surveys of consumers UNIVERSITY OF MICHIGAN
Monitoring trends for over 70 years

Subject: May 2018 survey results May 25, 2018
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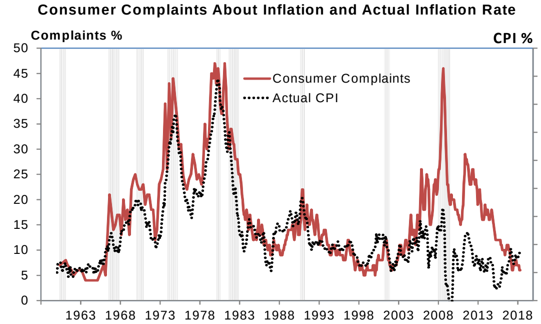
Consumer sentiment slipped by less than an Index-point from mid month, remaining at the same favorable levels for the past eighteen months. Since Trump's election, the Sentiment Index has meandered in a tight eight-point range from 93.4 to 101.4, with the small month-to-month variations indicating no emerging trend. Consumers have remained focused on expected gains in jobs and incomes as well as anticipated increases in interest rates and inflation during the year ahead. As past expansions have shown, rising interest rates do not suppress spending gains as long as they are accompanied by more substantial increases in incomes. The May survey, however, found that consumers anticipated smaller income gains than a month or year ago, even though they anticipate the unemployment rate to stabilize at its current eighteen year low. Although consumers anticipate a slightly higher year-ahead inflation rate, longer term inflation has remained unchanged for the past five months. To be sure, references to low or discounted prices for household durables, vehicles, and homes fell to decade lows. Coupled with higher interest rates, it is likely that the pace of growth in personal consumption will remain at about 2.6% during the year ahead.

The year-ahead expected inflation rate rose to 2.8% in 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. Nonetheless, 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 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 3.5% and those with incomes in the top third expected income gains of 3.2%; all other subgroups were under 2%. References to net gains in household wealth declined slightly in May, with those in the top third of the income distribution citing net wealth gains falling to 18%, down from last month's 26% and last year's 20%. The majority of consumers (51%) expected the unemployment rate to stabilize at about its current low, with equal proportions expecting increases and decreases (24%).

Interestingly, consumer reactions to the CPI inflation rate appear to have shifted in the past decade. When asked to explain how their personal finances had changed, higher prices were cited to have worsened their financial situation by 8% in May, unchanged from last month and just above last year's 7%. When examined over the past half century, these unaided references to inflation closely matched actual trends in the year-over-year change in the CPI—see the chart. That close relationship ended about a decade ago, and in the past year or so, as the CPI has risen, complaints about inflation have fallen. While gas price spikes could be cited as causing some of the recent divergence, those spikes were also widespread in the late 1970s and 1980s. While the reasons underlying the current divergence are unclear, it nonetheless signals a change in how consumers judge the impact of inflation on their personal finances. It may also suggest a change in their behavioral reaction to inflation.

Consumer Complaints About Inflation and Actual Inflation Rate



Favorable views of buying conditions fell slightly for household durables, vehicles, and homes. Although the falloff still left buying plans at generally favorable levels, the widespread declines were due to how consumers assessed current market prices. Net price references were the least favorable for household durables since just prior to the Great Recession, for vehicles since 1997, and for homes since 2006—although higher home prices brightened prospects for selling homes. In past episodes, high and accelerating prices encouraged consumers to buy-in-advance of those increases. That response is largely absent in all markets except housing, where 17% of consumers mentioned this rationale, the highest since 1980. Moreover, as mortgage rates recently rose, the appeal of borrowing-in-advance of rising rates fell to 13% from 18% two months ago.

	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 2018
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	98.0
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	111.8
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	89.1
Index Components													
Personal Finances—Current	126	131	132	130	128	135	127	127	126	133	142	133	130
Personal Finances—Expected	129	132	122	134	133	132	132	127	131	133	132	131	129
Economic Outlook—12 Months	119	110	111	119	110	123	123	119	121	124	120	113	122
Economic Outlook—5 Years	105	95	89	100	97	110	103	93	95	105	105	111	108
Buying Conditions—Durables	164	161	163	158	162	168	168	168	160	166	173	165	160