

Subject: Preliminary results from the December 2016 survey
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Consumer confidence surged in early December to just one-tenth of an Index point below the 2015 peak—which was the highest level since the start of 2004. The surge was largely due to consumers' initial reactions to Trump's surprise victory. When asked what news they had heard of recent economic developments, more consumers spontaneously mentioned the expected positive impact of new economic policies than ever before recorded in the long history of the surveys. To be sure, an equal number volunteered negative judgments about prospective economic policies, but the frequency of those negative references was less than half its prior peak levels whereas positive references were about twice its prior peak. There were a few exceptions to the early December surge in optimism, mainly among those with a college degree and among residents of the Northeast, although no group has adopted a pessimistic outlook for the economy. The most important implication of the increase in optimism is that it has raised expectations for the performance of the economy. President-elect Trump must provide early evidence of positive economic growth as well as act to keep positive consumer expectations aligned with performance. Either too slow growth or too high expectations represent barriers to maintaining high levels of consumer confidence. Until specific policies are proposed, there is no reason to alter the 2017 forecast of 2.5% for real consumption.

Spontaneous favorable references to new economic policies were made by 16% of all consumers in December. Surprisingly, among households with incomes in the top third, 23% made favorable references to government policies. When asked whether they anticipated more or less economic growth during the year ahead, 43% expected better economic conditions in early December, up from 31% last month and 21% last year. The anticipated improvement meant that 51% expected good times financially in the economy during the year ahead, and 49% expected a continuous expansion over the next five years. As a result, the near and long term economic outlook recaptured the 2015 peaks. This stronger economic outlook meant that consumers also anticipated resurgent job growth during the year ahead. Further declines in the unemployment rate during 2017 were anticipated by 29% of all consumers in December, up from 23% last month and 20% in the prior three months.

Nearly half of all consumers reported in early December that their current financial situation had recently improved. Net income gains were reported by more households in December than in the past six months, and fewer consumers than any time since 2002 complained that price increases had reduced their living standards. When asked about financial prospects for the year ahead, 40% anticipated financial gains, the highest proportion in a decade. This improvement was due to low inflation as the median expected increase in income was 1.7% in early December, between last month's 1.8% and last year's 1.6%.

Compared with a rising inflation forecast among economists, consumers' inflation forecasts have remained quite low and largely unchanged. The median year-ahead inflation rate fell to 2.3% in early December, down from 2.4% in the prior three months and last year's 2.6%. An inflation rate of zero or less was anticipated by 22% of all consumers in early December, the highest frequency since the start of the year. The annual long term inflation rate was expected to be 2.5% in December, between last month's 2.6% and the half century low of 2.4% in October. An increase in the inflation rate during the year ahead would be unexpected by consumers, and their reaction would be quite negative unless it was outpaced by income gains.

Consumers viewed buying conditions for household durables more favorably in early December than any other time in the past decade, although it was only marginally higher than a year ago. In contrast, vehicle and home buying conditions were viewed slightly less favorably. While more frequent references to price discounts aided purchase attitudes toward household durables, rising interest rates have begun to negatively affect views about vehicle and home buying. Net references to low interest rates on vehicle purchases dropped to its lowest level in two years and for home purchases it dropped to a four year low. For vehicles, low prices were mentioned more than low interest rates, although 40% of all consumers cited low mortgage rates. Overall, two-thirds of all consumers anticipated that interest rates would continue to increase during the year ahead.

	Dec 2015	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	July 2016	Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec Prelim
Index of Consumer Sentiment	92.6	92.0	91.7	91.0	89.0	94.7	93.5	90.0	89.8	91.2	87.2	93.8	98.0
Current Economic Conditions	108.1	106.4	106.8	105.6	106.7	109.9	110.8	109.0	107.0	104.2	103.2	107.3	112.1
Index of Consumer Expectations	82.7	82.7	81.9	81.5	77.6	84.9	82.4	77.8	78.7	82.7	76.8	85.2	88.9
Index Components													
Personal Finances—Current	113	110	118	119	118	123	124	121	118	113	111	117	123
Personal Finances—Expected	124	124	128	127	121	128	125	126	119	126	127	126	130
Economic Outlook—12 Months	103	107	97	100	95	107	104	91	97	104	91	109	118
Economic Outlook—5 Years	105	102	104	100	95	106	102	95	99	101	90	107	110
Buying Conditions—Durables	167	166	159	155	158	162	164	162	159	158	157	162	168