



Subject: October 2017 survey results

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Consumer sentiment slipped ever so slightly in late October, despite remaining at its highest monthly level since the start of 2004. This is only the second time the Sentiment Index has been above 100.0 since the end of the record 1990's expansion, and its average during the first ten months of 2017 (96.7) has been the highest since 2000 (108.5). The October gain was reflected in more favorable consumers' assessments of current economic conditions (+4.8) as well as expected economic prospects (+6.1). Personal finances were judged near all-time record favorable levels due to gains in household incomes as well as decade highs in home and stock values. Lingering doubts about the near term strength of the national economy were dispelled as more than half of all respondents expected good times during the year ahead and anticipated the expansion to continue uninterrupted over the next five years. To be sure, consumers do not anticipate accelerating growth rates but rather a continuation of the slower pace of growth that has characterized this recovery. Low unemployment and low inflation rates have made lower income growth rates more acceptable. Moreover, the Great Recession has caused a fundamental change in assessments of economic risks, with consumers now giving greater preference to economic stability relative to economic growth. This is the essential reason why consumers have voiced such positive economic assessments of such a modest pace of economic growth. Overall, the data indicate a 2.6% growth rate in real consumption in 2017 and in the first half of 2018. Improved finances were reported by 53% of all consumers in October, the highest proportion since the start of 2000. The recent gain was widespread across age and income subgroups. When asked to explain how their finances had improved, gains in incomes and wealth were mentioned by a total of 55% of all households. Two-thirds of all homeowners reported increases in their home's value, and the probability of future stock gains was judged the highest in more than a decade. When asked about their financial prospects for the year ahead, consumers were still quite optimistic. An annual income gain of 2.1% was expected in October, up from 1.7% last month, with most of the October gain among households with incomes in the bottom third. Nonetheless, the top third expected income gains of 3.3% compared with an expected gain of 1.1% in the bottom third. The year-ahead inflation rate was expected to be 2.4% in October, down from 2.7% last month (due to hurricane induced gas prices), and equal to last year's reading. The expected year-ahead inflation rate was significantly higher among households with incomes in the bottom third (2.8%) than either the middle (2.1%) or top third (2.2%). The long term inflation rate was expected to rise annually by 2.5%, equal to the prior two month's, and just above last year's 2.4%. Among households in the lowest income third, long-term inflation expectations (2.8%) were much higher than either the middle (2.2%) or the top third (2.4%). While still well-anchored, the data indicate very slight increases in inflation expected over the longer term.

The majority of consumers reported ongoing gains in the national economy in each survey conducted in 2017. While the expectation of a higher growth rate in the economy rose to 33% from last month's 29%, it was still less than the 42% average during the first five month of 2017. Although accelerating gains in economic growth are not anticipated, it still meant that 55% of all consumers expected good times in the economy as a whole during the year ahead, and more importantly, 51% of all consumers anticipated the expansion would continue uninterrupted over the next five years. This optimistic outlook was accompanied by nearly seven-in-ten consumers who also anticipated rising interest rates in the year ahead. Perhaps of greater concern to most consumers, the unemployment rate was anticipated to continue to inch downward during the year ahead.

Buying conditions for durables, vehicles, and homes have remained quite favorable in the October survey. Buying conditions for household durables were the most favorable since the start of 2006, largely due to gains among low and middle income households. Indeed, gains among low and middle income households were also recorded for vehicle and home buying attitudes. Households with incomes in the top third voiced less positive views toward durables and vehicle purchases, and remained unchanged for home purchases. The October results advise some caution since households with income in the top third account for half of all consumption expenditures, but even though slightly diminished, they are still quite favorable.

	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 2017
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	100.7
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	116.5
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	90.5
Index Components													
Personal Finances—Current	111	117	126	124	128	132	126	126	131	132	130	128	135
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	123
Economic Outlook—5 Years	90	107	110	112	112	103	106	105	95	89	100	97	110
Buying Conditions—Durables	157	162	164	165	161	162	166	164	161	163	158	162	168