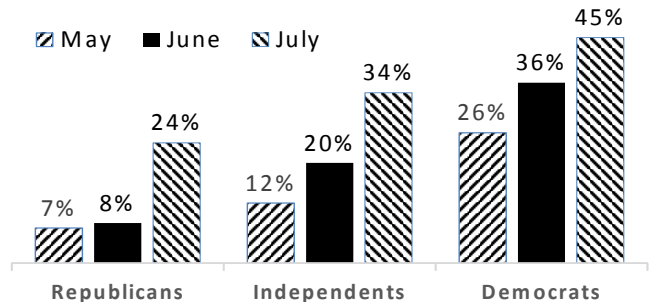


Subject: July 2018 survey results  
From: Richard Curtin, Director

July 27, 2018

Consumer sentiment posted a trivial 0.3 point one-month decline, remaining a half of an Index-point or less from the average in the prior twelve months (97.7) or since the start of 2017 (97.4). Despite the expectation of higher inflation and higher interest rates during the year ahead, consumers have kept their confidence at high levels due to favorable job and income prospects. This mix of positive and negative expectations is similar to past expansions, and, as in the past, it will prevail as long as increases in inflation and interest rate hikes remain modest. What is unusual about the current situation is the potential impact of tariffs on the domestic economy. When asked about recent economic developments, news about tariffs rose significantly, so much so that unfavorable references to news about government economic policies reached 36%, just below the all-time peak of 37% in 2013 due to the government shutdown. These concerns about tariffs greatly accelerated in the July survey as the Trump administration proposed a significant broadening of the range of goods covered by tariffs. Across all households, 35% spontaneously mentioned that the tariffs would have a negative economic impact in July, up from 21% in June and 15% in May. It should be no surprise given the current atmosphere of hyper partisanship that Democrats initially voiced greater concerns about the potential negative impact of tariffs than Independents or Republicans. The more recent surveys, however, have recorded a significant rise in negative evaluations among Independents and Republicans (see the chart). Consumers who had negative concerns about the tariffs voiced much more pessimistic economic outlook, had inflation expectations that were 0.6 percentage points higher than those who hadn't mentioned tariffs, and were more likely to anticipate that the unemployment rate would rise during the year ahead. Of course, these negative economic expectations could quickly disappear if the trade issues with Europe are promptly settled and immediately followed by agreements with China, Canada, and Mexico. Resolution is critical to forestall decreases in consumer discretionary spending as a precaution against a worsening economy.

#### Negative References to Potential Impact of Tariffs



The year-ahead expected inflation rate was 2.9% in July, just below June's 3.0% but above last year's 2.6%. Long term inflation expectations fell to 2.4% in July, down from 2.6% one month and one year earlier, and barely above the quarter-century low of 2.3%. These data indicate that consumers view rising inflation as temporary phenomena rather than a more fundamental shift—consumers could simply anticipate that interest rate increases by the Fed will temper future inflation. While consumers expected a slower pace of economic growth in the year ahead, the majority still judged the overall economy would remain “good.” A recession over the next five years, however, was expected as often as an uninterrupted expansion.

Personal finances remained very favorable as 53% of all households cited recent financial gains, just below last month's 55%, with 43% specifically mentioning recent income increases, also slightly below last month's 47%. An income gain of 2.2% was anticipated in July by all households, between last month's decade high of 2.5% and last year's 1.8%. Annual income gains of 4.8% were anticipated by those under age 45, up from 4.6% last month and 3.8% last year. Gains in net wealth were reported by one-in-five households in the top two-thirds of the income distribution, and small net wealth declines, largely due to increasing household debt, were cited by those in the lowest income third for the first time in more than a year.

Vehicle buying plans posted a significant decline in July, falling to their lowest level in five years. Net price references fell to zero (21% favorable and unfavorable), the worst assessment of vehicle prices since early 1997, partly due to fears of tariffs.

	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 2018
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	97.9
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	114.4
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	87.3
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	134
Economic Outlook—12 Months	111	119	110	123	123	119	121	124	120	113	122	117	116
Economic Outlook—5 Years	89	100	97	110	103	93	95	105	105	111	108	102	101
Buying Conditions—Durables	163	158	162	168	168	168	160	166	173	165	160	166	164