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Monitoring trends for over 70 years

Subject: May 2017 survey results
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Consumer sentiment has continued to move along the high plateau established following Trump's election. The final May figure was virtually unchanged from either earlier in May or the April reading. Indeed, the May figure was nearly identical with the December to May average of 97.3. Moreover, the partisan divide between Democrats and Republicans has also remained largely unchanged, with the first expecting a recession and the other more robust economic growth. How long will economic expectations be dominated by partisanship? Unlike differences in expectations across age, education, or income groups, which usually reflect actual differences in prospects for employment and income expectations, for example, partisanship is reflected by economic policy preferences. Since no major policies, such as healthcare, taxes, or infrastructure spending have yet been adopted, the partisan divide may reflect differences in policy preferences expressed as expected economic outcomes. Thus, the extreme partisan divide may persist until passage is deemed either inevitable or impossible. While extremes may well narrow, it is unlikely that the impact of partisanship on economic expectations will disappear. Despite the expected bounce back in spending in the current quarter, personal consumption is expected to advance by 2.3% in 2017, although this is based on averages across the political divide, which has never been as extreme as it is currently.

Selective perception of economic news still dominates. Favorable news about recent economic developments were reported by 84% of Republicans but just 37% of Democrats; unfavorable developments were reported by just 19% of Republicans but by 73% of Democrats. Nearly all of the difference involved references to jobs and economic policies, with Republicans holding much 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 66% of Democrats to anticipate a recession.

When asked about their financial prospects for the year ahead, the proportion who expected financial gains reached 41% for the third time in 2017, which was the highest proportion in a dozen years. The financial strength was due to gains in incomes as well as gains in household wealth driven by rising stock prices and home values. Income gains of 2.0% in the year ahead were expected by all households, up from 1.6% last month and last May. Few consumers complained about inflation eroding their living standards, and the highest proportion in a decade expected inflation adjusted income gains during the year ahead.

Year-ahead inflation expectations rose slightly to 2.6% in May, up from 2.5% in the prior two months and 2.4% last May. All of May's gains were among households with middle incomes or below, as those with incomes in the top third fell to just 2.3%. Long term inflation expectations, in contrast, remained for the third consecutive month at 2.4%, barely below the 2.5% in last May's survey. It was still true that Democrats expected higher inflation rates than Republicans for the year ahead (2.9% versus 1.8%) and over the next five years (2.6% versus 2.1%), and unsurprisingly, Democrats were also somewhat more likely than Republicans to anticipate additional interest rate hikes during the year ahead (80% versus 64%).

While the partisan gap on the year-ahead outlook for the economy was slightly narrower than three months ago, it is still substantial. Economic conditions were anticipated to improve during the year ahead by 75% of Republicans but only by 16% of Democrats; this gap of 59 percentage points was slightly better than the 68 percentage points recorded three months ago. Unemployment expectations fell from last month's quarter century favorable peak, but still remain quite favorable, largely due to overly optimistic expectations of Republicans: 56% anticipated the unemployment would fall below its already decade low of 4.4% during the year ahead—based on the traditional relationship, this would imply a negative unemployment rate!

Partisanship had the least impact on buying plans, but they were nonetheless less favorable due to rising interest rates and tighter credit conditions. The data suggest that light vehicle sales will not rise much, if at all, above the 2016 peak in 2017. Rising home prices have made consumers' views of buying conditions less favorably and selling conditions more favorably. For the first time since 2006 more consumers complained about high home prices than cited low home prices. This shift in price perceptions will increase the stock of homes available for sale, and consequently will likely increase overall home sales.

	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 2017
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	97.1
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	111.7
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	87.7
Index Components													
Personal Finances—Current	123	124	121	118	113	111	117	126	124	128	132	126	126
Personal Finances—Expected	128	125	126	119	126	127	126	131	130	123	128	131	129
Economic Outlook—12 Months	107	104	91	97	104	91	109	119	121	112	116	113	119
Economic Outlook—5 Years	106	102	95	99	101	90	107	110	112	112	103	106	105
Buying Conditions—Durables	162	164	162	159	158	157	162	164	165	161	162	166	164