

Subject: Preliminary results from the August 2017
From: Richard Curtin, Director

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Consumer confidence rose in the first half of August to its highest level since January, largely due to a more positive outlook for the overall economy as well as more favorable personal financial prospects. The two component indices moved in opposite directions, with the Current Conditions Index falling slightly from its decade peak, and the Expectations Index posting a more substantial rebound. As with the overall Sentiment Index, the component indices nearly regained the January levels. Too few interviews were conducted following Charlottesville to assess how much it will weaken consumers' economic assessments. The fallout is likely to reverse the improvement in economic expectations recorded across all political affiliations in early August. Moreover, the Charlottesville aftermath is more likely to weaken the expectations of Republicans, since prospects for Trump's economic policy agenda have diminished. Nonetheless, the partisan difference between the optimism of Republicans and the pessimism of Democrats is still likely to persist, with Independents remaining as the bellwether group. At this point, the data continue to indicate a gain of 2.4% in personal consumption expenditures in 2017.

Half of all consumers in each survey during the past three months reported that their finances had recently improved, the best reading since 2000. The best three-month average was only marginally higher, at 54%, recorded in the first quarter of 2000. In addition, consumers viewed their financial prospects for next year quite favorably. An improved financial situation was anticipated by 41% of all consumers, a shade below the 2017 peak of 42%—the all-time peak being 49% in 1998. Consumers expected a median annual income gain of 2.0% in early August, below only the 2.3% in May 2017 which was the highest in 10 years. The largest income gains were expected by younger householders and those with household incomes in the top third.

Inflation expectations have remained at low levels and trendless since the start of the year. The year-ahead inflation rate was expected to be 2.6% in early August, for the fourth consecutive month. Since the start of the year, year-ahead inflation expectations have remained in the narrow range of 2.4% to 2.6%. The longer term inflation rate was also expected to be 2.5% in August, just below last month's 2.6%, and has remained in the narrow range of 2.5% to 2.7% since the start of 2017.

News about recent economic developments was dominated by favorable references to employment trends. Favorable as well as unfavorable references to government economic policies declined in tandem in early August. Additional declines in the unemployment rate were anticipated by 30% of all consumers, up from 24% last month, but below the peak of 36% recorded in March and April. It is still true that unemployment expectations are driven by partisan views, with Independents expecting no net change. A favorable year-ahead outlook for the national economy was expected by 55% of all consumers, the highest level in two years. Most Republicans expected gains and most Democrats expected declines, and again the views of Independents mirrored the overall average. The same was true for the improvement in the longer term economic outlook.

A subtle change in people's views toward discretionary purchases has recently begun. The precautionary mood of consumers had required price discounts and low interest rates to offset their economic uncertainties, now consumers are more likely to base their spending decisions on a renewed confidence in their jobs and incomes. To be sure, attractive prices and interest rates are still required, but the basic motivation has begun to shift toward a more confident buyer. This transition is a mark of a mature expansion, although this shift has taken longer to begin than in any past expansion. Importantly, this shift late in an expansion makes the timing of purchases more dependent on income and employment expectations. The housing market faces a complicating factor since most home buyers are also home sellers. During the past year, net price trends for home purchases have become more negative, while net prices for home sellers have become more positive. Homeowners anticipate the highest gain in their home's value in ten years, but they anticipate the long-term gain only about equal to the inflation rate.

	Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	June 2017	July 2017	Aug Prelim
Index of Consumer Sentiment	89.8	91.2	87.2	93.8	98.2	98.5	96.3	96.9	97.0	97.1	95.1	93.4	97.6
Current Economic Conditions	107.0	104.2	103.2	107.3	111.9	111.3	111.5	113.2	112.7	111.7	112.5	113.4	111.0
Index of Consumer Expectations	78.7	82.7	76.8	85.2	89.5	90.3	86.5	86.5	87.0	87.7	83.9	80.5	89.0
Index Components													
Personal Finances—Current	118	113	111	117	126	124	128	132	126	126	131	132	128
Personal Finances—Expected	119	126	127	126	131	130	123	128	131	129	132	122	132
Economic Outlook—12 Months	97	104	91	109	119	121	112	116	113	119	110	111	123
Economic Outlook—5 Years	99	101	90	107	110	112	112	103	106	105	95	89	102
Buying Conditions—Durables	159	158	157	162	164	165	161	162	166	164	161	163	160