

Subject: Preliminary results from the October 2017 survey
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Consumer sentiment surged in early October, reaching its highest level since the start of 2004. The October gain was broadly shared, occurring among all age and income subgroups and across all partisan viewpoints. The data indicate a robust outlook for consumer spending that extends the current expansion to at least mid 2018, which would mark the 2nd longest expansion since the mid 1800's. While the early October surge indicates greater optimism about the future course of the economy, it also reflects an unmistakable sense among consumers that economic prospects are now about as good as could be expected. This “as good as it gets” outlook is supported by a moderation in the expected pace of growth in both personal finances and the overall economy, accompanied by a growing sense that, even with this moderation, it would still mean the continuation of good economic times. Although such an outlook is typically recorded in the late phase of an expansion, its occurrence is independent of the ultimate length of an expansion. Indeed, nothing in the latest survey indicates that consumers anticipate an economic downturn anytime soon—which contrarians may consider a clear warning sign of trouble ahead. Nonetheless, consumers anticipate low unemployment, low inflation, small increases in interest rates, and most importantly, modest income gains in the year ahead. It is this acceptance of lackluster growth rates in personal income and in the overall economy that signifies that consumers have accepted, however reluctantly, limits on the pace of improving prospects for living standards.

Improved finances were reported by 51% of all consumers, the same as from June to August, but well above last October's 41%. References to net income gains fell slightly in early October to 21% down from the recent peak of 30% three months ago. All of the declines over the past three months were among lower and middle income households, as the proportion receiving income gains among households with incomes in the top third remained unchanged. Favorable financial prospects for the year ahead, while still quite favorable, declined slightly from last month, with 40% who expected gains in their financial situation, just below the 2017 peak of 43% recorded in August. Across all households, an annual income gain of 2.0% was anticipated, up from 1.7% last month, but still below the 2017 peak of 2.3% set in the March survey. The largest income gains were expected by those under age 45 (4.5%) and among households with incomes in the top third (3.3%).

The year-ahead inflation rate was expected to be 2.3% in October, down from 2.7% last month and barely below last year's 2.4%. The expected year-ahead inflation rate was just above the December 2016 low of 2.2%, the lowest since the last recession. The long term inflation rate was expected to rise annually by 2.4%, down from 2.5% last month and equal to last year's reading. The quarter century low of 2.3% in long term inflation expectations was recorded in December 2016. Despite these small changes from the 2016 lows, the data provide no evidence that inflation expectations have recently risen.

Nearly six-in-ten consumers thought that the economy had recently improved in early October, continuing a slow pace of improvement since the start of the year. The expectation of more rapid economic growth in the year ahead has fallen to 33% from 44% in January 2017. Consumers clearly viewed the impact of the hurricanes as temporary, as 55% anticipated good times in the economy as a whole in early October, up from 47% in September, and slightly above the 2017 peak of 54% set two months ago. Continuous economic growth during the next five years was anticipated by 52% of all consumers in early October, rebounding to just below the 2017 peak of 53% set in February. The unemployment rate was anticipated to decline during the year ahead by 31%, up from last month's 28% but below the 2017 peak of 36% recorded in March and April.

Low prices and low interest rates as well as greater income certainty have prompted record increases in buying conditions for durables, vehicles, and homes. Buying conditions for household durables were judged favorably by 83% of all consumers, the highest proportion in more than a decade. Favorable vehicle buying attitudes were held by 75%, the highest since 2004. Home buying conditions were viewed favorably by 74%, between last month's 68% and the 2017 peak of 77% set at the start of the year. Home selling conditions remained very favorable, remaining largely unchanged during the past six months.

	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	June 2017	July 2017	Aug 2017	Sept 2017	Oct Prelim
Index of Consumer Sentiment	87.2	93.8	98.2	98.5	96.3	96.9	97.0	97.1	95.1	93.4	96.8	95.1	101.1
Current Economic Conditions	103.2	107.3	111.9	111.3	111.5	113.2	112.7	111.7	112.5	113.4	110.9	111.7	116.4
Index of Consumer Expectations	76.8	85.2	89.5	90.3	86.5	86.5	87.0	87.7	83.9	80.5	87.7	84.4	91.3
Index Components													
Personal Finances—Current	111	117	126	124	128	132	126	126	131	132	130	128	132
Personal Finances—Expected	127	126	131	130	123	128	131	129	132	122	134	133	132
Economic Outlook—12 Months	91	109	119	121	112	116	113	119	110	111	119	110	124
Economic Outlook—5 Years	90	107	110	112	112	103	106	105	95	89	100	97	112
Buying Conditions—Durables	157	162	164	165	161	162	166	164	161	163	158	162	171