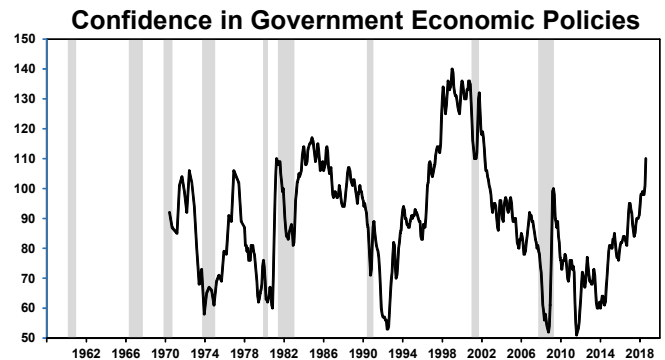


Subject: Preliminary results from the October 2018 survey
From: Richard Curtin, Director

October 12, 2018

Consumer sentiment slipped in early October, although it remained at quite favorable levels and just above the average reading during 2018 (98.5). The small decline was due to consumers voicing slightly less favorable assessments of their personal finances. Unfortunately, the downward revisions in the pace of growth in household incomes were accompanied by upward revisions in the year-ahead expected inflation rate. Importantly, consumers anticipated that the expected near term increase in inflation would be reversed over the next several years. It should be noted that the sharp selloff in equities overlapped interviewing by only one evening, having virtually no influence on the early October data. In addition, there was no evidence of a spillover from the Kavanaugh hearings to economic prospects. Indeed, confidence in the government's economic policies rose in October to its highest level in the past fifteen years, reflecting the strong performance of the national economy (see the chart). Most of the



October gain was due to an upward adjustment by Democrats, although their evaluations were still well below the much more favorable evaluations of Republicans. When asked about the upcoming election in the September and October surveys, consumers more frequently anticipated that Democrats would regain control of the House by a margin of 50% versus 44%, and Republicans were expected to retain control of the Senate by a margin of 58% versus 36%—there were no significant differences across the months. When asked about the potential impact on their own personal finances and on the overall economy, consumers more frequently cited Republicans than Democrats, with margins of 35% versus 26% for the overall economy and 34% versus 24% for their own personal finances; a substantial portion, however, replied that there was no difference for the overall economy (36%) or for their own personal finances (41%). The pace of growth in real personal consumption can be expected to average 2.6% during late 2018 and into the first half of 2019.

The year-ahead expected inflation rate was 2.8% in early October, up from 2.7% in September and 2.4% last October (which over-estimated the actual change in the CPI in the past year by just a tenth of a percentage point). Importantly, the near term increases in the inflation rate were expected to be temporary. The annual long term inflation rate was expected to be 2.3% in early October, down from 2.5% recorded both one month and one year earlier. Unfortunately, the rise in near term inflation expectations was accompanied by a decline in the expected gains during the year ahead in household incomes. The median expected gains across all households fell to 1.7% in early October, down from 2.1% both in last month and in last October's survey. Unemployment expectations also remained quite favorable as three-quarters expected no increase in the year ahead.

Consumers judged their current financial situation very favorably, as improvements in their finances were cited by 53% in early October, just below last month's 56% and equal to last October's reading. Income gains were cited by 42%, between last month's 44% and last year's 39%. Net gains in household wealth were cited by one-in-five households with incomes in the top third; this percentage may sink later in the month if the falloff in stock prices is not quickly reversed. When asked about their financial prospects for the year ahead, 41% expected improvement, between last month's 44% and last year's 39%.

Consumers' views of buying conditions for vehicles grew more negative, as the fewest consumers since 1984, just 16%, cited low and attractive pricing; renewed strength in jobs and incomes were the most cited reasons for purchase plans. Current home prices for buyers were also judged unattractive; one-in-four favored purchasing in advance of rising mortgage rates. The size of the gain in home prices, however, was expected to decrease over the next five years to just 2.0%.

	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	June 2018	July 2018	Aug 2018	Sept 2018	Oct Prelim
Index of Consumer Sentiment	100.7	98.5	95.9	95.7	99.7	101.4	98.8	98.0	98.2	97.9	96.2	100.1	99.0
Current Economic Conditions	116.5	113.5	113.8	110.5	114.9	121.2	114.9	111.8	116.5	114.4	110.3	115.2	114.4
Index of Consumer Expectations	90.5	88.9	84.3	86.3	90.0	88.8	88.4	89.1	86.3	87.3	87.1	90.5	89.1
Index Components													
Personal Finances—Current	135	127	127	126	133	142	133	130	136	133	133	135	131
Personal Finances—Expected	132	132	127	131	133	132	131	129	128	134	131	135	131
Economic Outlook—12 Months	123	123	119	121	124	120	113	122	117	116	118	123	124
Economic Outlook—5 Years	110	103	93	95	105	105	111	108	102	101	101	106	103
Buying Conditions—Durables	168	168	168	160	166	173	165	160	166	164	154	164	166