Subject: Preliminary results from the October 2016 survey — October 14, 2016
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The Sentiment Index slipped in early October to its lowest level since last September and the second lowest level since October of 2014. The early October loss was concentrated among households with incomes below $75,000, whose Index fell to its lowest level in two years. In contrast, confidence among upper income households remained unchanged in early October from last month, and more importantly, at a level that was nearly identical to its average in the prior twenty-four months (98.3 vs. 98.2). Perhaps the most concerning figure was a decline in the Expectations Index, which fell to its lowest level in the past two years, again mainly due to declines among households with incomes below $75,000. It is likely that the uncertainty surrounding the presidential election had a negative impact, especially on low income consumers, and without that added uncertainty, the confidence measures may not have weakened. Prospects for renewed gains, other than a relief rally following the election results, would require somewhat larger wage increases and continued job growth as well as the maintenance of low inflation. While the expected December hike in interest rates is likely to be too small to appreciably influence credit costs to consumers, it could have a noticeable impact on spending if consumer loan rates move up by a multiple of the Fed's increase. Overall, real personal consumption can be expected to increase by 2.5% 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. In every survey conducted since June, the majority of consumers expected a Clinton victory by wide margins—by +46 percentage point in October, up from +34 in September and +43 in August. When asked who would be better for their personal finances or for economic growth, Clinton also held an advantage over Trump, but it was still true that more consumers replied that neither Clinton nor Trump would make much of a difference to their finances or the economy.

Consumers assessments of their current financial situation have posted consecutive monthly declines since reaching their fifteen year peak in June. In early October, 40% reported that their finances had improved, down from 49% in June. Most of the decline in the past several months was due to fewer income gains, with the largest declines by households with heads under age 45. Negative shifts in household wealth were also cited by those in the bottom third of the income distribution. Despite these concerns about their current financial situation, consumers remained optimistic about the future, with 35% expecting improved finances next year, just below the 36% recorded one month and one year earlier and the 2016 peak of 37%. Income gains of 1.8% were anticipated in October, the largest increase since 1.9% was recorded in February of 2016.

The expected year-ahead inflation rate was 2.4% in early October, unchanged from last month's survey and down from last year's 2.7%. Just as important, the annual rate of inflation expected over the next five years was also 2.4% in October, down from 2.6% last month and 2.5% last year. While other surveys in the past half century have recorded as low or lower inflation rate for the year-ahead or for the next five-years, there has been no survey when both near and long term inflation expectations have been as low at at present. From the consumer perspective, the expected Fed hike may appear unjustified.

Half of all consumers reported that the economy had recently improved, but consumers were nearly evenly divided about whether it would continue to improve or start to worsen during the year ahead. When asked to evaluate the year-ahead outlook for the economy, just 37% expected good times in the economy, the lowest reading since August of 2014. The economic outlook for the next five years also declined, with the fewest consumers in two years that expected a continuous expansion.

Buying plans for household durables inched upward in early October, while vehicle and home buying plans remained largely unchanged. Vehicle buying attitudes remained at their lowest level in the past year, although still favorable enough to support sales rates at just below last year's levels. When asked to explain their views toward the vehicle market, as many consumers cited the appeal of price discounts as low interest rates, although the higher the income the greater the appeal of low interest rates. Home buying and home selling attitudes were unchanged in October, just below the 2016 peak recorded in August.

	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	July 2016	Aug 2016	Sept 2016	Oct Prelim
Index of Consumer Sentiment	90.0	91.3	92.6	92.0	91.7	91.0	89.0	94.7	93.5	90.0	89.8	91.2	87.9
Current Economic Conditions	102.3	104.3	108.1	106.4	106.8	105.6	106.7	109.9	110.8	109.0	107.0	104.2	105.5
Index of Consumer Expectations	82.1	82.9	82.7	82.7	81.9	81.5	77.6	84.9	82.4	77.8	78.7	82.7	76.6
Index Components													
Personal Finances—Current	111	111	113	110	118	119	118	123	124	121	118	113	111
Personal Finances—Expected	127	122	124	124	128	127	121	128	125	126	119	126	125
Economic Outlook—12 Months	101	106	103	107	97	100	95	107	104	91	97	104	92
Economic Outlook—5 Years	101	105	105	102	104	100	95	106	102	95	99	101	89
Buying Conditions—Durables	154	160	167	166	159	155	158	162	164	162	159	158	162