surveys of consumers UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: September 2017 survey results

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Consumer sentiment remained largely unchanged from the slightly lower level recorded at mid-month. The resilience of consumers has again been demonstrated as concerns about the impact of the hurricanes on the national economy have quickly faded. Given that the survey was able to reach most households in Florida and Texas in late September, it should be no surprise that small declines were recorded in the current financial situation of households. In the past year, there has been a long list of issues that could have derailed the overall level of consumer confidence, including the unprecedented partisan divide, North Korea, Charlottesville, and the hurricanes. Confidence has nonetheless remained very favorable, moving sideward in a very narrow positive range. In the first nine months of 2017, the Sentiment Index averaged 96.2, just ahead of averages of 91.9 and 92.9 recorded in the prior two years, making 2017 the highest recorded since 2000. To be sure, the recent Sentiment levels are still well below the average of 105.3 recorded from 1997 to 2000, which has also been reflected in slower overall growth rates in consumer spending. Needless to say, resilience is an ineffable quality whose appearance or disappearance is difficult to predict in advance. While consumer resilience has lowered precautionary saving motives and increased willingness to spend and incur debt, those changes will still be constrained by slower income growth and more risk averse consumer. Overall, consumer expenditures are expected to increase by 2.6% in 2017 and in the 1st half of 2018.

Improved finances were reported by 49% of all consumers, just below the 51% in the prior three months, and ahead of last year's 42%. When asked to explain how their finances had improved, nearly one-in-four households mentioned net income increases, unchanged from last month and four times higher than last year's 6%. Income gains were reported by 43% of consumers under age 45, and 23% of households with incomes in the top third mentioned gains in household wealth. Across all households, an annual income gain of 1.7% was anticipated, below last month's 1.9% and equal to last year's expected gain; there was an annual income gain of 4.0% was expected by those under age 45, down from last month's 4.6%.

The year-ahead inflation rate was expected to be 2.7% in September, up from 2.6% in the prior four months, and last year's 2.4%. Long term inflation rate was expected to rise annually by 2.5% in September, unchanged from last month and just below last year's 2.6%. While long term inflation expectations were just ahead of the March to May 2017 low of 2.4%, such a slight increase does not indicate a significant change. The year-to-year expected change in gas prices was just 7.0 cents, up from last month's 0.4 cents. Gas price expectations over the next five years rose by 0.9 cents from one month ago.

When asked to identify what recent economic news consumers had heard, favorable trends in employment continued to dominate. The majority of consumers thought that the economy had recently improved, as they have in every month since the start of the year. As the year has progressed, however, fewer consumers anticipated a faster pace of economic growth would be forthcoming—29% in September, down from 44% in January. Although the expected impact of the hurricanes diminished from the mid month reading, it still meant that the proportion of consumers that anticipated good times financially in the economy as a whole fell to 47% from last month's 54%. Unemployment was expected to fall ever so slightly in the year ahead, although nearly half anticipated an unchanged unemployment rate. Interestingly, the proportion that anticipated interest rates to increase during the year ahead has gradually declined from a peak of 77% in April to 67% in September.

Home buying conditions were judged favorably by 68% of all consumers, the lowest level in more than five years. Just 18% mentioned attractive pricing, down from 26% last September, and just 37% mentioned low mortgage rates, down from 48% last year. Home selling conditions were judged favorably by 70% of all consumers for the third consecutive month, and above last September's 61%. Rising home prices were cited by 35% in support of favorable selling conditions, up from last year's 25%. Favorable selling conditions were also justified by positive trends in incomes and jobs, potentially indicating increased mobility in the year ahead. Rising home values were reported by 66% of all homeowners, the highest reading in ten years.

| | Sept 2016 | Oct 2016 | Nov 2016 | Dec 2016 | Jan 2017 | Feb 2017 | Mar 2017 | Apr 2017 | May 2017 | June 2017 | July 2017 | Aug 2017 | Sept 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Index of Consumer Sentiment | 91.2 | 87.2 | 93.8 | 98.2 | 98.5 | 96.3 | 96.9 | 97.0 | 97.1 | 95.1 | 93.4 | 96.8 | 95.1 |
| Current Economic Conditions | 104.2 | 103.2 | 107.3 | 111.9 | 111.3 | 111.5 | 113.2 | 112.7 | 111.7 | 112.5 | 113.4 | 110.9 | 111.7 |
| Index of Consumer Expectations | 82.7 | 76.8 | 85.2 | 89.5 | 90.3 | 86.5 | 86.5 | 87.0 | 87.7 | 83.9 | 80.5 | 87.7 | 84.4 |
| Index Components | | | | | | | | | | | | | |
| Personal Finances—Current | 113 | 111 | 117 | 126 | 124 | 128 | 132 | 126 | 126 | 131 | 132 | 130 | 128 |
| Personal Finances—Expected | 126 | 127 | 126 | 131 | 130 | 123 | 128 | 131 | 129 | 132 | 122 | 134 | 133 |
| Economic Outlook—12 Months | 104 | 91 | 109 | 119 | 121 | 112 | 116 | 113 | 119 | 110 | 111 | 119 | 110 |
| Economic Outlook—5 Years | 101 | 90 | 107 | 110 | 112 | 112 | 103 | 106 | 105 | 95 | 89 | 100 | 97 |
| Buying Conditions—Durables | 158 | 157 | 162 | 164 | 165 | 161 | 162 | 166 | 164 | 161 | 163 | 158 | 162 |