

Subject: February 2017 survey results  
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While consumer confidence edged upward in late February, it remained slightly below the decade peak recorded in January. Overall, the Sentiment Index has been higher during the past three months than anytime since March 2004. The last time the Current Conditions Index had a higher three month average was in January 2001, and for the Expectations Index, the recent three month average was the highest since September 2004. Normally, the implication would be that consumers expected Trump's election to have a positive economic impact. That is not the case, since the gain represents the net result of an unprecedented partisan divergence, with Democrats expecting recession and Republicans expecting robust growth. Indeed, the difference between these two parties is nearly identical to the difference between the all-time peak and trough values in the Expectations Index —64.6 versus 64.4. While the expectations of Democrats and Republicans largely offset each other, the overall gain in the Expectations Index was due to self-identified Independents, who were much closer to the optimism of the Republicans than the pessimism of the Democrats. (Note: the February Expectations Index was 55.5 among Democrats, 120.1 among Republicans, and 89.2 among Independents.) Since neither recession nor robust growth is expected in 2017, both extremes must eventually converge. Although the data indicate a growth rate of 2.7% in consumption during 2017, the data also indicate we can expect greater volatility and discretionary spending differences across subgroups.

References to government economic policies continue to dominate the news heard by consumers. Spontaneous positive references to economic policies were made by a record 28% of all consumers in February, and negative references to policies were made by 26% of all consumers. Never before have total references to government economic policies been as high as at present. When directly asked about their confidence in the government's economic policies in the February survey, fewer consumers voiced either positive (21%, down from 28% in January) or negative assessments (26%, down from 32%) and more middling and uncertain evaluations (53%, up from 40%); trends that also reflect a strong partisan divide in opinions.

Year-ahead inflation expectations rose to 2.7% in 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: 3.3% versus 1.9%, 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 seven-in-ten in both January and February, the highest level in a decade, without a partisan impact.

Perhaps the most astonishing finding was that 35% of all consumers expected unemployment to fall below its already low level during the year ahead in February, up from 23% three months ago and the highest level recorded since March 1984—a time when the unemployment rate was three percentage points higher than now. Although the proportion that expected good times in the economy slipped to 49% from last month's 53%, favorable long term prospects for the national economy were voiced by 53%, up from January's 51%, reaching the highest level since 2004. There were radical partisan differences, with a downturn expected in the next year by 66% (67% in the next five years) of Democrats and just 11% (14%) of Republicans.

The most intriguing results by partisanship were that Democrats voiced much more positive evaluations of their current financial situation than Republicans, but the opposite was true about the year-ahead outlook for their finances. Indeed, consumers judged their current finances more favorably than anytime since late 2000, with decade peaks in higher household wealth and decade troughs in complaints that prices had reduced their living standards. When asked about their financial prospects for the year ahead, consumers expected smaller gains, falling to 1.6%, from 1.9% last month and last February.

Slight declines were recorded in buying conditions for homes, vehicles, and household durables. Offsetting the appeal of low prices for household durables, buy-in-advance rationales rose to the highest level since 2006. Borrowing-in-advance of expected mortgage rate increases was cited by 17%; although down from last month's 20%, both are the highest since 2004.

	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 2017
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	96.3
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	111.5
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	86.5
Index Components													
Personal Finances—Current	118	119	118	123	124	121	118	113	111	117	126	124	128
Personal Finances—Expected	128	127	121	128	125	126	119	126	127	126	131	130	123
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	112
Buying Conditions—Durables	159	155	158	162	164	162	159	158	157	162	164	165	161