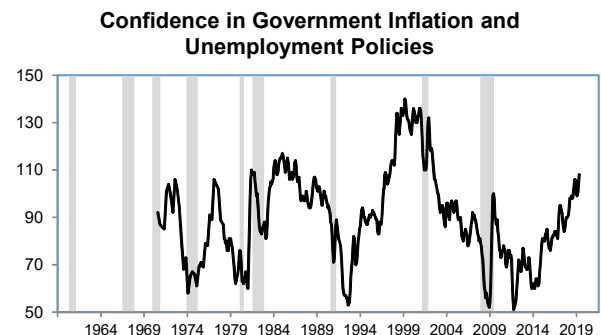


Subject: May 2019 survey results
From: Richard Curtin, Director

May 31, 2019

Although consumer sentiment remained at very favorable levels, confidence significantly eroded in the last two weeks of May. The decline at month's end was widespread across socioeconomic subgroups, and was concentrated in prospects for the overall economy. Importantly, year-ahead inflation expectations jumped to 2.9% in May up from last month's 2.5%. Unfavorable references to tariffs rose in late May, spontaneously mentioned by 35% of all consumers, up from 16% in the first half of May and 15% in April. Unfavorable references to tariffs in the last two weeks regained the peak recorded last July in response to the initial imposition of tariffs. Year-ahead inflation expectations among those who unfavorably mentioned tariffs was 0.5 percentage points higher than those who made no references to tariffs. Note that the gain in inflation expectations was recorded prior to the actual increases in consumer prices due to the most recent hike in tariffs. While higher inflation expectations modestly reduced real income expectations, the largest impact was on buying conditions for appliances and other large household durables, which fell to their lowest level in four years. The combination of higher inflation and lower spending provide conflicting signals for monetary policy, with the divergence further heightening if, as is likely, the trade war escalates. Will the Fed risk higher inflation with lower interest rates, or risk higher unemployment with higher interest rates? Either choice would threaten the highest level since 2002 in consumer confidence in the government's policies to keep both unemployment and inflation at reasonably low levels (see the chart above).



The economic optimism now expressed by consumers is characteristically different than when the Index first reached the May level in the mid 1960s. In the earlier era, optimism was primarily based on expected growth in incomes, in the current era, optimism is based more on expected income and job security. The shift is partly the legacy of the Great Recession and partly due to an aging population. This shift has been reflected in personal economic evaluations as well as in political choices.

While the outlook for the economy was less favorable in late May, the data indicated that prospects were still quite favorable. Good times during the year ahead were expected by 59% of all consumers in May, the highest figure since the start of 2015. The proportion of consumers who anticipated an economic downturn during the next five years fell to 38%, the lowest level since 2004. Unemployment expectations continue to point toward very small additional declines during the year ahead, which has remained unchanged for the past three months. Interest rate expectations inched upward in late May; for the month as a whole, 58% anticipated higher interest rates during the year ahead, well below the 76% recorded in last May's survey.

The expected year-ahead inflation rate was 2.9% in May, up from 2.5% in April, and just above last May's 2.8%. 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%. Tariffs mainly influenced the year ahead outlook but had only a marginal impact on longer term inflation expectations (+0.5 versus +0.2). Rising tariffs have significantly reduced favorable judgements about buying conditions for household durables, which fell to the lowest level in nearly four years. In contrast, vehicle and home buying attitudes were largely unchanged in May.

Recently improved finances were cited by 54% of all consumers, just below March's 56% and the all-time peak of 57% set in 2018 and 1998. Recent income gains were cited by 44%, barely below the 47% recorded in March. When asked about their financial prospects for the year ahead, 45% anticipated gains, the highest since June 2003. Across all households, a median income increase of 2.1% was anticipated in May, unchanged from last month and above last year's 1.6%. Expected income gains were the largest for under age 45 (an annual gain of 3.3%) and those in the top third of the income distribution (2.9%).

	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 2019
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	100.0
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	110.0
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	93.5
Index Components													
Personal Finances—Current	130	136	133	133	135	130	130	133	127	124	138	133	134
Personal Finances—Expected	129	128	134	131	135	131	129	129	131	133	131	136	135
Economic Outlook—12 Months	122	117	116	118	123	123	117	118	92	108	124	115	130
Economic Outlook—5 Years	108	102	101	101	106	105	109	102	97	99	102	100	112
Buying Conditions—Durables	160	166	164	154	164	163	161	169	155	158	156	159	151