

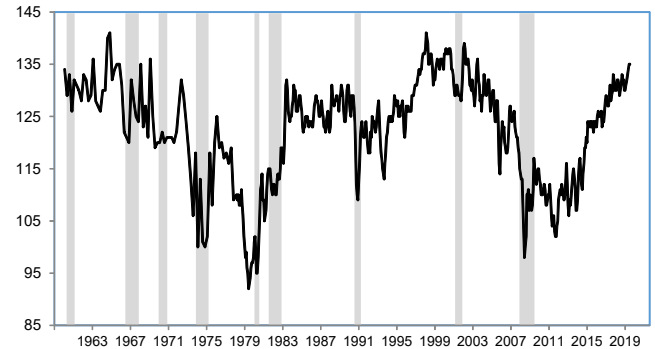
Subject: July 2019 survey results

August 2, 2019

From: Richard Curtin, Director

Consumer sentiment remained unchanged in late July from the mid-month reading, with all component questions showing only small and offsetting changes. Economic confidence has been remarkably stable since the start of 2017, despite ongoing trade uncertainties. The resilience displayed has been primarily due to a renewed sense of personal financial optimism. Indeed, recent surveys have recorded the most favorable net personal financial expectations since May 2003 (see the chart). Positive job and income prospects, gains in net household wealth, and low inflation have bolstered optimism. At present, consumers do not anticipate a rapid acceleration in income growth rates, nor do they expect significant changes in inflation and unemployment rates. Consumers have not ignored mounting policy uncertainties as they have begun to take precautionary measures to increase savings and reduce debt. Favorable buying attitudes toward homes and vehicles have significantly receded from their cyclical peaks despite declining interest rates. A key issue is whether the recently announced tariffs on Chinese imports, covering more commonly purchased consumer items, will spark an even more cautious outlook. Aside from its direct impact on spending, the much more important issue is how much it lessens overall consumer confidence.

Expected Change In Financial Situation In A Year
(%Better - %Worse, Plus 100, 3MMA)



The expected year-ahead inflation rate was 2.6% in 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 2.5% in July, slightly above last month's low of 2.3% and last year's 2.4%. Householders under age 45 anticipated lower year-ahead inflation (2.4%) as well as a lower long-term inflation rate (2.3%). Importantly, inflation expectations are centered on very low positive rates; absolute declines are rarely anticipated. Three-quarters of all consumers anticipated that by next July the national unemployment rate would be no higher than at present. In the past three months, confidence in government economic policies reached its highest average level since May 2002.

Favorable trends in personal finances remained widespread in July. Recent financial gains were reported by 52% of all households, barely different from last July's 53%. When asked about their financial prospects for the year ahead, 44% expected financial gains, just below May's peak of 45%, which was the highest since 2003. The annual expected gain in household income was 2.3% across all households, up from last month's 2.0% and last year's 2.2%; the highest 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%, the same as last July's reading. Real income expectations rose in July to their highest level since the start of 2019.

The economy was thought to have recently improved by 57% of consumers, identical to last month and last July. Just 20% expected the economy to worsen in the year ahead, the lowest proportion in 2½ years. When asked about the five year outlook for the economy, nearly half (48%) of all consumers expected continuous good times, close to the cyclical peak recorded at the start of 2017 (53%). Interest rate expectations have fallen substantially since January, with expected hikes falling by 32 percentage points since last July, and by 51 percentage points among those with incomes in the top third.

Buying attitudes toward homes and vehicles have recently rebounded, but have only reversed a small portion of the losses recorded in the past few years. Overall, these buying attitudes have remained closer to recession levels than their recent cyclical peaks. The losses have been due to sharp falloffs in judgements about current pricing of homes and vehicles, which have fallen to decade lows. Home and vehicle buying have posted small gains from the start of the year, mainly due at first to buying-in-advance of feared tariff induced price increases and then to the correct expectation of lower interest rates.

	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 2019
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	110.7
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	90.5
Index Components													
Personal Finances—Current	133	133	135	130	130	133	127	124	138	133	134	131	131
Personal Finances—Expected	134	131	135	131	129	129	131	133	131	136	135	134	137
Economic Outlook—12 Months	116	118	123	123	117	118	92	108	124	115	130	121	122
Economic Outlook—5 Years	101	101	106	105	109	102	97	99	102	100	112	104	106
Buying Conditions—Durables	164	154	164	163	161	169	155	158	156	159	151	160	156