



Subject: Preliminary results from the December 2017 survey  
From: Richard Curtin, Director

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Consumer sentiment continued to slowly recede in early December from its October cyclical peak. Most of the recent decline was concentrated in the long-term prospects for the economy, while consumers thought current economic conditions have continued to improve. Importantly, the largest decline in long-term economic prospects was recorded among Democrats, which reflected their concerns about the impact of the proposed changes in taxes. The tax legislation was spontaneously mentioned by 29% of all consumers when they were asked to identify what economic news they had recently heard: 14% thought the tax proposals would have a positive economic impact, 11% thought the impact would be negative, and 5% said they were unsure of whether it would have a positive or negative impact. These references to the tax proposal closely reflected their partisan views. Perhaps the most important changes in early December were higher income expectations as well as a higher expected inflation rate in the year-ahead. Income gains have been slowly improving during the past year, and the data indicate that trend has continued. In contrast, the rise in inflation expectations in early December was a surprise, and confidence in this finding must await confirmation in the months ahead before any inferences are drawn. Buying plans for durables have improved in early December, largely due to attractive current pricing, without any rise in concerns about future price increases. Overall, the data signal an expected gain of 2.7% in real consumption expenditures in 2018.

Improved finances were reported by 52% of all households in early December, just above the average of 50% in 2017, the best year since 2000. When asked to explain recent changes in their finances, 44% cited higher household incomes, the highest level since 2000, and not far below the all-time peak of 50% set in 1965 and 1966. Improved household wealth, including both financial and nonfinancial assets, was also maintained at record levels. When asked about expected gains in household income during the year ahead, an annual gain of 2.3% was anticipated in early December, up from 2.1% in the prior two months. While this is equal to the expected gain in March 2017, the last time it was higher was in September 2008.

A year-ahead inflation rate of 2.8% was expected in early December, up from 2.5% in November and 2.2% last December. Year-ahead inflation expectations have been as high as currently in just seven surveys in the past 36 months, which was mostly due to energy prices. However, the survey recorded no expected change in gas prices during the year ahead. Long-term inflation expectations remained largely unchanged, and indicate that consumers anticipated only a temporary increase in inflation. In early December, consumers expected a 2.5% annual rate of inflation over the next five years, just ahead of last month's 2.4% but equal to the prior three months. One might anticipate that higher year-ahead inflation expectations would be associated with expected increases in interest rates. While 66% anticipated higher interest rates during the year ahead, that is down from 69% in the prior two months and the 2017 peak of 77% recorded in April. While the cross-currents indicate closer attention is needed in the months ahead, the most likely result is that the recent rise will be an anomaly.

Six-in-ten consumers reported that the pace of economic growth had recently improved in early December, although a slower pace of gain in the year ahead was anticipated for 2018 than was expected for 2017. While the majority expected good economic times during the year ahead, half of all consumers anticipated a growth slowdown during the next five years; this was heavily influenced by partisanship, as three-quarters of Democrats anticipated a downturn over the longer term, while nearly three-quarters of Republicans expected continuous economic growth. Unemployment was expected to fall slightly.

Buying conditions for household durables, vehicles, and homes all benefitted from more favorable price perceptions. Importantly, a seasonal pattern exists for household durables, as 50% spontaneously mentioned the availability of attractive pricing in early December, just below the all-time peak of 52% set in December 2009. Favorable vehicle buying attitudes regained their 2017 high, largely due to greater income and job certainty, although they also benefitted from price discounting. Home buying conditions were unchanged at favorable levels from last month due to low mortgage rates and greater income certainty; home selling conditions were near the best levels in two decades due to home price gains and income certainty.

	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	June 2017	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec Prelim
Index of Consumer Sentiment	98.2	98.5	96.3	96.9	97.0	97.1	95.1	93.4	96.8	95.1	100.7	98.5	96.8
Current Economic Conditions	111.9	111.3	111.5	113.2	112.7	111.7	112.5	113.4	110.9	111.7	116.5	113.5	115.9
Index of Consumer Expectations	89.5	90.3	86.5	86.5	87.0	87.7	83.9	80.5	87.7	84.4	90.5	88.9	84.6
Index Components													
Personal Finances—Current	126	124	128	132	126	126	131	132	130	128	135	127	131
Personal Finances—Expected	131	130	123	128	131	129	132	122	134	133	132	132	129
Economic Outlook—12 Months	119	121	112	116	113	119	110	111	119	110	123	123	120
Economic Outlook—5 Years	110	112	112	103	106	105	95	89	100	97	110	103	91
Buying Conditions—Durables	164	165	161	162	166	164	161	163	158	162	168	168	170