

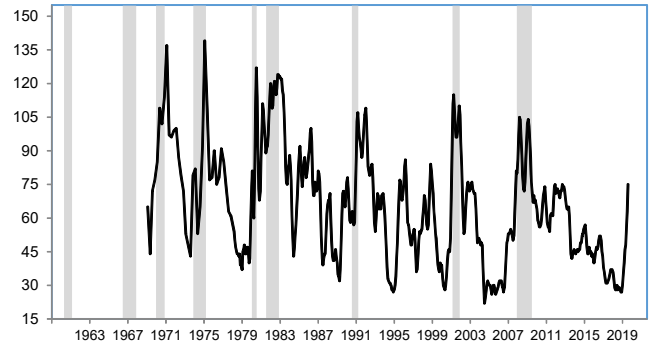
Subject: Preliminary results from the August 2019 survey

August 16, 2019

From: Richard Curtin, Director

Consumer sentiment declined in early August to its lowest level since the government shutdown at the start of the year. The early August losses spanned all Index components. Although the Expectations Index recorded more than twice the decline in August as the Current Conditions Index (-8.2 versus -3.3), the Current Conditions Index fell to its lowest level since late 2016. Monetary and trade policies have heightened consumer uncertainty—but not pessimism—about their future financial prospects. Consumers strongly reacted to the proposed increase in tariffs on Chinese goods, spontaneously cited by 33% of all consumers in August, barely below the recent peak of 37%. Although the announced delay until Christmas postpones its negative impact on consumer prices, it still raises concerns about future prices. The main takeaway for consumers from the first cut in interest rates in a decade was to increase apprehensions about a possible recession. Consumers concluded, following the Fed's lead, that they may need to adopt a precautionary spending outlook in anticipation of a potential recession. Falling rates have long been associated with the start of recessions—see the above chart. The current situation, however, is quite different from past cycles, so the usual signposts may not be as accurate as in the past. Perhaps the most important remaining pillar of strength for consumer spending is favorable job and income prospects, although the August survey indicated some concerns about the future pace of income and job gains. It is likely that consumers will reduce their pace of spending while singlehandedly keeping the economy out of recession at least through mid 2020.

Expected Change in Interest Rates During the Next Year  
(%Down - %Up, Plus 100, 3MMA)



The expected year-ahead inflation rate was 2.7% in early August, slightly above last month's 2.6% and well below last year's 3.0%. The annual long term inflation rate was expected to be 2.6%, slightly above last month's 2.5% and the same as last year's reading. Since most of the data were collected before Trump announced the postponement of some added tariffs on Chinese imports, it will likely promote some downward revisions, especially among households with low and middle incomes.

Nearly three-quarters of all consumers anticipated that by next August the national unemployment rate would be no higher than at present. Not surprisingly, in the past three months, slightly more consumers expected increases rather than declines in the unemployment rate. This reflected what consumers viewed as a slower expected pace of growth in the economy. Judgements about the near and longer term economic outlook have fallen to the bottom of the favorable range that has been recorded since the start of 2017; these expectations are still well above the levels that would signal the start of a downturn.

Consumers continued to voice favorable evaluations of their current finances. Recent financial gains were reported by 52% of all households, barely below last August's 55%. Consumers were more concerned about their financial prospects for the year ahead. Just 37% anticipated financial gains, down from last month's 44%, and the lowest percentage in two years. This falloff was related to slightly lower income prospects and slightly higher inflation expectations. Annual income gains of 1.8% were expected in August, between last month's 2.3% and the 2019 low of 1.7%. Importantly, among householders under age 45, the median expected gain in household income fell to 3.4% in August from 4.8% in both July and last August.

The small cut in interest rates will act to bolster refinancing more than promote a renewed boom in home purchases. While home buying attitudes have recently improved, they still remain closer to recession levels than their recent peaks. Tariffs had a significant impact on buying appliances and home electronics: among those who spontaneously mentioned tariffs negatively, 32% held unfavorable views of buying conditions, nearly twice the 17% among those who didn't mention tariffs.

	Aug 2018	Sept 2018	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	June 2019	Jul 2019	Aug Prelim
Index of Consumer Sentiment	96.2	100.1	98.6	97.5	98.3	91.2	93.8	98.4	97.2	100.0	98.2	98.4	92.1
Current Economic Conditions	110.3	115.2	113.1	112.3	116.1	108.8	108.5	113.3	112.3	110.0	111.9	110.7	107.4
Index of Consumer Expectations	87.1	90.5	89.3	88.1	87.0	79.9	84.4	88.8	87.4	93.5	89.3	90.5	82.3
Index Components													
Personal Finances—Current	133	135	130	130	133	127	124	138	133	134	131	131	128
Personal Finances—Expected	131	135	131	129	129	131	133	131	136	135	134	137	125
Economic Outlook—12 Months	118	123	123	117	118	92	108	124	115	130	121	122	110
Economic Outlook—5 Years	101	106	105	109	102	97	99	102	100	112	104	106	95
Buying Conditions—Durables	154	164	163	161	169	155	158	156	159	151	160	156	150