Subject: August 2017 survey results September 1, 2017
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Consumer confidence has remained at a very favorable level, although slipping somewhat from mid-month. The Sentiment Index has been higher during the first eight months of 2017 than in any year since 2000, which was the peak year of the longest expansion in U.S. history. The renewed strength in 2017 was mainly due to consumers' record favorable assessments of their own financial situations. Lows in unemployment, inflation, and interest rates, as well as renewed gains in the value of their homes and stock portfolios pushed personal financial evaluations to near all-time peaks. When asked about news of recent developments, surprisingly few consumers made any reference to Charlottesville, North Korea, or Harvey—although too few interviews were conducted to fully assess the storm's ultimate impact. Harvey may diminish the 3rd quarter pace of economic growth, and higher gas prices will directly impact consumers. Prior to the storm, consumers anticipated no increase in gas prices in the year ahead (an expected change of just +0.4 cents). Given the current resilience of consumers, temporary increases in gas prices as well as a brief period of weakness in economic growth and employment are unlikely to derail confidence. Nonetheless, all of these events are more likely to increase precautionary motives and to temper spending trends.

An improved financial situation was reported by 51% of all consumers in each of the past three months, the highest proportion since November 2000, and only slightly below the all-time peak of 57% in 1998. When asked to explain how their finances had improved, consumers mentioned gains in incomes and household wealth from rising values of equities and homes. When asked about their financial prospects for the year ahead, 43% anticipated gains, the highest proportion since March 2004. Indeed, more households reported that their finances had improved and expected further improvement during the year ahead than anytime since 2000, near the end of the longest U.S. expansion on record. Although these records were set with the expectation that next year's income gain would be 1.9% across all households, it was 4.6% among those under 45 years old.

The year-ahead inflation rate was expected to be 2.6% in August, for the fourth consecutive month. Over the next five years or so, an annual inflation rate of 2.5% was expected in August; since the start of the year, the long term rate has varied between 2.4% and 2.6%, showing no trend. Neither series provides any evidence that consumers believe that the inflation rate is poised to accelerate anytime soon. The proportion that expected interest rate increases fell to the lowest levels since the start of the year, although two-thirds of consumers still think that rate hikes are likely sometime in the next twelve months.

Favorable news about jobs dominated spontaneous references to recent economic developments, although potential changes in economic policies continued to draw both positive and negative references in nearly equal proportions. The majority of consumers thought that the economy had recently improved; a more rapid pace of overall growth was anticipated by 33% in August, although well above last year's 22%, it represents a significant lessening of optimism about economic growth from the 44% recorded at the start of the year. Many consumers still believe that the economy will remain strong enough to keep the national unemployment rate at or slighly below its current low. Among all consumers, 29% expected the unemployment rate to post additional declines in the year ahead, between the March-April peak of 36% and last August's 20%. Interestingly, most of the change since March has been among Republicans, who have reduced their excessive optimism. Just 25% of consumers in the August survey anticipated that the unemployment rate will post an overall increase during the year ahead.

Rising home prices have driven a wedge between consumers' views of home buying and home selling. Home buying conditions were viewed less favorably in August than anytime in the prior six years. Consumers were more likely to cite rising home prices for their negative views, mentioned by 22% of all consumers, the highest level in more than a decade. Views about home selling conditions have been more favorable during the past six months than anytime since the housing boom in 2005. When asked to explain their views, 36% mentioned rising selling prices, the highest level since this question was first asked in 1992. Since most home buyers are also home sellers, loss aversion dominates a rational assessment of prices.

	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 2017
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	96.8
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	110.9
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	87.7
Index Components													
Personal Finances—Current	118	113	111	117	126	124	128	132	126	126	131	132	130
Personal Finances—Expected	119	126	127	126	131	130	123	128	131	129	132	122	134
Economic Outlook—12 Months	97	104	91	109	119	121	112	116	113	119	110	111	119
Economic Outlook—5 Years	99	101	90	107	110	112	112	103	106	105	95	89	100
Buying Conditions—Durables	159	158	157	162	164	165	161	162	166	164	161	163	158