



# Economics Group

Mark Vitner, Senior Economist

[mark.vitner@wellsfargo.com](mailto:mark.vitner@wellsfargo.com) • (704) 410-3277

## Consumer Sentiment Slips in August

**The University of Michigan's Consumer Sentiment index declined 0.2 percentage points in August to 89.8. Consumers expressed less optimism about current conditions but sentiment remains at a solid level overall.**

### Consumers Feel Cautiously Optimistic

The University of Michigan's Index of Consumer Sentiment fell in late August and ended the month marginally below its July reading at 89.8 (top chart). The drop was concentrated in the current economic conditions component, which fell 2 points to 107.0. Consumer expectations for future economic conditions rose 0.9 points in August, although expectations fell from their preliminary reading earlier in August. Consumers feel pretty good about their current finances but are worried about big-picture headline issues such as the upcoming presidential election, global geopolitical events, and the outlook for interest rates. Buying conditions fell 3 points in August but remain in their recent range, which has coincided with strong growth in consumer spending.

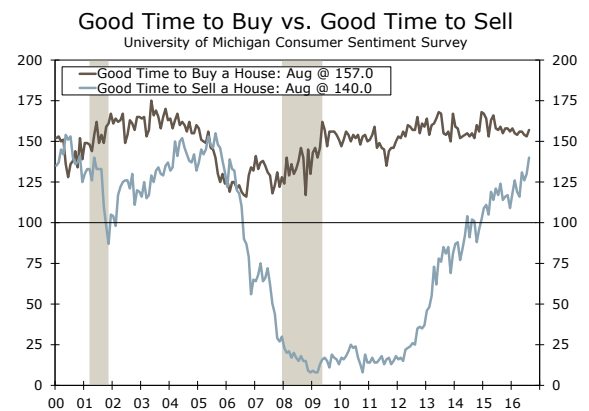
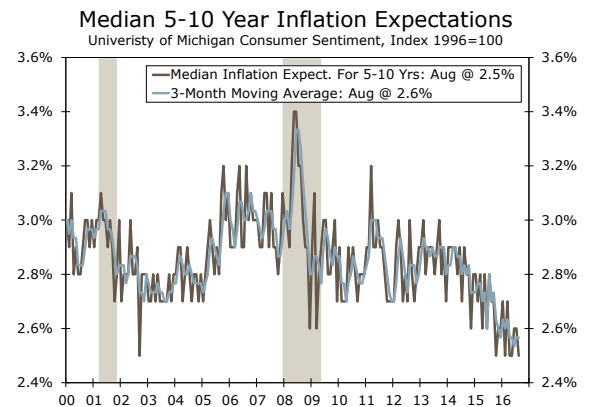
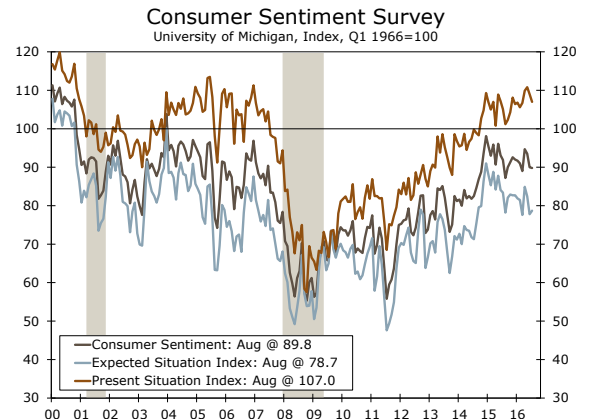
### Current Finances Are Ok

The current personal finances index fell 3 points in August to 118 but consumers still feel reasonably upbeat about their current finances. The proportion of consumers stating that their finances had improved over the past year remains relatively high at 44 percent. Consumers are less certain about the future, however, with a lesser 29 percent expecting their finances to improve in the coming year.

Consumers also continue to express a great deal of confidence that inflation will remain low for the foreseeable future. Inflation is expected to average just 2.5 percent over the next five to ten years, down from 2.6 percent in July and 2.7 percent one year ago (middle chart). Inflation expectations are back down at their lowest level since the survey began more than fifty years ago. Expectations for interest rates have also fallen, although 52 percent still expect interest rates to rise over the next year, down from 63 percent one year ago. The proportion of households expecting interest rates to rise during the next year is the lowest it has been in 22 months.

The drop in inflation and interest rate expectations is likely to be of particular interest to the Fed. While households are expecting inflation to rise at a pace comfortably above the Fed's 2 percent target, consumers have historically overestimated inflation by a considerable margin. The current low expectations for inflation suggest that more time will be needed for inflation to return to the Fed's comfort zone. The drop in expectations for higher interest rates is also noteworthy, because the Fed would like to avoid surprising the financial markets and public, which drives home the need for the Fed to be transparent and convincing with their communications.

While inflation expectations hit new lows, consumers have noticed that home prices have ratcheted up. Home selling conditions have risen to their highest level since 2005, while home buying conditions have fallen slightly over the past year (bottom chart).



## 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	(212) 214-8543	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	Currency Analyst	(212) 214-5652	erik.f.nelson@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
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
May Tysinger	Economic Analyst	(704) 410-3059	may.tysinger@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