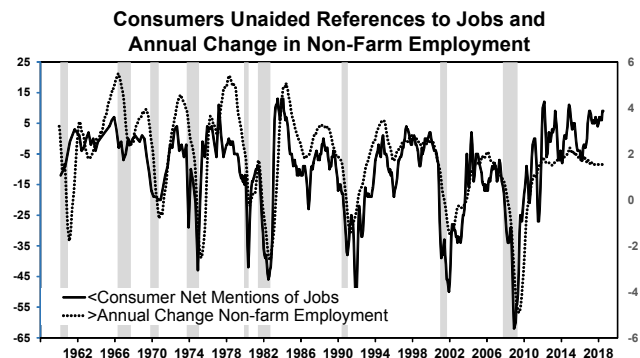


Subject: October 2018 survey results

October 26, 2018

From: Richard Curtin, Director

Consumer sentiment remained largely unchanged from the mid-month reading. Importantly, the Sentiment Index has been higher thus far in 2018 (98.5) than in any prior year since 2000, which was the last year of the longest expansion since the mid-1800s. Moreover, stock price declines, rising inflation and interest rates, and the negative mid-term election campaigns, have not acted to undermine consumer confidence. Needless to say, consumers are not immune to these factors. The data only indicate that the tipping point toward escalating pessimism has not been reached. This resilience was primarily due to the prevailing belief that the economy would produce robust job growth during the year ahead, even if overall wage growth remained dismal. Consumers now place a higher value on job security compared with wage growth due to job losses in the Great Recession as well as the aging of the labor force. The accompanying chart shows trends in references to employment when consumers were asked



to identify what economic news they had recently heard along with trends in the annual percentage change in total non-farm employment. Consumers' reports have become more volatile and have exceeded actual job growth in recent years, whereas before 1980 consumers regularly underestimated the strength in the labor market. This may reflect the heightened attention accorded to every waver in job news in the current environment, while before 1980 job growth was the accepted norm and consumers were more sensitive to real wage growth. 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. Increases in interest rates and decreases in the pace of growth in inflation-adjusted incomes have especially dimmed prospects for home and vehicle sales.

Consumers more frequently anticipated that Democrats would regain control of the House by a margin of 49% versus 44%, and Republicans were expected to retain control of the Senate by a margin of 60% versus 34%. When asked about the potential impact on the national economy and their own personal finances, consumers more often thought conditions would be better if Republicans, rather than Democrats, were in control of Congress, with margins of 36% versus 27% for the overall economy, and 33% versus 23% for the their own personal finances. A substantial portion, however, replied that regardless of which party controls Congress, it would not affect prospects for the economy (36%) or their own personal finances (42%).

The year-ahead expected inflation rate was 2.9% in October, up from 2.7% in September and 2.4% last October. Importantly, the near term increases in the inflation rate were expected to be temporary. The annual long term inflation rate was expected to be 2.4% in 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 1.8% in October, down from 2.1% both in the prior month and last year.

Although consumers continued to favorably judge both their current and expected finances, both declined slightly in October. The proportion that reported recent financial gains fell to 52%, just below last month's 56% and last October's 53%. When asked about financial prospects for the year ahead, 40% expected gains, between last month's 44% and last year's 39%.

Consumers' views of buying conditions for vehicles and homes grew more negative. Low and attractive pricing for new vehicles were cited by just 17% in October, tied with August, and the fewest positive price references since 1984. Net references to mortgage rates were the least favorable in a decade. Overall, vehicle and home buying conditions have declined by nearly 20% since their peak at the start of 2015; the remaining strength is due to greater certainty about jobs and incomes.

	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 2018
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	98.6
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	113.1
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	89.3
Index Components													
Personal Finances—Current	135	127	127	126	133	142	133	130	136	133	133	135	130
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	123
Economic Outlook—5 Years	110	103	93	95	105	105	111	108	102	101	101	106	105
Buying Conditions—Durables	168	168	168	160	166	173	165	160	166	164	154	164	163