



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277

Consumer Sentiment Slips Slightly in Late June

Consumer sentiment fell 1.2 points in June but remains close to its recent level. Most of the drop was in expectations of future conditions, which fell 2.5 points during the month. Buying plans remain positive.

Consumers Remain Reasonably Upbeat

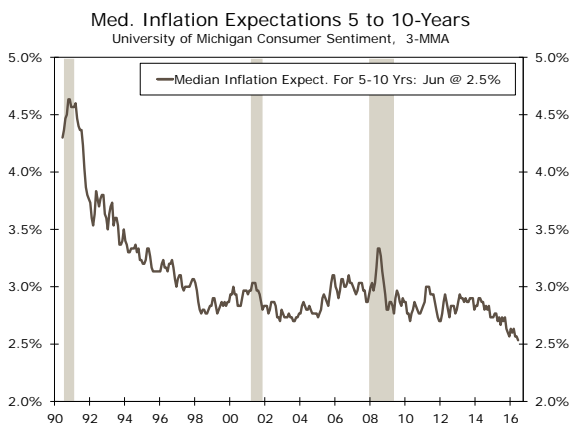
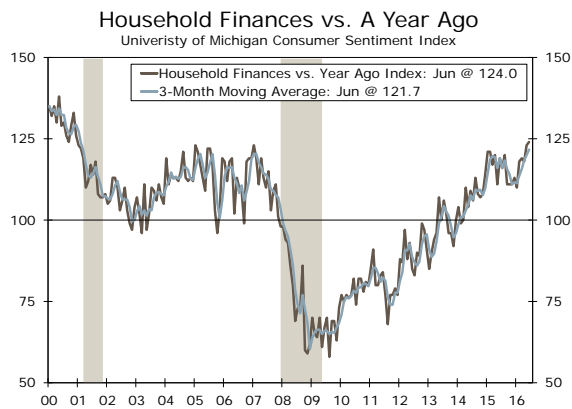
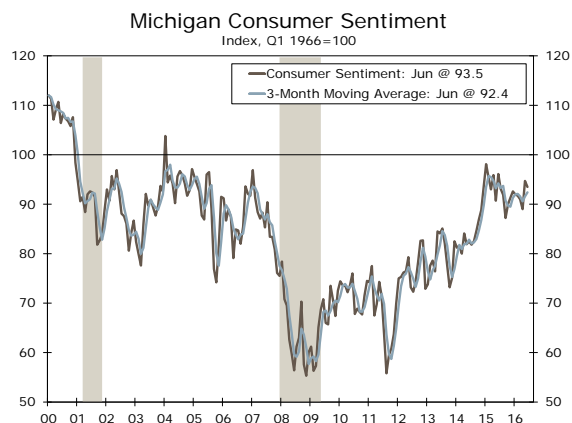
Consumer sentiment fell in late June and was down for the month as a whole. The latest report from the University of Michigan shows that consumer sentiment fell 0.8 percentage points in late June to 93.5 and was 1.2 points lower than it was in May. Of course the survey totally predates the market turmoil unleashed by this morning's surprising Brexit vote and is likely considered old news in light of that development. The Consumer Sentiment Survey, however, does reveal a great deal of insight into consumers' mindset and for the most part that mindset has been fairly positive. Consumers generally feel better about their household finances and most expect their finances to remain the same or improve during the coming year. Plans to make major purchases, including vehicles and homes, remain relatively high.

Even though the current conditions index fell 0.9 points in late June, consumers' assessment of current economic conditions still ended the month at its highest level since January 2007. The improvement reflects strong income growth over the past year, lower inflation and steady progress by consumers at paying down debt. The proportion of consumers expecting their family income to beat inflation over the next five years rose 2.9 points in June to 41.4 percent, which is the highest this series has been since data began to be collected. Debt service burdens have also fallen to their lowest levels since the early 1980s, as measured by the Federal Reserve's financial obligation ratio, giving consumers more peace of mind.

One of the reasons consumers feel so confident that income growth will outpace inflation is that inflation expectations for the medium and long-term have fallen steadily in recent years, while confidence about job and income growth has generally improved. The median expectation for inflation over the next 5 to 10 years rebounded a bit in June, climbing 0.1 percentage points to 2.6 percent. The measure hit an all-time low of 2.3 percent in early June, however, and has averaged 2.5 percent over the past three months.

Buying Plans Remain Positive

With household finances improving, buying conditions remain fairly high. The buying conditions index for big-ticket items rose 2 points in June to 164, with all of the increase coming in attitudes toward purchasing large household items. The proportion of consumers stating that it was a good time to buy a new vehicle or home fell slightly in June, although both series remain near their recent highs. Buying conditions are generally supportive of solid gains in consumer spending in June and suggests that consumer spending should be supportive of economic growth during the second half of 2016.



Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Economic Analyst	(212) 214-5652	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC, is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2016 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS
FARGO

SECURITIES