Subject: March 2018 survey results March 29, 2018
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Consumer sentiment at month's end was marginally below the mid-month reading due to uncertainty about the impact of the proposed trade tariffs. The Sentiment Index, however, still reached the highest level since 2004, and the Current Conditions Index set a new all-time peak. Importantly, all of the March gain in the Sentiment Index was among households with incomes in the bottom third (+14.1); those in the middle third were unchanged, while the Index fell among households in the top third (-5.6). Households with incomes in the top third cited significantly greater concerns with government economic policies than last month, especially trade policies, with net references falling from +31 to just +1, offsetting their positive reactions to tax policies. The consensus expectation is that interest rates will increase, while inflation and wage expectations eased in late March. Currently, the main factor driving discretionary spending is that consumers remain confident in their future job and income prospects. This newfound confidence is anchored more in stability of these economic prospects rather than the size of the expected gains. Overall, the data are consistent with a growth rate of 2.6% in consumption over the next year.

Inflationary psychology is feared because it is a self-fulfilling prophecy; rather than diminish demand, increases in expected prices accelerate purchases. Prospects for more rapid income growth due to expansive fiscal policies, and a higher expected inflation rate in the year ahead are the two factors necessary for the growth of inflationary psychology. When asked to describe the factors behind their purchase decisions, consumers have recently reported that they are primarily based on confidence in their income and job prospects. The appeal of low prices for homes, vehicles, and household durables has largely been replaced by the growing belief that the best that could be said about current prices is that they would only be higher in the future. Credit terms, while growing less favorable, have not yet been seen as a cause to postpone discretionary purchases. It is still unlikely that inflationary psychology will fully develop given that inflation and income expectations has both recently eased. The last episode of inflationary psychology, it should be noted, started slowly in the mid-1960s and only bloomed more than a decade later. So, some caution is now warranted. The companion risk, and for some, the more important risk, is that if interest rates are pushed too high too fast, it could needlessly dampen spending and increase unemployment.

A year-ahead inflation rate of 2.8% was expected in March, just above the 2.7% recorded in the prior three months, and above last March's 2.5%. The majority of the March gains was recorded among upper income and older households. The longer term expected annual inflation rate remained at 2.5% for the third consecutive month, and just above last March's 2.4%.

Recent financial progress was reported by 57% of all households in March, which tied the 1998 all-time peak since the Michigan survey first began in 1946. Income gains were cited by 46%, the highest level since 2000, and rising home values were cited by 62%. While recent financial gains were widespread across the population, future financial prospects improved among the lowest income households and declined among the highest income households. Expected increases in nominal incomes during the year ahead fell to 1.7% in March, down from 2.2% last month and 2.3% last year, with the majority of the March decline among households with incomes in the top third—although they expected the largest annual income gains.

Consumers reported more negative economic news about government and trade policies, with spontaneous unfavorable references rising to 31% from last month's 18%. Favorable references to tax and other government policies were cited by 29% in March, just below February's 32%. While six-in-ten consumers reported that the overall economy had recently improved, half as many anticipated additional gains in the pace of economic growth during the year ahead. The remaining strength was among those with incomes in the bottom third, while losses were recorded among those with incomes in the top third. The same pattern held for unemployment trends: lower income households were more optimistic than upper incomes.

When asked about buying conditions, the appeal of low prices has largely disappeared. For durables, it has been replaced by favoring buying-in-advance of anticipated price increases, cited by 21%, the highest level since 1990. For home purchases, borrowing-in-advance of higher mortgage rates was cited by 18%, up from 7% three months ago, returning to last year's level.

	Mar 2017	Apr 2017	May 2017	June 2017	July 2017	Aug 2017	Sept 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018
Index of Consumer Sentiment	96.9	97.0	97.1	95.0	93.4	96.8	95.1	100.7	98.5	95.9	95.7	99.7	101.4
Current Economic Conditions	113.2	112.7	111.7	112.4	113.4	110.9	111.7	116.5	113.5	113.8	110.5	114.9	121.2
Index of Consumer Expectations	86.5	87.0	87.7	83.8	80.5	87.7	84.4	90.5	88.9	84.3	86.3	90.0	88.8
Index Components													
Personal Finances—Current	132	126	126	131	132	130	128	135	127	127	126	133	142
Personal Finances—Expected	128	131	129	132	122	134	133	132	132	127	131	133	132
Economic Outlook—12 Months	116	113	119	110	111	119	110	123	123	119	121	124	120
Economic Outlook—5 Years	103	106	105	95	89	100	97	110	103	93	95	105	105
Buying Conditions—Durables	162	166	164	161	163	158	162	168	168	168	160	166	173