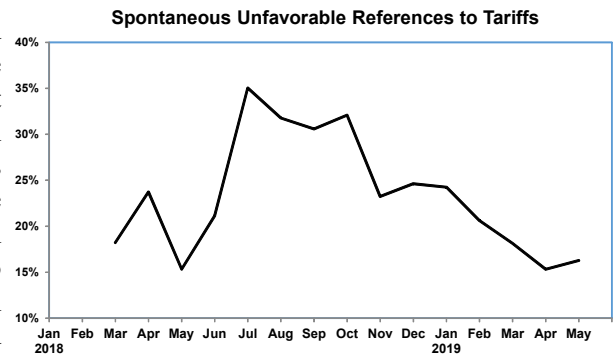


Subject: Preliminary results from the May 2019 survey

May 17, 2019

From: Richard Curtin, Director

The Index of Consumer Sentiment surged in early May to its highest level in fifteen years, since 103.8 was recorded in the January 2004 survey. All of the May gain was in the Expectations Index, which also rose to its highest level since 2004, while the Current Conditions Index was virtually unchanged and well below the half-century peak of 121.2 set in March 2018. Consumers viewed prospects for the overall economy much more favorably, with the economic outlook for the near and longer term reaching their highest levels since 2004. The gains were recorded as trade negotiations with China collapsed and China responded with their own tariffs. The surveys have tracked consumer references to tariffs, which were not in response to a direct question, but mainly reported in response to questions on news of recent economic developments as well as some in response to questions about buying conditions for household durables. As shown in the chart, unaided references to tariffs peaked in July 2018 at 35% and have generally declined to just 16% in early May 2019. The July peak corresponds to the initial imposition of tariffs. To be sure, negative references to tariffs rose in the past week and are likely to rise further in late May and June. Those who held negative views about the impact of tariffs on the economy and pricing had values on the Expectations Index that were 25 points lower, and expected the year-ahead inflation rate to be 0.6 percentage points higher. Even apart from the direct impact of tariffs on prices, rising tariffs could cause a more general loss of confidence which could further diminish the pace of consumer spending. At present, the data point toward moderate spending growth in the year ahead. Nonetheless, the data indicate the corrosive impact of an escalating trade war.



When asked about prospective trends in the economy, the expected pace of economic growth did not change as much as consumers' subjective assessments. Good times during the year were expected by 62% of all consumers in early May, the highest figure since 68% was recorded in 2004. The proportion of consumers who anticipated an economic downturn in the next five years fell to 36%, the lowest level since 2004. Unemployment expectations continue to point toward very small additional declines in the year ahead, which have remained unchanged for the past three months. Interest rate expectations remained at the lower levels set last month, and the percent that expected gains fell by 20 percentage points since last year. The expected year-ahead inflation rate was 2.8% in early May, up from 2.5% in April, and equal to last May's reading. The annual long term inflation rate was expected to be 2.6% in May, up from 2.3% in April and last May's 2.5%. The rise in the expected inflation rate was due to several factors, including a stronger economy, larger wage gains, and rising tariffs.

Favorable judgements about buying conditions for household durables fell in early May to the lowest level in three years. Consumers voiced less favorable views on product prices and judged buy-in-advance rationales more favorably (perhaps due to the hike in tariffs). Favorable home buying attitudes declined slightly and views on home selling rose slightly due to rising home prices. Vehicle buying attitudes, in contrast, inched upward in early May largely due to more positive price perceptions. Recently improved finances were cited by 56% of all consumers for the third time in the past year and barely below the all-time peak of 57% set in 2018 and 1998. Recent income gains were cited by 45%, barely below the 47% recorded in March. When asked about their financial prospects for the year ahead, 44% anticipated improvements, unchanged from last month. Across all households, a median income increase of 2.3% was anticipated in early May, above last month's 2.1% and last year's 1.6%. Among those under age 45, an expected income increase of 4.5% was anticipated in early May.

	May 2018	June 2018	July 2018	Aug 2018	Sept 2018	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May Prelim
Index of Consumer Sentiment	98.0	98.2	97.9	96.2	100.1	98.6	97.5	98.3	91.2	93.8	98.4	97.2	102.4
Current Economic Conditions	111.8	116.5	114.4	110.3	115.2	113.1	112.3	116.1	108.8	108.5	113.3	112.3	112.4
Index of Consumer Expectations	89.1	86.3	87.3	87.1	90.5	89.3	88.1	87.0	79.9	84.4	88.8	87.4	96.0
Index Components													
Personal Finances—Current	130	136	133	133	135	130	130	133	127	124	138	133	138
Personal Finances—Expected	129	128	134	131	135	131	129	129	131	133	131	136	136
Economic Outlook—12 Months	122	117	116	118	123	123	117	118	92	108	124	115	135
Economic Outlook—5 Years	108	102	101	101	106	105	109	102	97	99	102	100	115
Buying Conditions—Durables	160	166	164	154	164	163	161	169	155	158	156	159	154