

Subject: August 2016 survey results
From: Richard Curtin, Director

August 26, 2016

Confidence eased back in late August to register a trivial decline from the July reading. Less favorable personal financial prospects were largely offset by a slight improvement in the outlook for the overall economy. As mentioned at mid-month, most of the weakness in personal finances was among younger households who cited higher expenses than anticipated as well as slightly smaller expected income gains. Importantly, long term inflation expectations fell to the lowest level ever recorded, with near term inflation expectations anchored to that same low level. Just as low inflation has provided strong support for real income gains, low interest rates have increasingly become the sole driver of large discretionary expenditures. To be sure, references to the presidential election continue to be a source of uncertainty about future economic policies. Although consumers increasingly expect a Clinton victory, consumers remained nearly equally split on which candidate would actually improve overall economic conditions or their own personal finances. Consumers that anticipated a Clinton victory expressed more favorable economic expectations than those that expected Trump to win. Overall, the data remains consistent with real personal consumption improving by 2.6% through mid 2017, with large purchases sensitive to future interest rate trends.

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 (+43 percentage points in August, up from +27 in July and +14 in June), and those who expected a Clinton victory had a significantly higher Expectations Index (+17.4 Index-points, up from +13.1 in July and +7.2 in June). See the attached report for more details as well as the results by party and demographic subgroups.

Consumers remained upbeat about their current finances. Among all households, 44% 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 August, the same as in July. Financial prospects for the year ahead declined in August, as just 29% 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 1.2% from 1.4% one month and one year ago, while inflation adjusted income expectations improved.

The annual rate of inflation expected over the next five years fell to 2.5% in August, down from last month's 2.6% and last year's 2.7%, and the lowest level in nearly a half century. Year-ahead inflation expectations also declined to 2.5% in August, from last month's 2.7% and last year's 2.8%. Interest rate expectations also fell, as the proportion that anticipated increases in interest rates during the year ahead declined to 52%, down from 63% last August and the lowest level in 22 months.

Current conditions in the national economy were less favorably evaluated than anytime in the last two years. When asked about what news they had heard, consumers were more likely to negatively than positively refer to government or elections (15% versus 2%), and slightly more likely to refer to job losses rather than gains (20% versus 18%). However, both showed little change from last month or a year ago. Given the easing of concerns about rising interest rates, consumers held a somewhat more positive outlook for the economy than last month, although it was still less favorable than a year ago. The key metric remains the labor market, and consumers held slightly more positive expectations for the jobless rate in August than last month, although consumers still anticipate some very small increases in unemployment by this time next year.

The source of favorable buying plans has shifted from attractive pricing to low interest rates. Home buying has become particularly dependent on low mortgage rates, with net references to low rates mentioned by 53%—this figure has been exceeded in only one month in the past ten years. In contrast, low housing prices were cited by just 26%, for the fourth time in the last 5 months, and the lowest figure in ten years. Just as important, home selling conditions rose to the most favorable level since 2005. Favorable views of vehicle buying have eased in the past three months largely in response to higher prices, mentioned by 17% of consumers in August; the last time more consumers complained about high vehicle prices was in 1998.

	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 2016
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	89.8
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	107.0
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	78.7
Index Components													
Personal Finances—Current	120	111	111	111	113	110	118	119	118	123	124	121	118
Personal Finances—Expected	124	121	127	122	124	124	128	127	121	128	125	126	119
Economic Outlook—12 Months	111	100	101	106	103	107	97	100	95	107	104	91	97
Economic Outlook—5 Years	100	93	101	105	105	102	104	100	95	106	102	95	99
Buying Conditions—Durables	152	151	154	160	167	166	159	155	158	162	164	162	159