surveys of consumers UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: October 2016 survey results October 28, 2016
From: Richard Curtin, Director

The Sentiment Index slipped in October to the same low recorded last September and to the lowest level since October 2014. The October decline was due to less favorable prospects for the national economy, with half of all consumers anticipating an economic downturn sometime in the next five years for the first time since October 2014. Objectively, the probability of a downturn during the next five years is far from zero—this would be the longest expansion in 150 years if it lasted just over half of the five year horizon. Nonetheless, the October rise may simply reflect a temporary bout of uncertainty caused by the election. Prospects for renewed spending gains will depend on continued growth in jobs and wages as well as low inflation and interest rates. The small rise in interest rates now expected in December will have a minimal impact on spending. Along with small increases in interest rates, consumers also anticipate a mild slowdown in job creation that is likely to prevent any further declines in the national unemployment rate. To be sure, these changes are all anticipated to be small during the year ahead. Overall, real personal consumption expenditures 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 whom they intended to vote for or favored. In every survey since June, the majority of consumers expected a Clinton victory by wide margins—by +46 percentage points in October, up from +34 in September, and +43 in August. When asked who would be better for their personal finances and for the overall economy, each candidate was favored by nearly equal numbers, although more consumers thought neither candidate would make much difference to their personal finances or for economic growth.

Consumers' assessments of their current finances posted consecutive monthly declines since their fifteen year peak in June. Most of the decline in the past several months was due to fewer income gains, with the largest declines voiced by those under age 45. Higher debts were more frequently cited by those in the bottom third of the income distribution. Despite these concerns about their current finances, consumers remained optimistic about the future, with 36% expecting improved finances next year, unchanged from one month or one year ago and barely below the 2016 peak of 37%. Annual income gains of 1.5% were expected, down from 1.7% last month and the 2016 peak of 1.9%, returning to the same gain as expected last October.

The expected year-ahead inflation rate was 2.4% in October, unchanged from last month and below 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 rates 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 as presently. From the consumer perspective, the expected Fed interest rate hikes in December may appear unjustified.

Half of all consumers reported that the economy had recently improved, and half anticipated that the overall pace of growth would remain unchanged during the year ahead. When asked to evaluate the year-ahead outlook for the economy, just 35% expected good times in the economy, the lowest reading since November of 2013. This may be due to the temporary impact of uncertainty aroused by the election as consumers' year-ahead unemployment expectations have remained largely unchanged. Of greater concern, half of all consumers in October anticipated an economic downturn would occur sometime during the next five years, reversing the improvement in long-term economic prospects recorded during the past two years.

Favorable views of home buying conditions were held by 72% of all consumers in October, down from 76% last month and 78% last year, and reached the lowest level since November of 2011. Most of the decline since 2011 is due to less favorable pricing. Offsetting the impact of these declines on existing homes sales, home selling conditions have still remained at much more favorable levels than during the past several years, although somewhat below last month. Favorable buying conditions for vehicles retreated to the lowest level in two years, mainly due to less favorable views of available price discounts. To be sure, the recent declines in home and vehicle attitudes do not signal a downturn but point toward a slower pace of growth.

	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 2016
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	87.2
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	103.2
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	76.8
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	127
Economic Outlook—12 Months	101	106	103	107	97	100	95	107	104	91	97	104	91
Economic Outlook—5 Years	101	105	105	102	104	100	95	106	102	95	99	101	90
Buying Conditions—Durables	154	160	167	166	159	155	158	162	164	162	159	158	157