

Subject: Preliminary results from the July 2017 survey

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Confidence in future economic prospects continued to slide in early July, with the Expectations Index now 10.1 Index points below its January 2017 peak. In contrast, consumers' assessments of current economic conditions regained the March 2017 peak, the highest level since the July 2005 survey. Overall, the recent data follow the same pattern repeatedly recorded around past cyclical peaks: expectations start to post significant declines while assessments of current economic conditions continue to reach new peaks. To be sure, the data do not suggest an impending recession. Rather, the data indicate that hopes for a prolonged period of 3% GDP growth sparked by Trump's victory have largely vanished, aside from a temporary snap back expected in the 2nd quarter. The declines recorded are now consistent with just above 2% GDP growth in 2017. Much steeper declines in expectations typically precede recessions. The weakness in the Expectations Index in early July was concentrated among Republicans (falling to 108.9 from June's 116.0 and February's 120.1); Democrats continue to hold much less favorable expectations, although the Expectations Index among Democrats has markedly improved (to 63.2 from June's 62.0 in June and 55.5 in February). Overall, the data indicate an annual gain of 2.4% in personal consumption during 2017. The majority of consumers (51%) reported that their finances had improved in early July, unchanged from June, and the highest level recorded in nearly seventeen years. Net income increases were cited by the highest proportion of households since February of 2001. In sharp contrast, when asked about their financial prospects for the year ahead, consumers were less optimistic. The proportion that expected improved finances fell to 33% in early July from last month's decade high of 42%. Importantly, the entire loss concentrated among households with incomes in the bottom two-thirds. Households expected annual income gains of 1.6% in early July, down from 1.9% in June and 2.0% in May, but above last July's 1.4%. Inflation expectations inched upward in early July. Consumers expected a year ahead inflation rate of 2.7%, up from 2.6% in the prior two months and equal to last July's reading. The annual long term expected inflation rate rose to 2.6% in early July, from 2.5% in June and 2.4% from March to May, returning to the same level as last July. In an attempt to assess the accuracy of consumers' inflation expectations, respondents were asked in June what was the percentage change in prices during the prior year: the median response was 1.9%, identical to the BLS year-over-year change in the CPI for May 2017. Consumers remained quite positive about the near term economic outlook in early July, but were less optimistic about prospects for the economy over the longer term. The overall economy was reported to have improved in the months following Trump's election and those gains were still largely present in the early July survey. The pace of gains expected during the year ahead, however, has greatly slowed, with continued improvement expected by just 28% in early July down from 44% in January. Importantly, the proportion that anticipated continued good times in the economy in the year ahead showed very little change from its January peak. Those favorable near term prospects, however, did not extend to consumer's longer term outlook. An uninterrupted expansion over the next five years was expected by 39% in early July, down from a peak of 53% in February; in contrast, a recession sometime in the next five years was anticipated by 51% in July, up from 41% in February. Most of the weakness in the five year outlook was recorded among Republicans (22%, up from 14% in February) and Independents (51%, up from 37%), while Democrats remained largely unchanged at very negative levels (68%, up from 67%). The generally favorable news about unemployment has meant that fewer consumers expect continued declines, which is hardly surprising given its current low level. News heard about changes in employment has become less optimistic, with gains in employment only slightly above losses (19% versus 17%), the smallest margin since Trump's victory in November. Favorable vehicle buying attitudes fell in early July to the lowest level since last October. The losses were mainly among households with incomes in the top third, falling to its lowest level in three years: importantly, these households account for the majority of new vehicle purchases. Rising home prices continue to depress home buying and to brighten home selling.

	July 2016	Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	June 2017	July Prelim
Index of Consumer Sentiment	90.0	89.8	91.2	87.2	93.8	98.2	98.5	96.3	96.9	97.0	97.1	95.1	93.1
Current Economic Conditions	109.0	107.0	104.2	103.2	107.3	111.9	111.3	111.5	113.2	112.7	111.7	112.5	113.2
Index of Consumer Expectations	77.8	78.7	82.7	76.8	85.2	89.5	90.3	86.5	86.5	87.0	87.7	83.9	80.2
Index Components													
Personal Finances—Current	121	118	113	111	117	126	124	128	132	126	126	131	131
Personal Finances—Expected	126	119	126	127	126	131	130	123	128	131	129	132	122
Economic Outlook—12 Months	91	97	104	91	109	119	121	112	116	113	119	110	112
Economic Outlook—5 Years	95	99	101	90	107	110	112	112	103	106	105	95	88
Buying Conditions—Durables	162	159	158	157	162	164	165	161	162	166	164	161	163