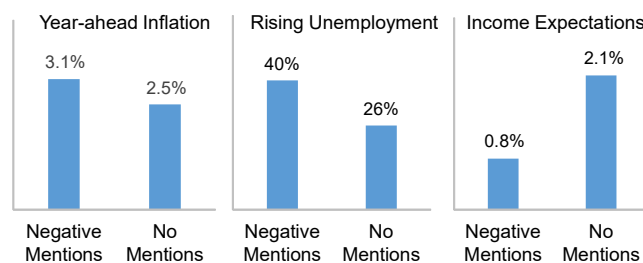




Subject: August 2019 survey results
From: Richard Curtin, Director

August 30, 2019

Consumer sentiment continued to decline in late August, recording its largest monthly decline (8.6 points) since December 2012 (-9.8). The 2012 plunge reflected widespread fears of being pushed off the “fiscal cliff” due to rising taxes and falling government spending. The recent decline is due to negative references to tariffs, which were spontaneously mentioned by one-in-three consumers. Unlike concerns about the fiscal cliff, which were promptly resolved, Trump’s tariff policies have been subject to repeated reversals amid threats of higher future tariffs. Such tactics may have some merit in negotiations with China, but they act to increase uncertainty and diminish consumer spending at home. Unlike the repeated tariff reversals, negative trends in consumer sentiment cannot be easily reversed. The data indicate that the erosion of consumer confidence due to tariff policies is now well underway. Compared with those who did not reference tariffs, consumers who made spontaneous negative references to tariffs also voiced higher year-ahead inflation expectations, more frequently expected rising unemployment, and expected smaller annual gains in household incomes (see the chart). Some of the expected impacts from tariffs were due to higher prices and some due to the consequent slowdown in overall economic growth. The Index of Consumer Expectations was just 56.2 among those who negatively mentioned tariffs compared with 89.8 among those who didn’t mention tariffs. While the overall level of sentiment is still consistent with modest gains in consumption, it is nonetheless likely that consumers could be pushed off the “tariff cliff” in the months ahead.



Spontaneous References to Tariffs

The expected year-ahead inflation rate was 2.7% in August, between last month’s 2.6% and last year’s 3.0%. The annual long term inflation rate was expected to be 2.6%, just above July’s 2.5% and the same as last year’s reading. Unemployment was expected to remain unchanged during the year ahead by half of all consumers, but on the margin the jobless rate was more frequently expected to increase than to decline. In August, just 39% expected interest rates to increase, the lowest level since the fiscal cliff crisis at the end of 2012; interest rate declines were expected by the highest number since 2009.

More consumers anticipated the pace of economic growth would slow during the year ahead, as 31% expected a weakening pace compared with 25% who expected an improved rate of growth. Overall, the proportion of consumers that anticipated an uninterrupted expansion over the next five years fell to 40% in August, down from 48% in July and 46% last year. The percent that anticipated a downturn sometime in the next five years rose to 47%, the highest since 49% was set in late 2017.

Recent financial gains were reported by 50% of all households, just below July’s 52% and last August’s 55%. The modest decline was due to a slight decline in household net worth. Personal financial expectations weakened, with households who expected improvement falling to 36% from last month’s 44%, and the lowest percentage since July 2017. Expected annual gains in household income fell to 1.8%, down from July’s 2.3% and last August’s 2.4%. The falloff in expected income gains was widespread across socioeconomic groups, with the largest decline among those under age 45, falling to 3.3% from 4.8%.

Overall buying attitudes toward appliances, home electronics and other household durables fell to their lowest level in five years, with net price references at the lowest level since June 2008. Importantly, tariffs again had a significant impact; among those who spontaneously mentioned tariffs negatively, 35% held unfavorable views of buying conditions, well above the 20% among those who didn’t mention tariffs. Vehicle buying attitudes declined on balance to the lowest level since November 2013, with references to high vehicle prices reaching the highest level since 1997. Home buying attitudes remained near recent lows and home selling attitudes hit the record high, mostly reflecting continued increases in home prices.

	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 2019
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	89.8
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	105.3
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	79.9
Index Components													
Personal Finances—Current	133	135	130	130	133	127	124	138	133	134	131	131	127
Personal Finances—Expected	131	135	131	129	129	131	133	131	136	135	134	137	123
Economic Outlook—12 Months	118	123	123	117	118	92	108	124	115	130	121	122	104
Economic Outlook—5 Years	101	106	105	109	102	97	99	102	100	112	104	106	93
Buying Conditions—Durables	154	164	163	161	169	155	158	156	159	151	160	156	146