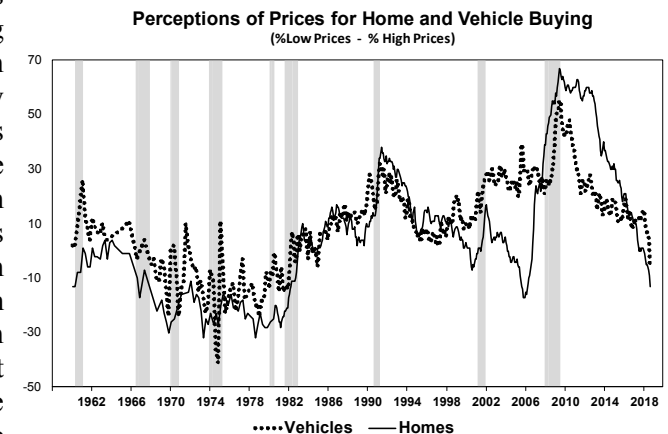


Subject: Preliminary results from the August 2018 survey
From: Richard Curtin, Director

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Consumer sentiment slipped to its lowest level since last September, with the decline concentrated among households in the bottom third of the income distribution. The early August decline was in consumers evaluations of Current Economic Conditions (-6.6 points), as the Expectations Index was unchanged from last month. The dominating weakness reflected much less favorable assessments of buying conditions, mainly due to less favorable perceptions of market prices. Buying conditions for large household durables sank to the lowest level in nearly four years. When asked to explain their views, consumers voiced the least favorable views on pricing for household durables in nearly ten years, since October 2008. Vehicle buying conditions were viewed less favorably in August than anytime in the last four years, with vehicle prices being judged less favorably than anytime since the close of 1984. Home buying conditions were viewed less favorably in early August than anytime in the past ten years, with home prices judged less favorably than anytime since 2006 (see the chart). These are extraordinary shifts in price perceptions given that consumers anticipate an inflation rate in the year ahead of 2.9% in early August, unchanged from last month. The data suggest that consumers have become much more sensitive to even relatively low inflation rates than in past decades. As is usual at this stage in the business cycle, some price resistance has been neutralized by rising wages, although the falloff in favorable price perceptions has been much larger than ever before recorded. Overall, the data indicate that consumers have little tolerance for overshooting inflation targets, and to the benefit of the Fed, interest rates now play a more decisive role in purchase decisions. Personal consumption expenditures can be expected to grow by 2.6% in the year ahead.



When asked about recent economic developments, negative references to tariffs remained widespread, with 32% citing unfavorable references to tariffs in early August, just below last month's peak of 35%. Given the current atmosphere of hyper partisanship, it should be no surprise that Democrats voiced greater concerns about the potential negative impact of tariffs than Independents or Republicans. As each month passes, however, it becomes less likely that these trade issues will be quickly settled, and more likely that they will have a noticable impact on the domestic economy. Although tariffs will have only a marginal impact on prices, the indirect impact may be larger if consumers think tariffs will slow economic growth.

The year-ahead expected inflation rate was 2.9% in early August, identical to July's reading and just below June's 3.0%. Long term inflation expectations rose to 2.5% in early August, between July's 2.4% and June's 2.6%. The data indicate that consumers view a rising inflation rate as temporary phenomena rather than a more fundamental shift. The recent favorable GDP report had only a small positive impact on growth prospects for the economy and on unemployment expectations.

Personal finances remained very favorable as 53% of all households cited recent financial gains, equal to last month and slightly ahead of last year's 51%. Importantly, 45% cited income gains in early August, above last month's 43% and last year's 39%. An income gain of 2.2% was anticipated in both July and early August, up from last year's 1.9%. Annual income gains of 4.6% were anticipated by those under age 45, unchanged from a year ago. Gains in net wealth were reported by one-in-five households in the top third of the income distribution, showing no significant change during the past year. The outlook for growth in stock prices remains on balance positive, and two-thirds of all homeowners reported gains in their home's value.

	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	June 2018	July 2018	Aug Prelim
Index of Consumer Sentiment	96.8	95.1	100.7	98.5	95.9	95.7	99.7	101.4	98.8	98.0	98.2	97.9	95.3
Current Economic Conditions	110.9	111.7	116.5	113.5	113.8	110.5	114.9	121.2	114.9	111.8	116.5	114.4	107.8
Index of Consumer Expectations	87.7	84.4	90.5	88.9	84.3	86.3	90.0	88.8	88.4	89.1	86.3	87.3	87.3
Index Components													
Personal Finances—Current	130	128	135	127	127	126	133	142	133	130	136	133	131
Personal Finances—Expected	134	133	132	132	127	131	133	132	131	129	128	134	128
Economic Outlook—12 Months	119	110	123	123	119	121	124	120	113	122	117	116	119
Economic Outlook—5 Years	100	97	110	103	93	95	105	105	111	108	102	101	104
Buying Conditions—Durables	158	162	168	168	168	160	166	173	165	160	166	164	149