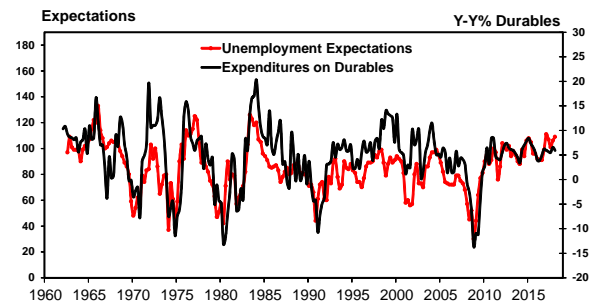


Subject: Preliminary results from the June 2018 survey
From: Richard Curtin, Director

June 15, 2018

Consumer sentiment rose slightly in early June due to consumers' more favorable assessments of their current financial situation and more favorable views of current buying conditions for household durables. The Expectations Index, in contrast, declined to its lowest level since the start of the year due to less favorable prospects for the overall economy. The sharpest divide was between the record number of households who mentioned recent income gains and the highest expected year-ahead inflation rate since 2015. At some point in every economic expansion, favorable income and job prospects act to offset higher inflation and interest rate expectations. Only when inflation and interest rates are expected to persistently exceed income and job prospects will consumers begin to curtail their discretionary spending. To be sure, mentions of low prices significantly declined when consumers were asked to describe buying conditions, especially for home purchases. Nonetheless, when asked to explain their own financial situation, references to high prices have remained remarkably low, near the lowest levels recorded in more than a half century. Indeed, greater certainty about future income and job prospects have become the main drivers of more favorable attitudes toward purchases of household durables, vehicles, and homes. The importance of favorable job prospects for discretionary spending on durables is highlighted in the chart, which shows the correspondence between consumers' unemployment expectations and the annual per capita change in expenditures on durable goods from BEA accounts. The unemployment rate during the year ahead was more often expected to decline than increase (29% versus 23%), with most (48%) expecting it to remain unchanged at its current low, which should modestly accelerate purchases. Since hikes in interest rates were widely anticipated by consumers, it is unlikely that the recent hike will have an undue impact on spending. Moreover, the continued small declines that are now anticipated in the unemployment rate as well as more robust gains in household income will bolster real personal consumption expenditures during the year ahead.

TRENDS IN UNEMPLOYMENT EXPECTATIONS AND ANNUAL PER-CAPITA CHANGE IN EXPENDITURES ON DURABLE GOODS



The year-ahead expected inflation rate rose to 2.9% in June from 2.8% in May and 2.6% last June. This was the highest expected inflation rate since 2015. Although year-ahead gasoline price expectations did edge upward in June, it remained relatively low at less than 10 cents. Long term inflation expectations ticked up to 2.6% in June from 2.5% in the preceding five months, returning to the top of the 2.4% to 2.6% range it has traveled during the past year. Importantly, the long awaited rise in wages was apparent in the June survey as consumers anticipated an annual gain of 2.5% in household incomes, up from 1.6% in May, and the highest rate of increases in incomes since 2008. Nearly all of the June gain was among those in the bottom two-thirds of the income distribution, indicating the increasing reach of employment gains across the population.

In early June, six-in-ten consumers thought the economy had recently improved, and half of all consumers judged this to mean that the pace of growth would remain favorable during the year ahead. Prospects for the economy have been negatively affected by the new trade policies. Among consumers who spontaneously made unfavorable comments about the new tariffs, year-ahead prospects for the national economy were much more negative than those who didn't mention trade policies. Just as important, those who unfavorably mentioned tariffs also held slightly higher inflation expectations than those who made no mention of the tariffs. Good times in the overall economy during the next five years were anticipated by slightly more consumers than those that thought it would be interrupted by a potential downturn sometime during the next five years.

	June 2017	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	June Prelim
Index of Consumer Sentiment	95.0	93.4	96.8	95.1	100.7	98.5	95.9	95.7	99.7	101.4	98.8	98.0	99.3
Current Economic Conditions	112.4	113.4	110.9	111.7	116.5	113.5	113.8	110.5	114.9	121.2	114.9	111.8	117.9
Index of Consumer Expectations	83.8	80.5	87.7	84.4	90.5	88.9	84.3	86.3	90.0	88.8	88.4	89.1	87.4
Index Components													
Personal Finances—Current	131	132	130	128	135	127	127	126	133	142	133	130	139
Personal Finances—Expected	132	122	134	133	132	132	127	131	133	132	131	129	128
Economic Outlook—12 Months	110	111	119	110	123	123	119	121	124	120	113	122	119
Economic Outlook—5 Years	95	89	100	97	110	103	93	95	105	105	111	108	105
Buying Conditions—Durables	161	163	158	162	168	168	168	160	166	173	165	160	167