

Subject: Preliminary results for the June 2017 survey

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The modest early June drop of 2.6 points in the Sentiment Index masks a much larger decline since June 8<sup>th</sup>. Prior to that date the Sentiment Index had averaged 97.7, but since June 8<sup>th</sup>, the Index fell to 86.7, a decline of 11.0 points. While this break corresponds with James Comey's testimony, only a few consumers spontaneously referred to him or his testimony when asked to explain their views. Importantly, the decline was observed across all political parties, but the loss in confidence among self-identified Republicans since June 8<sup>th</sup> was larger than among Democrats (9.2 vs. 6.8 Index-points), with Independents showing the greatest falloff (11.5 Index-points). The size of the partisan difference between Democrats and Republicans in the Expectations Index, however, was largely unchanged (55.6 Index-points prior to June 8<sup>th</sup>, and 51.2 after). The recent erosion of confidence was due to more negative perceptions of the proposed economic policies among Democrats and the reduced likelihood of passage of these policies among Republicans. The growing disarray of Trump's economic agenda is reminiscent of when Nixon was increasingly dominated by the Watergate scandal, paying less attention to problems in the national economy, as the Sentiment Index plunged to 64.4 when he resigned from 95.2 at the time of the Watergate break-in. Fortunately, a strong job market, improved household income and wealth have provided a financial buffer against rising uncertainties. Nonetheless, consumers have become less optimistic about the future course of the domestic economy. Despite the expected bounce back in spending in the current quarter, personal consumption is expected to advance by 2.3% in 2017.

When asked to identify recent economic developments, selective perception of news still dominates: 80% of Democrats reported hearing of negative economic developments and 83% of Republicans reported hearing of positive developments. Importantly, Democrats reported negative references to government economic policies at about the same rate as last month, but Republicans in early June voice half as many positive references as they did in the prior month (but reported more positive job developments). When directly asked to evaluate economic policies of the Trump administration, just 17% of all consumers rated them favorably; among Republicans favorable policy ratings fell to 37% from 51% three months ago.

Prospects for the national economy recorded the greatest loss in June. For the first time since last October, more consumers anticipated a downturn sometime in the next five years than expected an uninterrupted expansion. Importantly, the economy was expected to continue to expand during the year ahead, although somewhat fewer consumers expected good times in the economy in June than since last November. Unemployment expectations remained largely unchanged from last month.

When asked about their financial prospects for the year ahead, the proportion who expected financial gains reached 42%, the highest level 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 1.8% in the year ahead were expected by all households, between last month's 2.0% and last May's 1.6%. Although few consumers complained about inflation eroding their living standards, expected gains in inflation adjusted incomes declined in early June to their lowest levels since January of this year.

Year-ahead inflation expectations rose slightly to 2.6% in June, unchanged from last month and last May. Surprisingly, long term inflation expectations also increased in early June. Among all consumers, an annual inflation rate over the next five years of 2.6% was anticipated in June, up from 2.4% in the prior three months. The higher long term inflation rate was entirely due to Democrats and Independents, which rose to 2.7% in early June, while Republicans expected a 2.0% rate.

Buying plans showed mixed results in early June, with small losses for household durables balanced by small gains for vehicles; home buying was slightly more favorable and home selling was slightly less favorable. More importantly, most of the gains in durable and vehicle buying attitudes were among households in the bottom third of the income distribution, with the upper two-thirds recording small declines. Favorable net price references for durables were the lowest in the past year, and rising interest rates on vehicle loans diminished this source of strength by about one-third compared with last year.

	Jun 2016	July 2016	Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	June Prelim
Index of Consumer Sentiment	93.5	90.0	89.8	91.2	87.2	93.8	98.2	98.5	96.3	96.9	97.0	97.1	94.5
Current Economic Conditions	110.8	109.0	107.0	104.2	103.2	107.3	111.9	111.3	111.5	113.2	112.7	111.7	109.6
Index of Consumer Expectations	82.4	77.8	78.7	82.7	76.8	85.2	89.5	90.3	86.5	86.5	87.0	87.7	84.7
Index Components													
Personal Finances—Current	124	121	118	113	111	117	126	124	128	132	126	126	126
Personal Finances—Expected	125	126	119	126	127	126	131	130	123	128	131	129	132
Economic Outlook—12 Months	104	91	97	104	91	109	119	121	112	116	113	119	111
Economic Outlook—5 Years	102	95	99	101	90	107	110	112	112	103	106	105	97
Buying Conditions—Durables	164	162	159	158	157	162	164	165	161	162	166	164	158