Subject: Preliminary results from the February 2018 survey February 16, 2018

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Consumer sentiment rose in early February to its second highest level since 2004 despite lower and much more volatile stock prices. Even among households in the top third of the income distribution, the Sentiment Index rose to 112.8, the highest level since the prior peak of 114.2 was repeatedly recorded in 2007, 2004, and 2000. Stock market gyrations were dominated by rising incomes, employment growth, and by net favorable perceptions of the tax reforms. Indeed, when asked to identify any recent economic news they had heard, negative references to stock prices were spontaneously cited by just 6% of all consumers. In contrast, favorable references to government policies were cited by 35% in February, unchanged from January, and the highest level recorded in more than a half century. In addition, the largest proportion of households reported an improved financial situation since 2000, and expected larger income gains during the year ahead. To be sure, higher interest rates during the year ahead were expected by the highest proportion of consumers since August 2005. Consumers also anticipated a slightly higher inflation rate, although the year-ahead inflation rate has remained relatively low and unchanged for the past three months. Purchase plans have been transformed from the attraction of deeply discounted prices and interest rates that outweighed economic uncertainty, to being based on a sense of greater income and job security as the fewest consumers in decades mentioned the favorable impact of low prices and interest rates. Such a transformation has been repeatedly recorded in past economic cycles, which allows rising inflation and interest rates to accompany continued economic growth. While monetary policy must offset the excesses caused by the greatly expanded fiscal stimulus, it must not cause a premature end to the expansion before reestablishing the level of interest rates needed for effective future counter cyclical policies. Overall, the data signal an expected gain of 2.9% in real personal consumption expenditures during 2018.

More consumers reported that they had recently heard news about economic developments in early February than at any other time since 1983. The vast majority of favorable news involved changes to government tax policies and employment gains—57% out of a total of 78%. In comparison, the stock market was rarely mentioned, and remarkably, it was more likely to be mentioned as a favorable development (largely due to its rebound, and annual gains) than unfavorably (7% versus 6%). In comparison, following the 1987 stock market crash, a record 38% spontaneously cited stock price decline, and following the 2015 decline, 16% unfavorably cited stock prices (see last week's report for more on stock declines). A strong economy meant that unemployment was anticipated to decline even further from its current low by 34%, the best since the start of 2017.

When asked to assess their financial situation, 55% reported improved finances, the highest proportion since January 2000. Income gains were cited by 43% of all consumers, which tied July's reading, regaining the highest level since May 2000. When asked about their financial prospects for the year ahead, 43% expected their finances to improve, up from last February's 35%. Income gains of 2.2% were anticipated across all households, just below the 2017 peak of 2.3%, which was the highest since 2008. Among those under age 45, a median income increase of 3.9% as expected during the year ahead.

A year-ahead inflation rate of 2.7% was expected in early February, unchanged from the readings in the past two months as well as from last February. While it is above the 2017 low of 2.4% in October, most readings in the past year have varied in the narrow range of 2.5% to 2.7%. The longer term annual inflation rate of 2.5% was expected in early February, unchanged from last month and last year's figure. Consumers do not expect a sudden surge in the inflation rate anytime soon, and when asked to explain their finances, the fewest consumers in decades cited rising prices as a cause for declining living standards.

The impact of discounted prices on purchase plans for durables, vehicles, and homes have fallen to the lowest levels recorded in a decade. Instead, consumers base their discretionary purchases on a new sense of income and job security. The ongoing shift has made more homeowners think it is a good time to sell, which rose to its highest level in a decade. The expected increase in home values during the year ahead rose to 2.0% in February, the highest since 2007. This improvement will act to increase the supply of existing homes for sale, and thus allowing the overall sales rate of existing homes to improve.

	Feb 2017	Mar 2017	Apr 2017	May 2017	June 2017	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb Prelim
Index of Consumer Sentiment	96.3	96.9	97.0	97.1	95.0	93.4	96.8	95.1	100.7	98.5	95.9	95.7	99.9
Current Economic Conditions	111.5	113.2	112.7	111.7	112.4	113.4	110.9	111.7	116.5	113.5	113.8	110.5	115.1
Index of Consumer Expectations	86.5	86.5	87.0	87.7	83.8	80.5	87.7	84.4	90.5	88.9	84.3	86.3	90.2
Index Components													
Personal Finances—Current	128	132	126	126	131	132	130	128	135	127	127	126	133
Personal Finances—Expected	123	128	131	129	132	122	134	133	132	132	127	131	133
Economic Outlook—12 Months	112	116	113	119	110	111	119	110	123	123	119	121	125
Economic Outlook—5 Years	112	103	106	105	95	89	100	97	110	103	93	95	105
Buying Conditions—Durables	161	162	166	164	161	163	158	162	168	168	168	160	166