surveys of consumers
UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: Preliminary results from the May 2018 survey May 11, 2018
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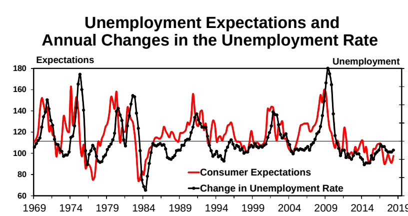
Consumer sentiment remained unchanged in early May from the April survey; month-to-month readings have been the same only four times in the past forty years. Most of the Index components were nearly identical, with the Expectations Index gaining 1.1 points and the Current Conditions Index falling 1.6 points—both statistically insignificant changes. What is likely to capture attention, however, are the small uptick in near term inflation expectations, a downward slide in income expectations, and the expected stabilization of the national unemployment rate at decade lows during the year ahead. The data will thus provide some additional points for both sides in the debate about the timing and number of future interest rate hikes. Spontaneous favorable references to the tax reforms were offset by unfavorable mentions of trade tariffs: favorable references to tax reforms were voiced by 16% in early May and unfavorable references to changes in trade tariffs by 16%. The impact on the Expectations Index was large but also offsetting: +24.7 for positive references to taxes and -24.2 for negative mentions of tariffs compared to those who didn't spontaneously mention taxes or tariffs. Overall, the data are consistent with a growth rate of 2.7% in real personal consumption from the second half of 2018 to first half of 2019.

The year-ahead expected inflation rate rose to 2.8% in early May from 2.7% in April and 2.6% last May. This was the second time in three months that the expected inflation rate reached 2.8%, the highest since the start of 2016. Interestingly, the May rise was due to fewer very low rates, with the 25th percentile rising to 1.5%, up from last month's 1.2%, and the highest since late 2014. To be sure, few consumers expected the inflation rate to accelerate over the longer term, as the expected long term inflation rate remained at 2.5% for the fifth consecutive month. The long awaited rise in wages was still largely absent, as consumers anticipated gains in household income of just 1.6%, down from last month's 2.2% and last year's 2.0%. Those under age 45 anticipated income gains of 3.2% and those with incomes in the top third expected income gains of 3.4%, while those in the middle third of the income distribution anticipated income gains of just 1.8%, down from 2.4% last month.

How consumers react to rising market prices for household durables, vehicles, and homes can act to accelerate or dampen underlying inflationary trends. Over the past half century or so, consumers have reacted by either buying-in-advance of rising prices, thus quickening the pace of inflation, or by postponing and shifting to less expensive products, thus moderating inflationary trends. In the late 1960's and 1970's, the higher wage trends and the lesser presence of alternatives gave the advantage to advance buying, while in the present era, lower wages and global markets have made postponement and shifting to less expensive products the more common alternative. While high and rising inflation is still feared, consumers now place greater emphasis on their concerns about potential job losses. While their actions in the inflation era prompted higher rates of inflation, their actions in the current era exacerbate their concerns about jobs in an internationally competitive marketplace.

Eight-in-ten consumers in early May expected rising interest rates during the year ahead. When asked about prospects for the national unemployment rate, the proportion that anticipated additional declines fell to 26% in May from 35% in February. Most of the change during the past three months went toward the expectation of a stable jobless rate, anticipated by 50% up from 42% three months ago. There was virtually no change in the proportion that anticipate rising unemployment (24%, up from 23% in February). Since consumers are asked about expected changes in the unemployment rate during the year ahead, the chart indicates how closely consumers anticipated the actual annual percentage point change in the national unemployment rate in the past half century.



Vehicle buying conditions were rated the least favorable since mid 2014, although it still meant that 63% of all consumers rated vehicle buying conditions favorably, down from last month's 69% and last year's 65%. When asked to explain their views, net references to prices and interest rates fell to 13 percentage points, down from last month's 24 percentage points.

	May 2017	June 2017	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May Prelim
Index of Consumer Sentiment	97.1	95.0	93.4	96.8	95.1	100.7	98.5	95.9	95.7	99.7	101.4	98.8	98.8
Current Economic Conditions	111.7	112.4	113.4	110.9	111.7	116.5	113.5	113.8	110.5	114.9	121.2	114.9	113.3
Index of Consumer Expectations	87.7	83.8	80.5	87.7	84.4	90.5	88.9	84.3	86.3	90.0	88.8	88.4	89.5
Index Components													
Personal Finances—Current	126	131	132	130	128	135	127	127	126	133	142	133	132
Personal Finances—Expected	129	132	122	134	133	132	132	127	131	133	132	131	130
Economic Outlook—12 Months	119	110	111	119	110	123	123	119	121	124	120	113	121
Economic Outlook—5 Years	105	95	89	100	97	110	103	93	95	105	105	111	109
Buying Conditions—Durables	164	161	163	158	162	168	168	168	160	166	173	165	162