Subject: Preliminary results from the February 2017 survey February 10, 2017

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Consumer confidence retreated in early February from the decade-peak recorded in January, with the decline centered in the Expectations Index. To be sure, confidence remains quite favorable, with only five higher readings since the January 2007 peak. The February decline reflects a tempering of positive expectations for personal finances and the national economy in the year ahead. The data do not reflect any closing of the partisan divide. The Michigan survey begins with questions about personal finances and the overall economy, and only asks political party affiliation at the end of the interview. The interview starts with several free-response questions which ask respondents to answer in their own words, without any prompting or proposed answer categories. When asked to describe any recent news that they had heard about the economy, 30% spontaneously mentioned some favorable aspect of Trump's policies, up from 20% last month, and 29% unfavorably referred to Trump's economic policies, up from 21% last month. Overall, a total of nearly six-in-ten consumers made a positive or negative mention of government policy. In the long history of the surveys, this total had never reached even half that amount, except for five surveys in 2013 and 2014 that were dominated by negative references to the debt and fiscal cliff crises. Moreover, never before have these spontaneous references to economic policies had such a large impact on the Sentiment Index: a difference of 37 Index points between those that reported news of favorable and unfavorable policies. When the Sentiment Index was calculated by party affiliation, a nearly identical difference of 40 Index points was found between Democrats and Republicans. These differences are troublesome: the Democrat's Expectations Index is close to its historic low (indicating recession) and the Republican's Expectations Index near its historic high (indicating expansion). While currently distorted by partisanship, the best bet is that the gap will narrow to match a more moderate pace of growth. Nonetheless, it has been long known that negative rather than positive expectations are more influential in determining spending, so forecasts of consumer expenditures must take into account a higher likelihood of asymmetric downside risks.

Year-ahead inflation expectations rose to 2.8% in early February, up from 2.6% in January and just 2.2% in December. The substantial rise was induced by partisanship, as the February difference between Democrats and Republicans was huge: 3.4% versus 2.1%, respectively. Interestingly, an annual inflation rate of 2.5% was expected over the longer term, just below last month's 2.6%, although well above December's 2.3%, with smaller partisan differences in February. Interest rates were expected to increase by three-in-four consumers in February, the highest level in a decade, with no significant partisan impact.

Perhaps the most astonishing finding was that 33% of all consumers in January and early February expected unemployment to fall below its already low level during the year ahead, the highest level recorded since March 1984—a time when the unemployment rate was three percentage points higher than at present. More than half of all consumers anticipated good economic times in the year ahead and an uninterrupted expansion over the next five years. These results were heavily influenced by partisanship, with stark differences between the optimism of Republicans and the pessimism of Democrats.

More consumers reported being better off financially in February than any other time since the February 2005 survey due to gains in income and wealth. Among all consumers, a net15% mentioned improved household wealth, only below the all-time peak of 16% set in January 2007; net wealth rose by a record 26% of households with incomes in the top third. Income gains remained quite positive, although slightly below the past three months. Expectations weakened slightly for wage gains during the year ahead, as the median income increase was 1.6% in early February, down from 1.9% one month and one year ago.

Changes in inflation and interest rate expectations have begun to transform consumers' buying plans. While the attractiveness of market prices and interest rates have undergone a long decline, the data indicate an initial increase in the willingness of consumers to buy-in-advance of rising prices and higher interest rates. Buying-in-advance of price gains for household durables rose to 16% in early February from just 9% three months ago, and borrowing-in-advance of rising mortgage rates rose to18% from 8% three months ago. These advance buying rationales are facilitated by higher and more secure incomes.

	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	July 2016	Aug 2016	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb Prelim
Index of Consumer Sentiment	91.7	91.0	89.0	94.7	93.5	90.0	89.8	91.2	87.2	93.8	98.2	98.5	95.7
Current Economic Conditions	106.8	105.6	106.7	109.9	110.8	109.0	107.0	104.2	103.2	107.3	111.9	111.3	111.2
Index of Consumer Expectations	81.9	81.5	77.6	84.9	82.4	77.8	78.7	82.7	76.8	85.2	89.5	90.3	85.7
Index Components													
Personal Finances—Current	118	119	118	123	124	121	118	113	111	117	126	124	129
Personal Finances—Expected	128	127	121	128	125	126	119	126	127	126	131	130	121
Economic Outlook—12 Months	97	100	95	107	104	91	97	104	91	109	119	121	112
Economic Outlook—5 Years	104	100	95	106	102	95	99	101	90	107	110	112	111
Buying Conditions—Durables	159	155	158	162	164	162	159	158	157	162	164	165	160