surveys of consumers UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: Preliminary results from the March 2018 survey March 16, 2018
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Consumer sentiment rose in early March to its highest level since 2004 due to a new all-time record favorable assessment of current economic conditions. As Shakespeare's soothsayer in Julius Caesar once warned "beware the Ides of March," all of the gain in the Sentiment Index by March 15th was among households with incomes in the bottom third (+15.7), while the economic assessments of those with incomes in the top third posted a significant monthly decline (-7.3). The decline among upper income consumers was concentrated in the outlook for the economy and their personal finances. Consumers continued to adjust their expectations in reaction to new economic policies. In early March, favorable mentions of the tax reform legislation were offset by unfavorable references to the announced tariffs on steel and aluminum—each was spontaneously cited by one-in-five consumers. Importantly, near term inflation expectations jumped to their highest level in several years, and interest rates were expected to increase by the largest proportion since 2004. These trends have prompted consumers to more favorably cite buying as well as borrowing in advance of those expected increases. While this may be the first tentative step toward an inflation psychology, this transformation requires continuously increasing incomes to support rising spending. While income gains are anticipated by consumers, the March survey found that the size of the expected income increase returned to the lows recorded in the past year. Among the top-third income households income expectations fell more and inflation expectations rose more; as these households account for more than half of all consumption expenditures, the data suggest that the relative lull in real consumption expenditures in the 1st quarter may persist for another quarter.

Recent financial progress was reported by 59% of all households in March, the highest since the survey first began in 1946. Gains in incomes were cited by 47%, the highest since 1966. Rising home values and net asset gains also contributed to the record favorable finances. While evaluations of their current finances improved across all income groups, future financial prospects improved among the lowest income households and declined among the highest income households—leaving the overall percent expecting improvement unchanged. Expected increases in nominal incomes during the year ahead fell to 1.8% in March, down from 2.2% last month and 2.3% last year. Importantly, all of the March decline in expected income gains was among those with incomes in the top third; high income consumers were also less likely to benefit from the tax cuts.

News heard about recent economic changes was split between favorable references to tax policies (30%) and unfavorable references to tariffs (31%). The only other change reported was continued improvement in the labor market (20%). Just as tax policies acted to improve economic prospect, references to increased tariffs acted to lower expected economic prospects. The new tariffs on steel and aluminum were mainly responsible for higher inflation expectations, although inflation was expected to rise for other reasons related to more robust economic growth. An unemployment rate below 4% was still expected, although in early March there was a split across income groups, as lower income households became more optimistic and higher income households became less optimistic. The same split was present for near and long term prospects for the economy, with lower incomes expecting a stronger pace of growth and upper incomes a somewhat weaker growth rate.

A year-ahead inflation rate of 2.9% was expected in early March, up from 2.7% last month and 2.5% last March. The early March figure was the highest since March 2015, which was largely due to rising gas prices. This time gas prices have only played a very minor role in generating the overall gain in inflation expectations. Perhaps more important, the longer term expected annual inflation rate remained unchanged at 2.5% in early March for the third consecutive month. The data indicate that consumers do not anticipate that the uptick in year-ahead inflation will persist, as it may be forced down by higher interest rates, eased by an end to the tariffs, reduced by marketplace resistance, or simply represents an observed outlier.

When asked about buying conditions, the appeal of low prices has largely disappeared. For durables, it has been replaced by favoring buying-in-advance of anticipated price increases, cited by 20%, the highest level since 1990. For home purchases, borrowing-in-advance of higher mortgage rate was cited by 18%, up from 7% three months ago, returning to last year's level.

	Mar 2017	Apr 2017	May 2017	June 2017	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar Prelim
Index of Consumer Sentiment	96.9	97.0	97.1	95.0	93.4	96.8	95.1	100.7	98.5	95.9	95.7	99.7	102.0
Current Economic Conditions	113.2	112.7	111.7	112.4	113.4	110.9	111.7	116.5	113.5	113.8	110.5	114.9	122.8
Index of Consumer Expectations	86.5	87.0	87.7	83.8	80.5	87.7	84.4	90.5	88.9	84.3	86.3	90.0	88.6
Index Components													
Personal Finances—Current	132	126	126	131	132	130	128	135	127	127	126	133	145
Personal Finances—Expected	128	131	129	132	122	134	133	132	132	127	131	133	130
Economic Outlook—12 Months	116	113	119	110	111	119	110	123	123	119	121	124	120
Economic Outlook—5 Years	103	106	105	95	89	100	97	110	103	93	95	105	106
Buying Conditions—Durables	162	166	164	161	163	158	162	168	168	168	160	166	174