Subject: Preliminary results from the February 2016 survey. February 12, 2016
From: Richard Curtin, Director

Consumer confidence continued its slow decline in early February, with its current level just below the average recorded during the 2nd half of 2015 (91.0). The small early February decline was due to a less favorable outlook for the economy during the year ahead, while longer term prospects for the national economy remained unchanged at favorable levels. While slowing economic growth was anticipated to slightly lessen the pace of job and wage gains, consumers viewed their personal financial situations somewhat more favorably due to the expectation that the inflation rate would remain low for a considerable period of time. Indeed, consumers anticipated the lowest long term inflation rate since this question was first asked in the late 1970's. No one would have guessed forty years ago, when high inflation was the chief cause of pessimism, that consumers would someday base their optimism on ultra-low inflation transforming meager wages into real income gains. The Fed's goal of pushing the inflation rate upward must be simultaneously accompanied by comparable gains in wages to prevent declines in real incomes and living standards. Moreover, while a renewed round of inflationary psychology is quite unlikely, the first step would be for consumers to expect rising inflation (as well as the possibility of higher taxes) as an objective of policy. Overall, the data indicate that real consumption expenditures can be expected to advance by 2.7% in 2016.

Consumers expected an average annual rate of inflation of 2.4% over the next five years in early February, down from 2.7% one month and one year ago. This was the lowest expected long term inflation rate since this question was first asked in 1979. Very few consumers anticipated a long term inflation rate of zero or less (6%), and very few expected a long term rate of more than 5% (8%). Long term inflation expectations are a proxy for core inflation, since it abstracts from short term changes in volatile price series. The year-ahead expected inflation rate was 2.5% in early February, unchanged from January and down from 2.8% last year; the last time year-ahead expectations were lower was during the recession-depressed levels in 2008-09.

The proportion of households that reported an improved financial situation rebounded to 45% in early February, the highest level in six months, despite reports of net income gains being unchanged from last month. Reports of wealth gains among households with incomes in the top third were unchanged from last month, at just one-third of last year's level. When asked about expected income gains during the year ahead, an increase of 1.6% was anticipated across all households, twice last month's low of 0.8%, and just above the median expected increase recorded on average during 2015. Moreover, when asked about their financial prospects over the next five years, 54% anticipated improved finances, while just 10% expected worsening finances over the longer term, the best reading since 1984 (although the question has not been asked regularly).

Although declining equity prices, a weak global economy, and sagging exports have continued, they have become old news—mentioned by one-in-five among households with incomes in the top third in February, down from one-in-three last month. These factors have nonetheless caused the fewest consumers in two years to report recent improvement in the economy as well as the fewest consumers since August 2014 to anticipate good times in the economy during the year ahead. As a result, consumers thought that unemployment would inch upward by the end of 2016, and they were less likely to expect interest rate increases during the year ahead (although just over half did, down from two-thirds last month). In sharp contrast to weakening near term economic prospects, long term prospects for the economy remained unchanged at favorable levels.

Buying plans remained favorable due to discounted prices and low interest rates. Favorable buying attitudes toward household durables and vehicles declined slightly from last month but remained more favorable than a year ago. While home buying conditions were unchanged from last month, views about home selling conditions rose to their most favorable since April 2006 (perhaps anticipating future increases in mortgage rates and slower job gains). Year-ahead gains in home values were anticipated by just 37% in February, erasing all the gains since October 2014. When asked about prospects over the next five years, an annual gain of 2.0% was anticipated in early February, just below last month's 2.1% and last year's 2.3%.

	Feb 2015	Mar 2015	Apr 2015	May 2015	June 2015	July 2015	Aug 2015	Sept 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb Prelim
Index of Consumer Sentiment	95.4	93.0	95.9	90.7	96.1	93.1	91.9	87.2	90.0	91.3	92.6	92.0	90.7
Current Economic Conditions	106.9	105.0	107.0	100.8	108.9	107.2	105.1	101.2	102.3	104.3	108.1	106.4	105.8
Index of Consumer Expectations	88.0	85.3	88.8	84.2	87.8	84.1	83.4	78.2	82.1	82.9	82.7	82.7	81.0
Index Components													
Personal Finances—Current	121	117	120	111	119	116	120	111	111	111	113	110	115
Personal Finances—Expected	126	122	124	123	125	122	124	121	127	122	124	124	126
Economic Outlook—12 Months	118	116	124	113	125	115	111	100	101	106	103	107	97
Economic Outlook—5 Years	109	105	109	102	104	101	100	93	101	105	105	102	102
Buying Conditions—Durables	156	155	158	150	163	161	152	151	154	160	167	166	159