surveys of consumers
UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: Preliminary results from the November 2016 survey — November 11, 2016
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The Sentiment Index in early November erased the small October decline to climb to its highest level since mid 2016 and rise slightly above the 2016 average of 91.1. The recent gain in sentiment was driven by an improved outlook for the economy. The most striking finding in early November was that both near and long-term inflation expectations jumped to 2.7% from last month's record lows of 2.4%. These increases must be replicated before they can be taken to indicate a troublesome development; thus far, the data simply repeated the March 2016 peaks. Nonetheless, it may be viewed as added justification for next month's expected interest rate hike. The expected small increase in interest rates had little impact on favorable buying attitudes, and still supports a 2.5% increase in real consumer spending during 2017. Unfortunately, the November data must be accompanied by the proviso that it was collected before the result of the Presidential election was known late Tuesday.

The surveys in the past few months have asked consumers who they expected to win the election; in the October survey, 70% expected a Clinton victory compared with just 24% who expected Trump to win. The purpose of these questions was not to provide an election forecast, but to determine the potential impact of the candidate's policies on people's economic expectations. Needless to say, a large majority of consumers based their economic expectations in part on the policies of Clinton. Those expectations now need to be revised. Since those who expected a Clinton victory were more optimistic, the fear is that their expectations may be revised downward in a manner that extends beyond a temporary reaction to Clinton's loss. President elect Trump will play a crucial role in guiding the evolving reaction of consumers to his economic policies. Unlike other winning candidates whose economic policies have in general represented more marginal changes, Trump needs to provide more details about his policies sooner than other past President-elects in order to prevent a rise in uncertainty that could strain confidence and produce a more lasting downward shift in consumer spending which has kept the expansion alive.

Consumers' assessments of their current finances rebounded in early November. Among all households, 45% reported that their finances had recently improved, up from last month's 41%, although still below the 2016 peak of 49%. The rebound was due to more frequent reports of income gains. However, when asked about income prospects for the year ahead, a median increase of 1.1% was reported by consumers in November, down from 1.5% last month and 1.8% last year. Overall, 35% of all consumers expected their finances to improve during the year ahead, between last month's 36% and last year's 34%.

The expected year-ahead inflation rate rose to 2.7% in November, up from 2.4% in October, and equal to last year's level. Interestingly, the annual rate of inflation expected over the next five years also rose to 2.7% in early November from 2.4% in October and 2.6% last year. While last month's near and long-term inflation expectations were at a half-century low, the November near and long-term inflation expectations equaled the March 2016 levels, which were the highest in the past year.

Consumers anticipated that the national economy would continue to slowly improve during the year ahead. Overall, 44% anticipated good times financially in early November, a significant increase from the 35% in the prior month. Over the next five years, consumers were nearly equally divided between those who expected a continuous expansion and those who anticipated an economic downturn. Unemployment was expected to inch upward from its current low during the year ahead.

Home and vehicle sales are still quite dependent on low interest rates. Favorable views of home buying conditions were held by 74% of all consumers in early November, between last month's 72% and last year's 78%. Net favorable references to mortgage rates rose to +39 in early November, up from last month's +36, while the appeal of borrowing in advance of rising rates fell to 7% from last month's 8%. Favorable buying conditions for vehicles were held by 67% in early November, between last month's 64% and last year's 70%, with the recent strength more dependent on references to net interest rates (+22) than net prices (+9). Buying conditions for household durables remained largely unchanged at favorable levels, and were more dependent on favorable references to low net prices (+34) than on references to low net interest rates (+15).

	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	July 2016	Aug 2016	Sept 2016	Oct 2016	Nov Prelim
Index of Consumer Sentiment	91.3	92.6	92.0	91.7	91.0	89.0	94.7	93.5	90.0	89.8	91.2	87.2	91.6
Current Economic Conditions	104.3	108.1	106.4	106.8	105.6	106.7	109.9	110.8	109.0	107.0	104.2	103.2	105.9
Index of Consumer Expectations	82.9	82.7	82.7	81.9	81.5	77.6	84.9	82.4	77.8	78.7	82.7	76.8	82.5
Index Components													
Personal Finances—Current	111	113	110	118	119	118	123	124	121	118	113	111	114
Personal Finances—Expected	122	124	124	128	127	121	128	125	126	119	126	127	121
Economic Outlook—12 Months	106	103	107	97	100	95	107	104	91	97	104	91	106
Economic Outlook—5 Years	105	105	102	104	100	95	106	102	95	99	101	90	103
Buying Conditions—Durables	160	167	166	159	155	158	162	164	162	159	158	157	161