

Subject: Preliminary results from the January 2016 survey.

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From: Richard Curtin, Director

Consumer confidence inched upward for the fourth consecutive month due to more positive expectations for future economic growth. All of the early January gain was recorded among households with incomes above \$75,000, despite their widespread recognition of declines in stock values and a weakening global economy. Personal financial prospects have remained largely unchanged during the past year at the most favorable levels since 2007 largely due to trends in inflation rather than wages. Indeed, expected wage gains fell to their lowest level in a year in early January, but were more than offset by the lowest year-ahead expected inflation rate since the depths of the Great Recession. The result was that inflation-adjusted income expectations rose to their highest level in nine years. Consumer optimism is now dependent on the continuation of an extraordinary low inflation rate. Rather than welcoming a rising inflation rate as a signal of a strengthening economy, consumers are now more likely to reduce the pace of their spending and thus act to erase the Fed's rationale for higher interest rates. Indeed, younger and upper income households have moderated their expectations for interest rate increases during the year ahead, although the majority still anticipate additional rate hikes. Given the favorable overall state of the Sentiment Index, the data continue to indicate that real personal consumption expenditures can be expected to advance by 2.8% in 2016.

Consumers were a bit less positive about recent changes in their personal finances mainly due to declines in household wealth, but this pullback did not influence the favorable expectations for their finances in the year ahead. Among all households, 36% expected their finances to improve, a figure that has remained largely unchanged during the past year at the highest levels recorded since 2007. The optimism was not maintained by the expectation of future wage gains, which fell to just 1.0% in January, down from 1.6% last month, the lowest level recorded during the past year. Lackluster wage gains were offset by lower inflation expectations as inflation-adjusted income expectations rose to the highest level since the January 2007 survey.

The year-ahead expected inflation rate fell to 2.4% in January, down from 2.6% last month, and the lowest level since the recession depressed levels in 2008 and 2009. Few consumers expected deflation, just 3%, while most (45%) anticipated an inflation rate between zero and 2%. Consumers anticipated a long-term inflation rate of 2.7% in January, between last month's 2.6% and last year's 2.8%. With each new decline in gas prices, consumers expected gas prices to rebound, although the length of time before beginning to recover has lengthened and the extent of the rebound has lessened. This delayed and limited rebound may account for the slight rise in long term inflation expectations and slight decline in near term expectations.

Stock price declines and a weakened global economy were spontaneously mentioned by nearly one-third of all households with incomes in the top third, identical to the levels following the August plunge in stock prices. Nonetheless, households held more favorable prospects for the national economy than in the closing months of 2015. When asked about the economic outlook for the year ahead, 49% expected good times financially in early January, up from 44% in December, with the largest gains among top income households. To be sure, when compared with the peaks recorded last January, the current outlook has somewhat dimmed—a year ago, 61% anticipated a favorable economy, the highest level since 2004. While consumers still expect continued economic growth, they anticipated the pace of overall economic growth to slow in 2016. Importantly, this has meant that consumers now expect the national unemployment rate to edge slightly upward during the year ahead.

Buying plans remained very favorable due to the availability of discounted prices and low interest rates. Buying conditions for household durables were rated favorably by 81% of all consumers for the past two months, the highest level since January 2006. Vehicle buying conditions were viewed more favorably on balance than anytime since January 2004. Home buying conditions remained unchanged from the closing quarter of 2015, and slightly below a year ago. Borrowing-in-advance of higher mortgage rates was favored by 11% in January, up from 8% last month and 5% last year. Home values were judged to have increased by 46% of all homeowners, down from 49% last month and the recent peak of 55% three months ago.

	Jan 2015	Feb 2015	Mar 2015	Apr 2015	May 2015	June 2015	July 2015	Aug 2015	Sept 2015	Oct 2015	Nov 2015	Dec 2015	Jan Prelim
Index of Consumer Sentiment	98.1	95.4	93.0	95.9	90.7	96.1	93.1	91.9	87.2	90.0	91.3	92.6	93.3
Current Economic Conditions	109.3	106.9	105.0	107.0	100.8	108.9	107.2	105.1	101.2	102.3	104.3	108.1	105.1
Index of Consumer Expectations	91.0	88.0	85.3	88.8	84.2	87.8	84.1	83.4	78.2	82.1	82.9	82.7	85.7
Index Components													
Personal Finances—Current	121	121	117	120	111	119	116	120	111	111	111	113	106
Personal Finances—Expected	122	126	122	124	123	125	122	124	121	127	122	124	124
Economic Outlook—12 Months	132	118	116	124	113	125	115	111	100	101	106	103	113
Economic Outlook—5 Years	112	109	105	109	102	104	101	100	93	101	105	105	107
Buying Conditions—Durables	162	156	155	158	150	163	161	152	151	154	160	167	167