

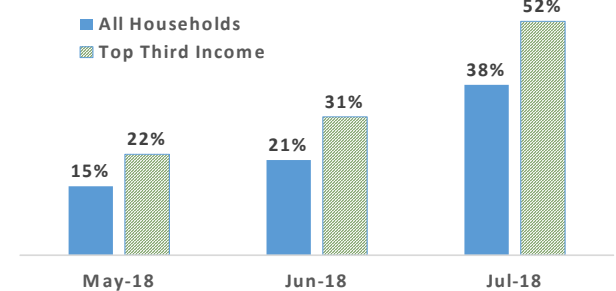
Subject: Preliminary results from the July 2018 survey
From: Richard Curtin, Director

July 13, 2018

Consumer sentiment slipped in early July but remained nearly equal to the average in the prior twelve months (97.7) and since the start of 2017 (97.4). The continuing strength has been due to favorable job and income prospects, with consumers under age 45 anticipating the largest income gains since July 2000. So far, the strength in jobs and incomes has overcome higher inflation and interest rates. This mix of favorable and unfavorable trends is a typical characteristic of past expansions, and so far, consumers expect only a modest slowdown in the pace of economic growth by late 2018. The darkening cloud on the horizon, however, has been due to rising concerns about the potential impact of tariffs on the domestic economy. More importantly, these concerns have greatly accelerated in early July. When asked about recent economic developments, news about tariffs rose significantly, so much so that unfavorable references to news about government economic policies tied the all-time peak in 2013 (which was due to the Federal government shutdown). The planned expansion of tariffs on Chinese goods could further escalate consumers' concerns about the impact on their own financial situation and purchases. More importantly, any loss in confidence will start to be recorded before the actual imposition of higher prices on consumer goods, and those losses could become the driving force that causes the postponement of discretionary purchases well beyond the goods that were directly affected. While consumers may not understand the intricacies of trade theory, they have substantial experience making decisions about the timing of discretionary purchases based on prospective trends in prices. Little offset can be anticipated from buying-in-advance of prospective price gains for household durables and vehicles due to the tariffs.

The potential impact of tariffs on the domestic economy was spontaneously cited by 43% of all consumers, with most expecting a negative impact on the domestic economy (38% out of 43%). Negative concerns about the impact of tariffs have recently accelerated, rising from 15% in May, to 21% in June, and 38% in July. Among those in the top third of the income distribution (who account for nearly half of consumer spending), 52% negatively mentioned the impact of tariffs on the economy. The primary concerns expressed by consumers were a decline in the future pace of economic growth and an uptick in inflation. Among those who expressed negative views of the tariffs, the Expectations Index was 30.5 points below those who made no mention of tariffs, and in addition, the expected inflation rate was six-tenths of a percentage point higher.

Negative References to Potential Impact of Tariffs



The year-ahead expected inflation rate retreated to 2.9% in early July from 3.0% in June and above last year's 2.6%. Long term inflation expectations fell to 2.4% in early July, down from 2.6% one month and one year earlier, and barely above the quarter-century low of 2.3%. Despite the recent year-to-year rise in the CPI, just 6% complained that rising prices had reduced their living standards in early July. Larger income gains may have softened the impact of rising prices. An income gain of 2.4% was anticipated in July by all households, just below last month's 2.5% which was the highest expected increase since 2008. Annual income gains of 5.1% were anticipated by those under age 45, which was the highest rate since July 2000.

Personal finances remained quite favorable as 53% of all households reported recent gains, with 44% specifically mentioning recent income increases. Among households in the top third of the income distribution, 65% cited income gains in early July, up from 58% last month and 50% in last July's survey. Net gains in household wealth were mentioned by 23% of households in the upper two-thirds of the income distribution in early July, up from 15% in last July's survey. Annual increases of 3.0% in home prices over the next five years were anticipated in early July, the highest figure recorded since 2007.

	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	June 2018	July Prelim
Index of Consumer Sentiment	93.4	96.8	95.1	100.7	98.5	95.9	95.7	99.7	101.4	98.8	98.0	98.2	97.1
Current Economic Conditions	113.4	110.9	111.7	116.5	113.5	113.8	110.5	114.9	121.2	114.9	111.8	116.5	113.9
Index of Consumer Expectations	80.5	87.7	84.4	90.5	88.9	84.3	86.3	90.0	88.8	88.4	89.1	86.3	86.4
Index Components													
Personal Finances—Current	132	130	128	135	127	127	126	133	142	133	130	136	133
Personal Finances—Expected	122	134	133	132	132	127	131	133	132	131	129	128	133
Economic Outlook—12 Months	111	119	110	123	123	119	121	124	120	113	122	117	115
Economic Outlook—5 Years	89	100	97	110	103	93	95	105	105	111	108	102	99
Buying Conditions—Durables	163	158	162	168	168	168	160	166	173	165	160	166	162