Subject: Preliminary results from the November 2017 survey November 10, 2017
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Consumer sentiment declined slightly in early November due to widespread losses across current and expected economic conditions. The losses were quite small as the Sentiment Index remained at its second highest level since January. Overall, the Sentiment Index has remained trendless since the start of the year, varying by less that 4.0 Index-points around its 2017 average of 96.8. Consumers (and policy makers) have four key concerns: prospective trends in jobs, wages, inflation, and interest rates. An improving labor market was spontaneously mentioned by a record number of consumers in early November, and anticipated wage gains recorded their highest two-month level in a decade. These favorable trends were countered by a slight rise in year-ahead inflation expectations and a growing consensus that interest rates will increase during the year ahead. Needless to say, the preliminary November data is hardly sufficient to indicate that the persistent strength in the labor market has finally prompted higher inflation. Moreover, consumers anticipated that the size of the changes would be rather small, leaving economic conditions largely unchanged at favorable levels. While the expected Fed rate hikes seem to be the right preemptive action, the critical issue is whether income gains will be sufficient to outweigh rate hikes in home and vehicle purchase decisions. Overall, the data are consistent with a 2.7% rise in personal consumption spending in 2018.

Positive references to the job market dominated the recent economic changes that consumers heard. Net favorable references to more jobs and less unemployment tied the highest level ever recorded, first in 1984 and once again in 2012. When specifically asked about expected changes in the unemployment rate, consumers judged further declines to be slightly more likely than increases in the year ahead, although half (48%) anticipated no change from its current low. While the majority judged current conditions in the economy favorably and consumers anticipated continued growth on balance, consumers judged the outlook less satisfactory, and were equally divided about whether the expansion would last another five years.

A year-ahead inflation rate of 2.6% was expected in early November, up from 2.4% one month ago and one year ago. Judging by the trend in the past six months, last month's 2.4% appears to be the outlier since inflation expectations from May to August were unchanged at 2.6%, and the average of September and October was also 2.6%, the same as this month. This implies that the underlying trend has not changed in year-ahead inflation expectations. This is supported by unchanged expectations for the inflation rate over the next five years, which has remained at 2.5% in each of the past four months.

Improved finances were reported by 51% of all consumers in November, just below the seventeen year high of 53% in October. When asked to explain how their finances had improved, gains in incomes and wealth were mentioned by a total of 54% of all households, just below last month's 55%. 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 both October and November, the best two-month average since 2008. Income gains of 4.6% were anticipated by consumers under age 45, and gains of 3.0% were expected among those with incomes in the top third—both subgroups are critical for the discretionary spending outlook. Moreover, rising household wealth remains a positive factor as rising home values were cited by two-thirds of homeowners, and six-in-ten thought that the probability was better than 50-50 that stock prices would continue to rise during the year ahead.

The small declines in buying conditions recorded in early November have not detracted from their overall favorable levels. Rising interest rates had the biggest impact on views of home buying; references to low mortgage rates fell to 32% in early November, down from 40% last month and 43% last year. As many cited low home prices as high when asked about home buying conditions, while home selling conditions still benefitted from rising home prices. Importantly, when asked about the five-year expectation for home prices, consumers expected them to increase at the same rate as inflation. The impact of rising interest rate on vehicle purchases was less but still noticeable, falling to 19% from 21% last month and 24% last year.

	Nov 2016	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	June 2017	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov Prelim
Index of Consumer Sentiment	93.8	98.2	98.5	96.3	96.9	97.0	97.1	95.1	93.4	96.8	95.1	100.7	97.8
Current Economic Conditions	107.3	111.9	111.3	111.5	113.2	112.7	111.7	112.5	113.4	110.9	111.7	116.5	113.6
Index of Consumer Expectations	85.2	89.5	90.3	86.5	86.5	87.0	87.7	83.9	80.5	87.7	84.4	90.5	87.6
Index Components													
Personal Finances—Current	117	126	124	128	132	126	126	131	132	130	128	135	128
Personal Finances—Expected	126	131	130	123	128	131	129	132	122	134	133	132	132
Economic Outlook—12 Months	109	119	121	112	116	113	119	110	111	119	110	123	119
Economic Outlook—5 Years	107	110	112	112	103	106	105	95	89	100	97	110	101
Buying Conditions—Durables	162	164	165	161	162	166	164	161	163	158	162	168	167