surveys of consumers UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

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

September 30, 2016

Confidence edged upward in late September due to gains among higher income households, while the Sentiment Index among households with incomes under $75,000 has remained at exactly the same level for the third consecutive month. Importantly, the data provide no evidence of an upward trend as the average level of the Sentiment Index since the start of 2016 is nearly identical with the September level (91.4 versus 91.2). All of the September gains were concentrated in the Expectations Index, while assessments of current economic conditions were slightly less favorable. Fewer reports of recent income gains were counterbalanced by an uptick in income gains expected during the year ahead. The larger recent gains among upper income households was partly due to continued declines in their inflation expectations. The slightly improved outlook for the economy came despite unchanged job prospects and the expectation of rising interest rates. Buying plans edged downward mainly due to the declining availability of price discounts. Interestingly, although rising interest rates were widely expected, there was no increase in borrowing-in-advance rationales. Overall, consumers remained reasonably optimistic about their future financial prospects. Real personal consumption expenditures can be expected to increase by 2.7% 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. Prior to this week's debate, Clinton was expected to win by a substantial margin over Trump (+34 percentage). Those who expected a Clinton victory voiced a substantially higher Expectations Index compared with Trump (+17.3 Index-points). This indicates that how people view economic prospects is associated with who they expect to win.

Although consumers reported somewhat less favorable assessments of their current finances, they were more optimistic about their future financial prospects. The weaker state of current finances was due to less frequent income gains, mentioned by 31% in 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 due to larger anticipated income gains as well as lower food and fuel prices. Consumers anticipated income gains of 1.7% in September, up from 1.2% in August, and the highest level since 1.9% was reported in the February 2016 survey. As has been repeatedly recorded, those with incomes in the top third anticipated a gain of 2.7%, which fell to 1.8% for the middle third and just 0.5% for the lowest third.

The expected year-ahead inflation rate fell to 2.4% in September, from 2.5% last month and last year's 2.8%. The annual rate of inflation expected over the next five years was 2.6% in September, between last month's 2.5% and last year's 2.7%. While there have been surveys in the past half century when either the year-ahead or the five-year expectation were lower, those surveys were mainly recorded in the aftermath of the Great Recession or following 9/11. Low inflation continues to be a source of strength that has offset meager (although improved) income increases and boosted real income expectations.

One might have expected the improved economic outlook to be accompanied by stronger job prospects and lessened concerns about rising interest rates. In fact, unemployment prospects remained unchanged and consumers were more likely to expect interest rate increases. The data suggest that the economic gains are anticipated to be insufficient to significantly lower the jobless rate in the year ahead, and that the size of interest rate increases is expected to be very modest over the next year.

Buying plans have increasingly depended on low interest rates as perceptions of attractive prices have reached record lows. Just 20% cited attractively low vehicle prices in September; the last time that same low was recorded was sixteen years ago, and the last time a smaller proportion was recorded was over thirty years ago. Low home prices were cited by just 26% in five of the last six months; it has been ten years since a lower proportion was recorded. More households cited low interest rates than low prices for vehicles and homes. Moreover, the data provide no evidence that prospects for rising interest rates have increased borrowing-in-advance rationales. While six-in-ten consumers anticipated increases in interest rates, the expected increase was small enough that fewer consumers than last month cited the advantage of borrowing-in-advance.

	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 2016
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	91.2
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	104.2
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	82.7
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	126
Economic Outlook—12 Months	100	101	106	103	107	97	100	95	107	104	91	97	104
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	158