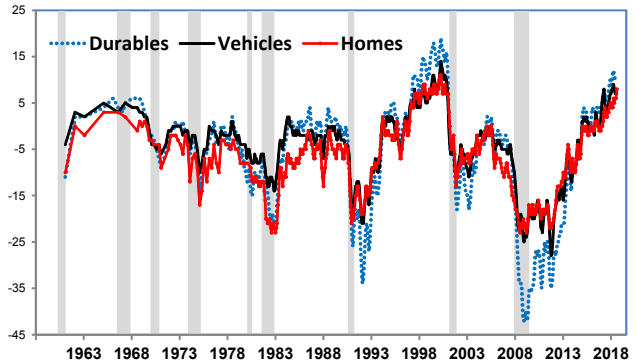


Subject: August 2018 survey results
From: Richard Curtin, Director

August 31, 2018

Although there was a small uptick in late August, consumer sentiment remained at its lowest level since January. Most of the August decline was in the Current Economic Conditions Index, which fell to its lowest level since November 2016. These results stand in sharp contrast to the recent very favorable report on growth in the national economy. The dominating weakness was related to less favorable assessments of buying conditions, mainly due to less favorable perceptions of market prices and to a lesser extent, rising interest rates. Future income and job certainty have become the main reasons cited by consumers for their positive spending views (see the chart). This shift from attractive prices and interest rates to income is typical of the later stages of expansions, with references to income and job certainty peaking just before downturns. While nominal wage expectations and employment gains have remained strong, the anticipated inflation rate has also increased to its highest level in four years. Although a higher inflation rate is partly due to the potential for increased tariffs, the main cause has been the expectation of robust economic growth. Among those who cited a negative impact from potential tariffs, their inflation expectations were 0.7 percentage points higher than among those who didn't mention tariffs, but among those who expected an improved pace of economic growth, their inflation expectations were 1.3 percentage points higher than among those who expected the economy to weaken in the year ahead. Luckily, consumers have not yet judged the current rate of inflation as a significant source of erosion in their living standards or as a cause to reduce their buying plans. Achieving a soft-landing is always difficult, and especially so when monetary policy must lean against expansionary fiscal policies. Personal consumption can be expected to grow by 2.6% in the year ahead.

Net Income and Job Security References In Support of Buying



The year-ahead expected inflation rate was 3.0% in August, up from 2.9% in July, returning to June's level; the last time a higher expected inflation rate was recorded in August 2014. Long term inflation expectations rose to 2.6% in August, up from last month's 2.4% and equal to July's 2.6%. Long term inflation expectations have varied in the narrow range between 2.4% and 2.6% since the start of 2017, showing no apparent trends. Overall, year-ahead inflation expectations appear to be well anchored, with the expected near term rise in the inflation rate anticipated to be a temporary phenomena.

Personal finances remained very favorable as 55% of all households cited recent financial gains, just below the all-time record of 57% recorded in only two surveys in more than a half century—in March 2018 and February 1998. Income gains were cited by 43% in August, just below the 2018 peak of 47% and the all-time peak of 51% set in February 1953. Gains in household wealth were also cited by near record numbers, primarily due to increases in stock holdings and rising home values. In August consumers anticipated income increases during the year-ahead of 2.4%, between July's 2.2% and June's 2.5%, recording the best three month average in the expected household income growth rate during the past decade.

Consumers' views of buying conditions have fallen to multi-year lows. Home buying conditions were viewed less favorably than anytime since December 2008; vehicle buying conditions were viewed less favorably than since late 2013; buying conditions for household durables were viewed less favorably than since late 2015. For each market, favorable perceptions of prices fell to near decade lows, and more surprisingly, references to interest rates slipped to near decade lows despite the fact that rates remained much lower than in the runup to the Great Recession, demonstrating greater consumer sensitivity.

	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 2018
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	96.2
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	110.3
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	87.1
Index Components													
Personal Finances—Current	130	128	135	127	127	126	133	142	133	130	136	133	133
Personal Finances—Expected	134	133	132	132	127	131	133	132	131	129	128	134	131
Economic Outlook—12 Months	119	110	123	123	119	121	124	120	113	122	117	116	118
Economic Outlook—5 Years	100	97	110	103	93	95	105	105	111	108	102	101	101
Buying Conditions—Durables	158	162	168	168	168	160	166	173	165	160	166	164	154