

Subject: Preliminary results from the May 2017 survey
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Consumer sentiment remained on the high plateau established following Trump's election, with the early May figure nearly identical with the December to May average of 97.4. The Trump bump was relatively small given that the Sentiment Index averaged 91.8 in the comparable six month period a year ago and 94.5 in the same period two years ago. The recent stability in consumer sentiment, however, masks two important underlying shifts in the components as well as in the partisan divide. More favorable income gains and low inflation meant that consumers held the most favorable real income expectations in a dozen years. Buying plans, however, were mixed: household durables rose to a decade peak, while vehicle buying conditions slipped to a three year low. Home buying conditions were viewed less favorably, but were offset by the most favorable views about home selling in more than a decade. The partisan difference in the Expectations Index is still huge, but the gap between Democrats and Republicans narrowed slightly to 55 Index points from 65 three months ago, mainly due to Democrats expressing diminished fears of an immediate recession and lessened concerns about personal financial setbacks. It should be noted that too few interviews were conducted following the firing of FBI director James Comey to have any meaningful impact on the data. Overall, personal consumption expenditures are expected to advance at about a 2.3% pace in 2017.

Selective perception of economic news still dominates. Favorable news about recent economic developments were reported by 83% of Republicans but just 36% of Democrats; unfavorable developments were reported by just 18% of Republicans but by 75% of Democrats. Nearly all of the difference involved references to jobs and economic policies, with Republicans holding more favorable views on jobs and policies than Democrats. The impact of these disparate views led 79% of Republicans to anticipate a continuous expansion over the next five years and 68% of Democrats to anticipate a recession. When asked about their financial prospects for the year ahead, 44% of all consumers anticipated an improved situation in early May, the highest proportion in a dozen years. Gains in wealth, including stocks and homes, were mentioned by 22% of households with incomes in the top third. Income gains of 2.1% were anticipated by all households, up from 1.6% last month and last May. Importantly, nearly the fewest consumers ever complained about inflation. The result was that more consumers than recorded in more than a decade anticipated inflation adjusted income gains during the year ahead.

Year-ahead inflation expectations rose slightly to 2.6% in early May, up from 2.5% in the prior two months and 2.4% last May. All of May's gains were among lower income households, as those with incomes in the top third fell to just 2.2%. Long term inflation expectations, in contrast, fell to 2.3% in early May from 2.4% in the prior two months, replicating the same half century low first recorded in December 2016. It was still true that Democrats expected higher inflation rates than Republicans for the year ahead (2.9% versus 1.6%) and over the next five years (2.4% versus 2.0%), and Republicans were somewhat less likely than Democrats to anticipate additional interest rate hikes during the year ahead (63% versus 76%).

While the partisan gap on the year-ahead outlook for the economy is not as wide as it was three months ago, it is still substantial. A favorable outlook was anticipated by 34% of Democrats, an improvement from the 21% three months ago; in comparison, 83% of Republicans expected good times in the economy during the year ahead, only slightly above the 81% recorded three months ago. Unemployment expectations, in contrast, have hardly changed in the past three months. In May, 54% of Republicans anticipated the unemployment rate would fall below its already decade low of 4.4% in the year ahead, while 41% of Democrats expected the rate to rise; both partisan views were nearly identical to those held three months ago.

Buying conditions for large household durables were the most favorable since 2005 due to the availability of low prices and higher and stable incomes. Vehicle buying attitudes, however, were the least favorable in May since mid 2014, with net references to low interest rates the lowest since 2013. Favorable views on home buying were the lowest since 2011, and for the first time since 2006, more consumers complained about high home prices than cited low home prices. This shift in price perceptions meant that market conditions for the sale of homes rose to the most favorable level since August 2005.

	May 2016	Jun 2016	July 2016	Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May Prelim
Index of Consumer Sentiment	94.7	93.5	90.0	89.8	91.2	87.2	93.8	98.2	98.5	96.3	96.9	97.0	97.7
Current Economic Conditions	109.9	110.8	109.0	107.0	104.2	103.2	107.3	111.9	111.3	111.5	113.2	112.7	112.7
Index of Consumer Expectations	84.9	82.4	77.8	78.7	82.7	76.8	85.2	89.5	90.3	86.5	86.5	87.0	88.1
Index Components													
Personal Finances—Current	123	124	121	118	113	111	117	126	124	128	132	126	123
Personal Finances—Expected	128	125	126	119	126	127	126	131	130	123	128	131	133
Economic Outlook—12 Months	107	104	91	97	104	91	109	119	121	112	116	113	118
Economic Outlook—5 Years	106	102	95	99	101	90	107	110	112	112	103	106	103
Buying Conditions—Durables	162	164	162	159	158	157	162	164	165	161	162	166	169