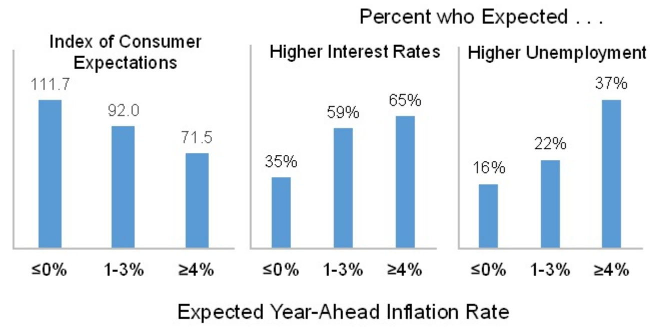
surveys of consumers UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: Preliminary results from the July 2019 survey July 19, 2019

From: Richard Curtin, Director

Consumer sentiment remained largely unchanged in early July from June, remaining at quite favorable levels since the start of 2017. Moreover, the variations in Sentiment Index have been remarkably small, ranging from 91.2 to 101.4 in the past 30 months. Even the changes in the component questions varied insignificantly. Perhaps the most interesting change in the July survey was in inflation expectations, with the year-ahead rate slightly lower and the longer term rate moving to the top of the narrow range it has traveled in the past few years. These small shifts in expected inflation cannot be used to forecast future trends; that conclusion must await subsequent confirmation. Given the heightened interest in Fed policy, it is of some interest to examine the relationship between consumers' inflation expectations and the anticipated strength in the economy as well as prospective shifts in interest rates and unemployment. Inflation expectations were divided into three groups based on responses to the January to July 2019 surveys: those who expected a year-ahead inflation rate of ≤0% (14%), an inflation rate of 1% to 3% (50%), and those who expected an inflation rate ≥4% (36%). The Consumer Expectations Index falls as inflation expectations rise, signifying that consumers view higher inflation as a threat to economic growth. Higher inflation was related more frequently to rising interest rates and was associated with higher unemployment expectations (see the chart). While the inflation-unemployment relationship is in the opposite direction of the Phillips curve hypothesis, that relationship is usually based on wage inflation, not overall inflation. Consumers' views appear to be more consistent with the stagflation thesis, which holds that inflation and unemployment move in the same direction. This thesis is more consistent with how consumers process and organize diverse bits of news about the economy.



The expected year-ahead inflation rate was 2.6% in early July, down from 2.7% in June and 2.9% in May and last July. The annual long term inflation rate was expected to be 2.6% in July, moving from the bottom to the top of the narrow range from 2.3% to 2.6%. Long-term inflation expectations have remained in this narrow range for the last three years. The proportion of households who expected interest rate increases fell to 44% in early July, the lowest percentage since May of 2013. Although declining interest rates were expected by just 19%, this was the highest proportion recorded in the past ten years.

Favorable trends in personal finances remained widespread, with 51% of all households reporting improved finances, and 43% of households expecting financial gains during the year ahead—both figures were largely unchanged during the past year at those favorable levels. These favorable financial expectations were supported by gains in household incomes and wealth. An annual expected gain in household incomes was 2.5% across all households; the only higher reading since 2007 was 2.6% recorded in March 2019. Among households under age 45, the median expected gain in household income was 4.8%

Recent gains in the overall economy were reported by 56% of all consumers in July, just below the 57% recorded both a month and year earlier. Just 20% expected the economy to worsen during the year ahead, down from last month's 24% and last year's 32%. While half of all consumers anticipated no change in the unemployment rate, on the margin consumers were slightly more likely to expect small increases rather than declines in the national unemployment rate (25% versus 22%).

Although buying attitudes toward durables and vehicles remained largely unchanged, consumers' reasoning for their evaluations shifted. Consumers more frequently mentioned price discounts on durables, rising to 39% from last month's 28%, and less on buying-in-advance of rising prices (due to tariffs), which fell to 10% from last month's 18%. For vehicles, the shift was toward more favorable views of interest rates on vehicle purchases, with the net rising to 15% from last months 8%.

	July 2018	Aug 2018	Sept 2018	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	June 2019	July Prelim
Index of Consumer Sentiment	97.9	96.2	100.1	98.6	97.5	98.3	91.2	93.8	98.4	97.2	100.0	98.2	98.4
Current Economic Conditions	114.4	110.3	115.2	113.1	112.3	116.1	108.8	108.5	113.3	112.3	110.0	111.9	111.1
Index of Consumer Expectations	87.3	87.1	90.5	89.3	88.1	87.0	79.9	84.4	88.8	87.4	93.5	89.3	90.1
Index Components													
Personal Finances—Current	133	133	135	130	130	133	127	124	138	133	134	131	130
Personal Finances—Expected	134	131	135	131	129	129	131	133	131	136	135	134	136
Economic Outlook—12 Months	116	118	123	123	117	118	92	108	124	115	130	121	118
Economic Outlook—5 Years	101	101	106	105	109	102	97	99	102	100	112	104	108
Buying Conditions—Durables	164	154	164	163	161	169	155	158	156	159	151	160	159