Consumer sentiment has remained largely unchanged for more than a year at very favorable levels. The January Sentiment figure was just 0.2 Index-points below December’s, and just 1.1 points below the 2017 average of 96.8—which was the highest yearly average since 2000. Stock price increases and the passage of tax reforms were mentioned by all-time record numbers of consumers. To be sure, there were small offsetting declines among lower income households and residents of the Northeast. Consumers continued to expect growth in jobs and incomes, but anticipated a slightly higher inflation rate. Importantly, the motivating force behind purchase decisions has shifted from discounts on price and interest rates to increased confidence in future job security and growth in wages as well as financial assets. This renewed sense of confidence was responsible for the recent declines in savings rates. The tax reforms will increase discretionary spending once higher energy bills due to the unusually cold weather are paid. Monetary policy will need to tighten in the year ahead, but given consumers’ decade long experience with record low interest rates, only modest increases in interest rates will be sufficient to curb any excessive spending. Overall, the data signal an expected gain of 2.8% in real personal consumption expenditures during 2018. Consumers are regularly asked to state in their own words what news they have recently heard affecting economic conditions. In January, 35% favorably mentioned some aspect of the government’s economic policies, the highest level recorded in more than a half century. Most of these spontaneous references involved the recently passed tax reforms. Across all respondents and all open-ended questions, 22% of consumers spontaneously mentioned that the recent tax reforms would have a favorable impact, 66% cited a negative impact, and 6% mentioned both negative and positive aspects of the tax reform. Partisan differences were present, although each group cited a favorable balance of opinion: Republicans cited a commanding 30% favorable compared with just 1% unfavorable, Democrats were 14% positive versus 10% negative, and Independents were 25% positive versus 5% negative on the impact of the tax reforms. Moreover, consumers who favorably mentioned the tax legislation had values on the Expectation Index that were twice as high as those with negative views (108.3 versus 49.5).

Consumers’ assessments of their financial situation remained unchanged at the best levels since 2000. When asked to explain in their own words how their personal finances had changed, the highest proportion ever recorded mentioned that the value of their asset holding increased. These favorable reports were concentrated among those with incomes in the top third, with 29% reporting increased net wealth holding, the second highest since 2007. When asked about the probability of continued stock price increases, consumers put the probability of stock increases during 2018 at 67%, the highest level recorded since this question was first asked in 2002. Expected income gains also improved slightly, as consumers anticipated an annual gain of 2.1%, up from 1.9% one month and one year ago; those under age 45 anticipated an income gain of 3.4%.

A year-ahead inflation rate of 2.7% was expected in January, equal to last month’s figure, and just above last year’s 2.6%. Focusing on just the past three months, the expected year-ahead inflation rate rose from a low of 2.4% to 2.7%, a somewhat troublesome rise, although it reached 2.7% twice before in 2017, with both related to energy price increases which were quickly reversed. Importantly, the recent increase is expected to be temporary given that the expected annual rate of long term inflation expectations was 2.5% in January, barely above the 2.4% in the prior two months. Inflation expectations remain well anchored since long term expectations have been trendless in the past year, staying in the narrow range of 2.4% to 2.6%.

Buying conditions for homes, vehicles, and household durables were all viewed slightly less favorably. While buying attitudes toward vehicles and durables remained at very favorable levels, conditions for buying homes fell to the lowest level in seven years, although the impact was partially offset by small gains in the number of homeowners who thought it was a good time to sell their homes. In all markets, positive buying is now motivated by job and income prospects and motivations to postpone purchases by increases in prices and interest rates; this is the exact opposite from earlier in the expansion when positive motivations were due to discounts on prices and interest rates, and hesitation was due to job and income uncertainty.