

Subject: June 2019 survey results

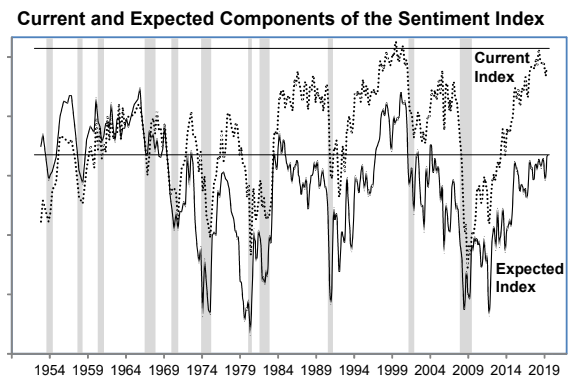
June 28, 2019

From: Richard Curtin, Director

June's small overall decline was entirely due to households with incomes in the top third of the distribution, which fell by 8.6 Index points from May, while households with incomes in the bottom two-thirds rose by 2.0 Index points. Top income households less frequently reported income gains in June and held slightly less favorable financial prospects for the year ahead. More importantly, upper income households more frequently mentioned the negative impact of tariffs, cited by 45% of those with incomes in the top third, up from 30% last month. Most of the June slippage was concentrated in prospects for the national economy, with the unemployment rate expected to inch upward instead of drifting downward in the year ahead. Interest rates were anticipated to rise by the fewest respondents in six years, and declines in mortgage rates have begun to have a positive impact on home buying. While more negative trade news will act to decrease consumer spending, the persistent overall strength in consumer confidence is still consistent with growth of real personal consumption expenditures by 2.5% during the next twelve months. How the presidential debates affect consumer expectations will be monitored in future months.

The U.S. expansion is on the verge of setting a new record. The ten-year expansion from June 2009 to June 2019 has now tied the prior record from March 1991 to March 2001. Next month it will become the longest expansion since the mid-1850s. In the latter stages of both ten-year expansions, consumer sentiment reached very positive levels and showed only small monthly variations. Over the past 30 months, the Sentiment Index has averaged 97.3, remaining in a ten-point range from 91.2 to 101.4. Over the 48 months from 1997 to 2000, the Sentiment Index was significantly higher, averaging 105.3, with a slightly larger but still relatively small range from 97.4 to 112.0 during those four years. In contrast to these similarities, the major components of the Sentiment Index showed distinctive patterns (see the chart). The cyclical peaks in the Current Conditions Index were nearly identical (121.2 in March 2018 versus 121.1 in May 1999), but the peaks in the Expectations Index differed significantly (93.5 in May 2019 versus 108.6 in January 2000). Indeed, the only prior cycle that the peak in the Expectations Index was lower was in the mid-1970's. Since it is the Expectations Index, rather than the Current Conditions Index, that is most closely tied to changes in discretionary purchases, it should be no surprise that the annual growth rate in real personal consumption was 2.6% in the past two years, half the 5.2% average from 1998 to 2000.

The expected year-ahead inflation rate was 2.7% in June, down from 2.9% in May and last June's 3.0%. The annual long term inflation rate was expected to be 2.3% in June, down from 2.6% in May and last June. Along with a shift toward somewhat lessened strength in the economy and employment gains, the decline in inflation expectations was associated with fewer consumers expecting increases in interest rates, falling to 46%, from last year's 75%, and the lowest proportion in six years. Favorable trends in personal finances remained widespread, with 53% of all households reporting improved finances, and 44% of households expected financial gains during the year ahead—both figures were largely unchanged during the past year at those favorable levels. References to income gains fell by 10 percentage points among those with incomes in the top third, but rose by 4 percentage points among those with incomes in the bottom two-thirds. Across all households, a median income increase of 2.0% was anticipated in June, for those under 45, income gains of 4.3% were anticipated during the year ahead. Buying attitudes toward durables rose to their best level in six months, with the renewed strength mainly due to those with incomes in the bottom two-thirds. Home buying improved due to lower mortgage rates and confidence in future incomes.



	June 2018	July 2018	Aug 2018	Sept 2018	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	June 2019
Index of Consumer Sentiment	98.2	97.9	96.2	100.1	98.6	97.5	98.3	91.2	93.8	98.4	97.2	100.0	98.2
Current Economic Conditions	116.5	114.4	110.3	115.2	113.1	112.3	116.1	108.8	108.5	113.3	112.3	110.0	111.9
Index of Consumer Expectations	86.3	87.3	87.1	90.5	89.3	88.1	87.0	79.9	84.4	88.8	87.4	93.5	89.3
Index Components													
Personal Finances—Current	136	133	133	135	130	130	133	127	124	138	133	134	131
Personal Finances—Expected	128	134	131	135	131	129	129	131	133	131	136	135	134
Economic Outlook—12 Months	117	116	118	123	123	117	118	92	108	124	115	130	121
Economic Outlook—5 Years	102	101	101	106	105	109	102	97	99	102	100	112	104
Buying Conditions—Durables	166	164	154	164	163	161	169	155	158	156	159	151	160