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Preliminary results from the August 2026 survey August 14, 2026

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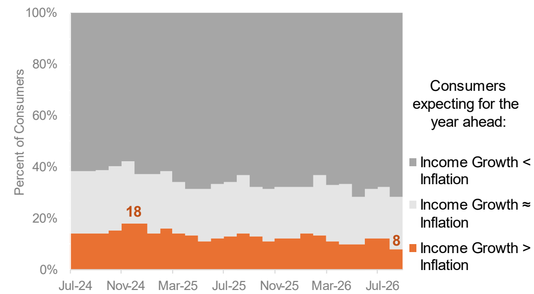
Only 8% of Consumers Expect Income Growth to Outpace Inflation Over the Next Year



Consumer sentiment fell about 8% this August, ending two consecutive months of improvement. While views of personal finances saw only minor declines, expected business conditions sank 11% for the short run and 17% for the long run. Decreases in sentiment were seen across the political spectrum, with Republicans exhibiting the strongest month-to-month decline in August. Sentiment among Republicans is now 19% below readings just prior to the Iran conflict and the lowest since the 2024 election. Although the early-month weakening in sentiment was pervasive across various demographic groups, notably large reductions were seen among older consumers, lower-income consumers, and those without a college degree. These groups are all particularly vulnerable to any erosion of purchasing power stemming from inflation. Across all consumers, only 8% expect their income growth to exceed inflation in the year ahead, down from 18% in December 2024, a reflection of the belief that high prices will continue to be burdensome.

Year-ahead inflation expectations ticked up from 4.2% in July to 4.3% this month. The current reading substantially exceeds the 3.4% seen in February before the Iran conflict began, along with all 2024 readings. Long-run inflation expectations held steady at 3.3% for the third consecutive month, remaining a bit higher than its 2024 range of 2.8% to 3.2%.

Interview questions related to labor markets and inflation help shed light on the relative economic risks perceived by consumers. As seen in the chart, real income expectations have broadly weakened over the past year and a half, with a growing majority expecting inflation to outstrip income gains (dark gray bars) and a very small minority expecting real income growth (orange bars), a pattern shared by all political groups. Overall, short-run expectations for nominal income growth as well as inflation both worsened this month.

Recent months of data show that consumers increasingly believe inflation poses greater risks to the economy than unemployment. At the beginning of the year, when asked which factor will present more serious hardship for people, 23% consumers named inflation, and 14% reported unemployment (the remaining indicated both equally). This month, the share naming inflation climbed to 36%, while only 5% selected unemployment. A growing 56% of consumers spontaneously mentioned that high prices are weighing down current personal finances, up from 50% last month and 45% in January 2026.

Meanwhile, multiple measures of labor market expectations are little changed from the beginning of the year. This, however, is not a sign of strength; consumers are hardly confident on this dimension. Expectations for nominal income growth, aggregate unemployment, and personal job loss all deteriorated in the spring of 2025 amid tariff developments and have yet to recover. In current assessments of personal finances, the share of consumers citing weak incomes as a negative factor exceeded the share citing incomes as a positive factor for the thirteenth straight month.

Interest rate expectations are broadly consistent with these views. A 53% majority of consumers expect interest rates to rise in the year ahead, the highest share seen since November 2023. At this time, few consumers cite current interest rates as a negative factor for buying conditions for durables and vehicles. In contrast, for home buying conditions, high interest rates and high prices are mentioned by similarly large shares of consumers, who perceive these conditions to be relatively poor.

	Aug 2025	Sep 2025	Oct 2025	Nov 2025	Dec 2025	Jan 2026	Feb 2026	Mar 2026	Apr 2026	May 2026	Jun 2026	Jul 2026	Aug Prelim
Index of Consumer Sentiment	58.2	55.1	53.6	51.0	52.9	56.4	56.6	53.3	49.8	44.8	49.5	55.2	51.0
Current Economic Conditions	61.7	60.4	58.6	51.1	50.4	55.4	56.6	55.8	52.5	45.8	47.7	54.8	51.8
Index of Consumer Expectations	55.9	51.7	50.3	51.0	54.6	57.0	56.6	51.7	48.1	44.1	50.7	55.4	50.6
Index Components													
Personal Finances - Current	77	76	78	66	68	74	77	74	67	58	63	70	69
Personal Finances - Expected	91	86	82	85	93	95	93	84	80	73	84	88	86
Economic Outlook - 12 Months	61	57	57	56	59	63	65	56	48	45	51	61	54
Economic Outlook - 5 Years	70	62	59	61	64	68	66	64	61	56	65	71	59
Buying Conditions - Durables	80	78	72	64	60	67	67	68	66	58	58	69	63