

Subject: Preliminary results from the September 2017 survey

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From: Richard Curtin, Director

Consumer confidence edged downward in early September due to concerns over the outlook for the national economy. Consumers' assessments of current economic conditions improved, however, with the Current Conditions Index reaching the highest level since November of 2000. The two hurricanes had a greater impact on expected economic conditions. Across all interviews in early September, 9% spontaneously mentioned concerns that Harvey, Irma, or both, would have a negative impact on the overall economy. Among those who mentioned the hurricanes, the Sentiment Index was 80.2, while among those who did not spontaneously mention either hurricane, the Sentiment Index remained unchanged from last month at 96.8. Given the widespread devastation in Texas and Florida, it is not surprising to find these very negative initial reactions, nor would it be surprising if these negative assessments last longer than following most past hurricanes. While consumers anticipated slight increases in gas prices and a slightly higher overall inflation rate, those concerns were neutralized by the best assessments of their financial situation in more than a decade. Renewed gains in incomes as well as rising home and equity values have acted to counterbalance the negative impacts from the hurricanes. Given the current resilience of consumers, recent events are unlikely to derail confidence. Nonetheless, the disruptions will cause a brief period of weakness in economic growth and employment, accompanied by increased precautionary motives that will temper spending trends.

Once again, improved finances were reported by 51% of all consumers, for the fourth consecutive month. This was the highest percentage to report financial gains since November 2000, and only slightly below the all-time peak of 57% in 1998. When asked to explain how their finances had improved, the second highest percentage of consumers mentioned net increases in household incomes since 2000. One-in-four households with incomes in the top third mentioned gains in household wealth. For the past two months, more households expected improved finances than any time since 2004. Across all households, an annual income gain of 2.0% was anticipated, although it was at least 2.7% among households in the top two-thirds of the income distribution; an annual income gain of 4.6% was expected by those under age 45, unchanged from August.

The year-ahead inflation rate was expected to be 2.7% in September, up from 2.6% in the prior four months, and 2.4% in last year's September survey. Among those that spontaneously mentioned the hurricanes, inflation expectations were just 0.1 percentage point higher. Long term inflation rate was expected to rise annually by 2.6% in September, up from 2.5% last month and equal to last year's level. This does not indicate a significant change since during the last four months long term inflation expectations have alternated between 2.5% and 2.6%. The year-to-year expected change in gas prices was just 9.6 cents, up from last month's 0.4 cents. Gas price expectations over the next five years rose by 3.9 cents from a month ago.

The majority of consumers thought that the economy had recently improved and just one-in-five anticipated that economic conditions would worsen during the year ahead. Nonetheless, fewer consumers judged that expected economic conditions could be characterized as "good"—falling to 45% in early September from 54% in August. This judgement was made despite nearly one-in-four consumers spontaneously who mentioned hearing of gains in employment. Moreover, when directly asked about prospects for unemployment, consumers still anticipated small additional declines in the year ahead. Expected declines in the unemployment rate were unchanged from last month at 29%, remaining between the recent peak of 36% and last September's 20%. Unemployment increases were expected by 25% in September, unchanged from last month and last year.

Rising home prices continue to drive a wedge between consumers' views of home buying and home selling. Among all homeowners, 68% reported that the value of their home had increased in September, the highest proportion in a decade; homeowners also expected the highest annual rate of appreciation in the past decade. As a result, home buying conditions were viewed slightly less favorably than last month and home selling conditions slightly more favorably. Offsetting some of the negative influence of higher prices on home buying, more consumers mentioned the availability of low mortgage rates, the highest proportion since late last year. Overall, the data support continued modest gains in home sales in the year ahead.

	Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	June 2017	July 2017	Aug 2017	Sept Prelim
Index of Consumer Sentiment	91.2	87.2	93.8	98.2	98.5	96.3	96.9	97.0	97.1	95.1	93.4	96.8	95.3
Current Economic Conditions	104.2	103.2	107.3	111.9	111.3	111.5	113.2	112.7	111.7	112.5	113.4	110.9	113.9
Index of Consumer Expectations	82.7	76.8	85.2	89.5	90.3	86.5	86.5	87.0	87.7	83.9	80.5	87.7	83.4
Index Components													
Personal Finances—Current	113	111	117	126	124	128	132	126	126	131	132	130	132
Personal Finances—Expected	126	127	126	131	130	123	128	131	129	132	122	134	133
Economic Outlook—12 Months	104	91	109	119	121	112	116	113	119	110	111	119	106
Economic Outlook—5 Years	101	90	107	110	112	112	103	106	105	95	89	100	96
Buying Conditions—Durables	158	157	162	164	165	161	162	166	164	161	163	158	164