

Subject: Preliminary results from the January 2017 survey
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Consumer confidence remained unchanged in early January at the cyclical peak levels recorded in December. The stability was remarkable as only insignificantly small changes were recorded. The Current Conditions Index rose 0.6 points to reach its highest level since 2004, and the Expectations Index fell 0.6 points which was lower than only the 2015 peak during the past dozen years. The post-election surge in optimism was mainly due to Trump's election, although current conditions in the economy, especially wages, have also improved. To be sure, the gains were accompanied by an unprecedented degree of both positive and negative concerns about the incoming administration. When asked what news they had heard of recent economic developments, more consumers spontaneously mentioned the expected positive impact of new economic policies than ever before recorded in the long history of the surveys. An equal number reported hearing that the new administration's policies would have a negative impact on economic prospects—although the 22% recorded in January was exceeded in eleven other surveys, peaking at 37%, with all being recorded between 2011 and 2014. The importance of government policies and partisanship has sharply risen over the past half century. From 1960 to 2000, the combined average of positive and negative references to government policies was just 6%; during the past six years, this proportion averaged 20%, and rose to new peaks in early January, with positive and negative references totaling 44%. This extraordinary level of partisanship has had a dramatic impact on economic expectations. In early January, the partisan divide on the Expectations Index was a stunning 42.7 points (108.9 among those who favorably mentioned government policies, and 66.2 among those who made unfavorable references), with the largest differences on the near and long term outlook for the economy. Needless to say, these extreme differences would imply either strong growth or a recession in the year ahead. Since neither is likely, one would anticipate that both extreme views will be tempered, with the relative movement dependent on changes during Trump's first 100 days. Nonetheless, it should be noted that among the majority of consumers who referred to neither positive nor negative views on government, the Expectations Index was a strong 90.9, supporting a real consumption growth rate of 2.7% in 2017.

The sharp partisan differences in the outlook for the economy meant that those who favorably mentioned government policies expected economic conditions to be twice as favorable as those who made negative references to policies. This difference also extended to the changes consumers expected in the labor markets. Among all consumers, 33% expected less unemployment during the year ahead, the highest proportion in more than thirty years, since 1984. Among those who favorably mentioned government economic policies, 56% expected declines, versus 22% who made unfavorable references. Partisan views had the least impact on people's personal financial assessments. Consumers held slightly less positive assessments of their current finances, with references to recent income gains falling to 34% in early January from last month's 39% and November's 37%. When asked about financial prospects for the year ahead, 42% anticipated financial gains, the highest proportion since mid 2005. Expected gains in household income also improved, with an annual income gain of 1.8%, up from last month's 1.5%, regaining November's level, and substantially ahead of last January's expected gain of just 0.8%. The median year-ahead expected inflation rate rose sharply to 2.6% in early January from 2.2% in December and 2.4% in the prior three months. The annual long term inflation rate was expected to be 2.5% in early January, between last month's 2.3% and last year's 2.7%. While the December lows may have been attributable to holiday discounts, those discounts typically heighten in January. Importantly, the January rise in inflation expectations was accompanied by increases in buy-in-advance rationales, although these rationales remained at quite low levels, and may indicate a more lasting upward shift. Interest rates were anticipated to increase by 75% of all consumers, finally rising to the highest percentage in ten years.

Consumers viewed buying conditions for household durables more favorably in early January than any other time since January 2006 survey, with no partisan differences. Vehicle and home buying conditions also improved in January, although both displayed small partisan differences, with unfavorable policy references associated with less favorable buying plans.

	Jan 2016	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	July 2016	Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan Prelim
Index of Consumer Sentiment	92.0	91.7	91.0	89.0	94.7	93.5	90.0	89.8	91.2	87.2	93.8	98.2	98.1
Current Economic Conditions	106.4	106.8	105.6	106.7	109.9	110.8	109.0	107.0	104.2	103.2	107.3	111.9	112.5
Index of Consumer Expectations	82.7	81.9	81.5	77.6	84.9	82.4	77.8	78.7	82.7	76.8	85.2	89.5	88.9
Index Components													
Personal Finances—Current	110	118	119	118	123	124	121	118	113	111	117	126	124
Personal Finances—Expected	124	128	127	121	128	125	126	119	126	127	126	131	130
Economic Outlook—12 Months	107	97	100	95	107	104	91	97	104	91	109	119	117
Economic Outlook—5 Years	102	104	100	95	106	102	95	99	101	90	107	110	110
Buying Conditions—Durables	166	159	155	158	162	164	162	159	158	157	162	164	168