Subject: November 2017 survey results November 22, 2017
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Consumer sentiment narrowed its loss from mid-month, although it was still slightly below last month's decade peak. Overall, the Sentiment Index has remained largely unchanged since the start of the year at the highest levels since 2004. What has changed recently is the degree of certainty with which consumers hold their economic expectations. In contrast to the media buzz about approaching cyclical peaks and an aging expansion, with the implication of greater uncertainty about future economic trends, consumers have voiced greater certainty about their expectations for income, employment, and inflation. Inflation expectations have shown the smallest dispersion on record, and increased certainty about future income and job prospects has become a key factor that has supported discretionary purchases. Needless to say, this may cause contrarians to raise the probability that the end of the expansion is near, despite the consensus forecasts that indicate continued growth over the next few years. To be sure, caution is warranted given that the current expansion will soon be the second longest expansion since the mid-1800s, as well as the potential for significant changes in tax policies and the new Fed leadership and Board members. Interestingly, the data indicate that neither changes in fiscal nor monetary policies have yet had any noticeable impact on consumer expectations. Overall, the data signal an expected gain of 2.7% in real consumption expenditures in 2018, and more importantly for retailers, the best runup to the holiday shopping season in a decade.

Half of all consumers reported improved finances in November as they have throughout 2017, marking the best year since 2000. When asked to explain recent changes to their finances in their own words, on average during 2017, 37% cited income gains, also the highest proportion since 2000. Among those with incomes in the top third, one-in-five cited gains in overall household wealth. When asked about expected gains in household incomes during the year ahead, an annual gain of 2.1% was expected in both October and November, the best two-month average since 2008. Importantly, expected income gains were especially strong among those with incomes in the bottom third, who expected a gain of 2.4%, up from 1.1% last month. Job growth was the most frequently referenced economic development spontaneously mentioned in the November survey, and consumers anticipated some further declines in the unemployment rate from its current low level during the year ahead.

A year-ahead inflation rate of 2.5% was expected in November, up from 2.4% one month ago and one year ago. In contrast, the annual inflation rate over the next five years fell back to 2.4% from 2.5% in the prior three months. To be sure, these small variations indicate that no significant change in inflation expectations have recently occurred. Consumers indicated much greater certainty in their expectations, however, in the past two months. The interquartile ranges (between the 25th and 75th percentiles) fell to the lowest two-month reading for both the near and long term inflation outlook. The two-month average range was just 3.05 for the year ahead and 2.05 for the five year rate; both were the narrowest range about the medians since open-ended responses were introduced in the late 1970s. The data thus give strong evidence that inflation expectations are firmly anchored and are held with the greatest degree of certainty in the history of these questions.

After asking their overall assessment of buying conditions for homes, vehicles, and household durables, consumers are asked to explain their views. Spontaneous references to prices and interest rates typically dominate their responses; November recorded surging references to low prices on household durables, and the continued dominance of low interest rates on home and vehicle purchases. Future job and income prospects determine the willingness of households to draw down savings or increase debt to make discretionary purchases. In the recent surveys, references to increased certainty about future job and income prospects rose to their highest levels for homes, vehicles, and household durables since 2000. The cyclical pattern of these responses is that they peak just before the onset of a downturn and reach their trough at the end of the recession. What is unknown is the level on the next peak. Since these references are still well below the all-time peaks set in the 1990's expansion, positive references to future job and income prospects could continue to increase in the foreseeable future.

	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 2017
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	98.5
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	113.5
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	88.9
Index Components													
Personal Finances—Current	117	126	124	128	132	126	126	131	132	130	128	135	127
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	123
Economic Outlook—5 Years	107	110	112	112	103	106	105	95	89	100	97	110	103
Buying Conditions—Durables	162	164	165	161	162	166	164	161	163	158	162	168	168