

Subject: January 2017 survey results
From: Richard Curtin, Director

January 27, 2017

Consumer confidence inched upward in late January, reaching its highest monthly level in more than a dozen years. The post-election surge in confidence was driven by a more optimistic economic outlook and employment growth during the year ahead as well as more favorable economic prospects over the next five years. Importantly, consumers reported much more positive assessments of their current financial situation due to gains in both incomes and household wealth, and anticipated the most positive outlook for their personal finances in more than a decade. Consumers have become more convinced that the stronger economy will finally prompt the Fed to increase interest rates at a quicker pace, which caused one-in-five consumers to favor borrowing-in-advance of anticipated increases in mortgage rates, the highest level in more than twenty years. Although consumers expected the renewed economic strength to result in a higher inflation rate, the data indicate that consumers anticipate only modest increases in inflation. Overall, the data suggest a stronger boost in consumption during the year ahead. There are two reasons to temper the impact of these results on actual spending gains. First, the immediate post-election data represent political promises, not economic actions; it will be months before consumers have enough evidence to justify or refute their initial judgements. Second, unlike any past presidential election, political partisanship has had a substantial impact on economic expectations. The Michigan surveys are based on a rotating panel design, and reinterviews with the same respondents over the past six months have documented extreme swings based on party affiliation, with Democrats becoming much more pessimistic and Republicans much more optimistic. While partisan differences will always exist, to be useful decision guides, consumers' expectations must be closely aligned with actual changes in economic conditions and prospects. When asked to identify what economic news they had heard, one-in-five favorably cited the election and prospective changes in economic policies and another one-in-five negatively referred to those same changes. Never before has a presidential election so completely dominated economic news. An improving economy in the year ahead was anticipated by 44% of all consumers, the highest figure since 2004. A favorable long-term economic outlook was reported by 51%, tied with the recent cyclical peak; the last time a higher figure was recorded was in 2004. Perhaps the most remarkable result was that 33% of all consumers expected unemployment to fall below its already low level, the most optimistic view recorded since 1984. Rising incomes as well as home and stock values meant that consumers held quite favorable views of their finances. When asked about their financial prospects for the year ahead, 41% of all consumers anticipated improving finances, the highest proportion recorded since mid 2005. Income expectations improved as households anticipated a gain of 1.9% in the year ahead, tied with last February; the last time a larger income gain was expected was in 2008. Home values were expected to increase in 2017 by 51% of homeowners, the highest percentage since 2007 and by the largest dollar amount since 2007. The median year-ahead expected inflation rate rose sharply to 2.6% in January from 2.2% in December and 2.4% in the prior three months. The annual long term inflation rate was expected to be 2.6% in January, between last month's 2.3% and last year's 2.7%. Consumers were quite sensitive to these anticipated increases as they slightly lowered the expected change in their inflation-adjusted incomes, and were slightly more inclined to cite buy-in-advance rationales. By far the biggest change was in interest rate expectations, which were anticipated to increase by 74% of consumers, the highest proportion since 2006. Consumers' buying plans were largely unaffected by the presidential election, although monetary policy had a large impact. Expected increases in interest rates had the most impact on home buying. In the January survey, 20% justified their positive views on home buying by mentioning the appeal of borrowing-in-advance of anticipated increases in mortgage rates, the highest proportion since 1995. The appeal of borrowing-in-advance of higher mortgage rates rose sharply in the past few months, from just 8% in October and November. Importantly, for the third consecutive month, homeowners expected their homes to appreciate annually by 2.6% over the next five years, the highest three-month average recorded since 2007.

	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	July 2016	Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017
Index of Consumer Sentiment	92.0	91.7	91.0	89.0	94.7	93.5	90.0	89.8	91.2	87.2	93.8	98.2	98.5
Current Economic Conditions	106.4	106.8	105.6	106.7	109.9	110.8	109.0	107.0	104.2	103.2	107.3	111.9	111.3
Index of Consumer Expectations	82.7	81.9	81.5	77.6	84.9	82.4	77.8	78.7	82.7	76.8	85.2	89.5	90.3
Index Components													
Personal Finances—Current	110	118	119	118	123	124	121	118	113	111	117	126	124
Personal Finances—Expected	124	128	127	121	128	125	126	119	126	127	126	131	130
Economic Outlook—12 Months	107	97	100	95	107	104	91	97	104	91	109	119	121
Economic Outlook—5 Years	102	104	100	95	106	102	95	99	101	90	107	110	112
Buying Conditions—Durables	166	159	155	158	162	164	162	159	158	157	162	164	165