surveys of consumers
UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: Preliminary results from the September 2016 survey — September 16, 2016
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Confidence was unchanged in early September from the August final and barely different from the July reading. Small and offsetting changes have taken place in the third quarter 2016 surveys: modest gains in the outlook for the national economy have been offset by small declines in income prospects as well as buying plans. While income gains expected during the year ahead have edged upward, declines in inflation expectations were the main reasons future financial prospects improved, as both near and long term inflation expectations fell to near record lows. Nonetheless, buying plans suffered from the perception that no additional price discounts would be offered, and from the lack of a significant increase of buying in advance of expected interest rate increases. Even the more optimistic outlook for the economy had little if any impact on the expected growth rate in jobs. Importantly, all of these changes were relatively minor. Two thirds of all consumers still anticipated a Clinton victory, with consumers remaining about equally split on which candidate would actually improve overall economic conditions or be better for their own personal finances. Overall, consumers remain reasonably optimistic about their future economic prospects. Real personal consumption expenditures can be expected to grow by 2.6% through mid 2017.

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, although by a slightly narrower margin over Trump in early September (+37 percentage points, down from +43 in August, but well above the +27 in July and +14 in June). Those who expected a Clinton victory had a significantly higher Expectations Index (+20.2 Index-points in September, up from +17.4 in August, +13.1 in July and +7.2 in June).

Consumers reported somewhat less favorable assessments of their current finances, largely due to fewer reports of income increases. Among all households, 42% reported that their financial situation had recently improved, down from 49% three months ago. When asked to explain how their financial situation had changed, 29% mentioned recent income increases in early September, down from 39% three months ago, while references to income declines rose to 25% from 20%. When asked about their financial prospects for the year ahead, consumers were more upbeat in early September, although higher income expectations played only a minor role: consumers anticipated income gains of just 1.3%, between last month's 1.2% and the 1.6% recorded three months ago. Lower food and fuel prices also helped to improve consumers' financial assessments.

The expected year-ahead inflation rate fell to 2.3% in early September, from 2.5% last month and last year's 2.8%, reaching the lowest inflation rate recorded other than during recessions. Importantly, there was no hint of expected deflation as just 2% expected overall price declines in September, down from 4% last month. The annual rate of inflation expected over the next five years was 2.5% in September, unchanged from August, and below last year's 2.7%, and the lowest level in the past half century. Indeed, in six of the past twelve months, consumers anticipated a long-term annual inflation rate of just 2.5%.

Business conditions were more frequently reported to have recently improved, and consumers were somewhat more likely to anticipate continued gains. Consumers were still equally as likely to expect good times as bad times over both the near and longer term horizons, perhaps because consumers were more likely to report hearing news of job losses rather than gains.

Buying plans for vehicles and household durables have become increasingly dependent on low interest rates. While vehicle buying conditions were still viewed favorably by consumers, these views fell in September to their least favorable level in two years. Just 21% cited attractively low vehicle prices, while 16% complained about high vehicle prices. The last time net references to vehicle prices were less positive than at present was in March 2000. Favorable references to the availability of low prices on household durables fell to 34% in early September from 40% in August. For both durables and vehicles, net references to attractively low interest rates remained largely unchanged in early September from August. Moreover, home buying has become particularly dependent on low mortgage rates, cited three times as frequently as attractive home prices.

	Sept 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	July 2016	Aug 2016	Sept Prelim
Index of Consumer Sentiment	87.2	90.0	91.3	92.6	92.0	91.7	91.0	89.0	94.7	93.5	90.0	89.8	89.8
Current Economic Conditions	101.2	102.3	104.3	108.1	106.4	106.8	105.6	106.7	109.9	110.8	109.0	107.0	103.5
Index of Consumer Expectations	78.2	82.1	82.9	82.7	82.7	81.9	81.5	77.6	84.9	82.4	77.8	78.7	81.1
Index Components													
Personal Finances—Current	111	111	111	113	110	118	119	118	123	124	121	118	113
Personal Finances—Expected	121	127	122	124	124	128	127	121	128	125	126	119	125
Economic Outlook—12 Months	100	101	106	103	107	97	100	95	107	104	91	97	99
Economic Outlook—5 Years	93	101	105	105	102	104	100	95	106	102	95	99	101
Buying Conditions—Durables	151	154	160	167	166	159	155	158	162	164	162	159	155