

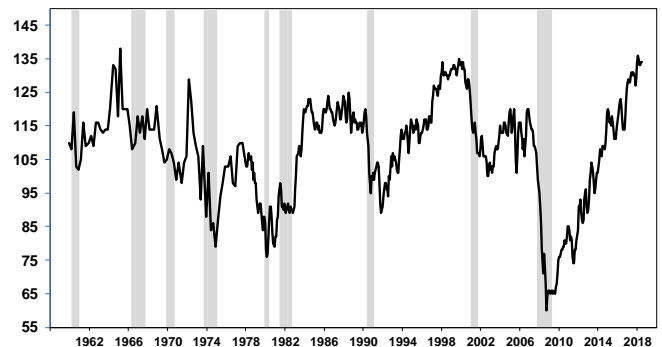
Subject: Preliminary results for the September 2018 survey
From: Richard Curtin, Director

September 14, 2018

Consumer sentiment posted a robust rise in early September, reaching 100.8, the second highest level since 2004—only behind the March 2018 reading of 101.4. Importantly, the gains were widespread across all major socioeconomic subgroups. The Expectations Index reached its highest level since July 2004, largely due to more favorable prospects for jobs and incomes (see the chart). Despite a lessening of expected gains in nominal incomes in September, inflation expectations also declined, acting to offset concerns about declining living standards.

Consumers anticipated continued growth in the economy that would produce more jobs and an even lower unemployment rate during the year ahead. While consumers were somewhat more likely to anticipate that the economic expansion would continue uninterrupted over the next five years, nearly as many expected another downturn sometime in the next five years. The largest problem cited on the economic horizon involved the anticipated negative impact from tariffs. Concerns about the negative impact of tariffs on the domestic economy were spontaneously mentioned by nearly one-third of all consumers in the past three months, up from one-in-five in the prior four months. Prospective tariffs were also associated with the expectation of higher rates of anticipated inflation during the year ahead. Unlike the impact of tax changes, which could (and did) slowly fade, the impact of tariffs on confidence is still an unsettled issue. Nonetheless, confidence in economic policies was more favorable in September than since May 2009, when the counter measures to the Great Recession were announced.

Evaluation of Consumers' Current Financial Situation



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Personal finances remained very strong due to gains in income and household wealth. Recent financial gains were cited by 56% of all households in early September, just below the all-time record of 57% recorded in both March 2018 and February 1998. Income gains were cited by 45% in September, just below the 2018 peak of 47% and the all-time peak of 51% in February 1953. Gains in household wealth were cited by near record numbers, primarily due to increases in stock holdings and rising home values. Despite these records, when asked about the year ahead, consumers anticipated annual income gains of just 2.1%, down from last month's 2.4%. Surprisingly, the falloff in income gains had little influence on consumers overall financial prospects, as 44% anticipated being better off financially, the highest percentage recorded since the start of 2004.

The year-ahead expected inflation rate was 2.8% in September, between the 3.0% in August and last September's 2.7%. Long term inflation expectations fell to 2.4% in September from 2.6% in August and last September's 2.5%. While this decline is welcome, it conforms to the trend that has prevailed since the start of 2017: long term inflation expectations have varied between 2.4% and 2.6%, with the two latest points at the top and bottom of that narrow range. Importantly, the unemployment rate was also expected to decline somewhat further during the year ahead.

Consumers' views of buying conditions for homes, vehicles, and household durables grew slightly more optimistic in early September following last month's losses. The gains were due to greater certainty of job and income prospects as well as more favorable views of prices and interest rates, including buying-in-advance of anticipated increases in prices and interest rates. One-in-five mentioned advance buying for durables and one-in-four for homes. While three-in-four consumers anticipate higher interest rates in the year ahead, just 8% cited high current interest rates as a cause for postponing home purchases, 4% mentioned high current rates for vehicles, and 3% cited high current rates on durables as a cause for postponement.

	Sept 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	June 2018	July 2018	Aug 2018	Sept 2018
Index of Consumer Sentiment	95.1	100.7	98.5	95.9	95.7	99.7	101.4	98.8	98.0	98.2	97.9	96.2	100.8
Current Economic Conditions	111.7	116.5	113.5	113.8	110.5	114.9	121.2	114.9	111.8	116.5	114.4	110.3	116.1
Index of Consumer Expectations	84.4	90.5	88.9	84.3	86.3	90.0	88.8	88.4	89.1	86.3	87.3	87.1	91.1
Index Components													
Personal Finances—Current	128	135	127	127	126	133	142	133	130	136	133	133	136
Personal Finances—Expected	133	132	132	127	131	133	132	131	129	128	134	131	135
Economic Outlook—12 Months	110	123	123	119	121	124	120	113	122	117	116	118	124
Economic Outlook—5 Years	97	110	103	93	95	105	105	111	108	102	101	101	108
Buying Conditions—Durables	162	168	168	168	160	166	173	165	160	166	164	154	165