net price references falling to 29% from 35% last month.

| | Aug 2015 | Sept 2015 | Oct 2015 | Nov 2015 | Dec 2015 | Jan 2016 | Feb 2016 | Mar 2016 | Apr 2016 | May 2016 | Jun 2016 | July 2016 | Aug Prelim |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Index of Consumer Sentiment | 91.9 | 87.2 | 90.0 | 91.3 | 92.6 | 92.0 | 91.7 | 91.0 | 89.0 | 94.7 | 93.5 | 90.0 | 90.4 |
| Current Economic Conditions | 105.1 | 101.2 | 102.3 | 104.3 | 108.1 | 106.4 | 106.8 | 105.6 | 106.7 | 109.9 | 110.8 | 109.0 | 106.1 |
| Index of Consumer Expectations | 83.4 | 78.2 | 82.1 | 82.9 | 82.7 | 82.7 | 81.9 | 81.5 | 77.6 | 84.9 | 82.4 | 77.8 | 80.3 |
| Index Components | | | | | | | | | | | | | |
| Personal Finances—Current | 120 | 111 | 111 | 111 | 113 | 110 | 118 | 119 | 118 | 123 | 124 | 121 | 119 |
| Personal Finances—Expected | 124 | 121 | 127 | 122 | 124 | 124 | 128 | 127 | 121 | 128 | 125 | 126 | 120 |
| Economic Outlook—12 Months | 111 | 100 | 101 | 106 | 103 | 107 | 97 | 100 | 95 | 107 | 104 | 91 | 101 |
| Economic Outlook—5 Years | 100 | 93 | 101 | 105 | 105 | 102 | 104 | 100 | 95 | 106 | 102 | 95 | 102 |
| Buying Conditions—Durables | 152 | 151 | 154 | 160 | 167 | 166 | 159 | 155 | 158 | 162 | 164 | 162 | 156 |