

Subject: Preliminary results from the April 2017 survey
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Consumer sentiment inched upward in early April mainly due to more favorable views of current economic conditions. The Current Economic Conditions Index rose to its highest level since 2000 and nearly reached its all-time peak of 121.1 set in 1999 (indeed, all higher figures were recorded between 1998 and 2000 near the end of the longest expansion on record). The Expectations Index improved only slightly, remaining largely unchanged at favorable levels for the past three months. While partisanship had no impact on the Current Conditions Index (Democrats and Republicans differed by just 0.4 points), the data suggest the beginning of a convergence on the Expectations Index, with the figure for Democrats rising 7% and falling for Republicans by 7%, although the gap still remained an astonishing 50.5 Index points. Much more progress on shrinking the partisan gap is needed to bring economic expectations in line with reality. A slow pace of convergence will make it more difficult to disentangle political fervor from what appears to be a growing sense among consumers that the economy will experience fundamental changes in the years ahead. It can be anticipated that optimism will commingle with uncertainty, causing uneven spending patterns across months. Moreover, differential price trends for assets, products, and imports will cause uneven trends in incomes, wealth, and spending across products as well as economic subgroups. Following the election, it was assumed that the partisanship divide was a temporary reaction to a surprising outcome. The small shrinkage after five months indicates that the partisan divide will persist for some time, promoting a shift from a market to a political economy.

Among all households in early April, 52% reported that their finances had recently improved, the highest percentage since 2000—with identical readings among Democrats and Republicans. These record favorable assessments were due to higher incomes and household wealth as well as low prices. When asked about their financial prospects for the year ahead, 41% expected improved finances, tied with January for the highest proportion since 2005, although expected financial gains among Democrats (31%) were well below Independents (46%) or Republicans (49%). It was somewhat surprising that the median expected income gains fell much more among Republicans than Democrats, with little difference between the parties in April. Year-ahead inflation expectations remained at 2.5% in March and April, and well below last year's 2.8%. These lows were supported by the fewest complaints that rising prices eroded their living standards—just 5% in March and April, the lowest since 2002 and barely above the all-time low of 4%. Long term inflation expectations also remained unchanged from last month at 2.4%, just below last year's 2.5%. Importantly, near and long term gas price expectations inched upward in April. Partisanship continued to drive selective perception of economic news and assessments of the outlook for the national economy. Favorable news about economic policies and employment was heard by 69% of Republicans but only by 28% of Democrats, whereas unfavorable news on those same topics was reported by 20% of Republicans and 49% of Democrats. It should be no surprise given the sharply different perceptions that the national economy was expected to improve by just 18% of Democrats compared with 69% of Republicans. You may find it hard to believe that this represents a narrowing of the partisan gap, but last month's difference was 13% versus 81%! The partisan gap was largest for expected changes in unemployment, followed by inflation, and the smallest gap was for interest rates. The partisan gap for expected changes in unemployment narrowed, mostly due to a shift among Republicans (lower unemployment was 55% in April down from 74% in March), while Democrats barely changed their opinion that unemployment would rise in the year ahead (36% vs. 37%). Buying attitudes improved toward purchases of household durables, vehicles, and homes in early April. Favorable perceptions of buying conditions for durables were held by 82%, the highest level since 2005, and just below the all-time peak of 84% in 1999. Favorable home selling attitudes were held by 70%, the highest level since 2005. Rising home prices convinced more homeowners that it was a good time to sell. Among all homeowners, 64% reported that their home had increased in value during the past year, the highest percentage since 2006. Importantly, homeowners expected an increase of 2.1% in the year ahead, well above last month's 0.8% or last year's 0.4%, and the highest since 2007.

	Apr 2016	May 2016	Jun 2016	July 2016	Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr Prelim
Index of Consumer Sentiment	89.0	94.7	93.5	90.0	89.8	91.2	87.2	93.8	98.2	98.5	96.3	96.9	98.0
Current Economic Conditions	106.7	109.9	110.8	109.0	107.0	104.2	103.2	107.3	111.9	111.3	111.5	113.2	115.2
Index of Consumer Expectations	77.6	84.9	82.4	77.8	78.7	82.7	76.8	85.2	89.5	90.3	86.5	86.5	86.9
Index Components													
Personal Finances—Current	118	123	124	121	118	113	111	117	126	124	128	132	129
Personal Finances—Expected	121	128	125	126	119	126	127	126	131	130	123	128	131
Economic Outlook—12 Months	95	107	104	91	97	104	91	109	119	121	112	116	111
Economic Outlook—5 Years	95	106	102	95	99	101	90	107	110	112	112	103	107
Buying Conditions—Durables	158	162	164	162	159	158	157	162	164	165	161	162	170