

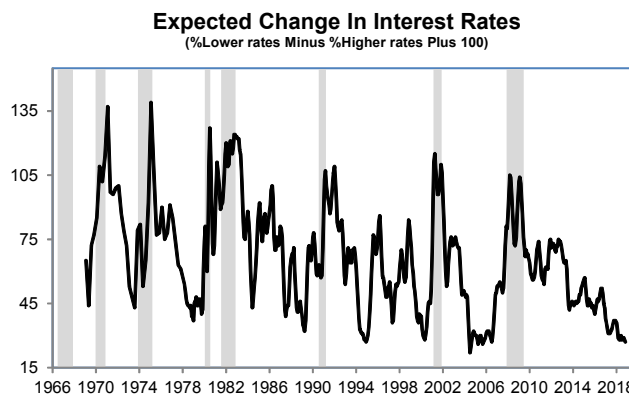
Subject: November 2018 survey results

November 21, 2018

From: Richard Curtin, Director

Consumer sentiment has remained largely unchanged at very favorable levels during 2018, with the November reading nearly at the center of the eleven month range from 95.7 to 101.4. The Sentiment Index is likely to record the highest yearly total since 2000. Although the data recorded a decline of 2.8 Index points following the election, the drop was related more to income than political party: among those with incomes in the bottom third, the Sentiment Index rose by 10.4 points and fell by 6.6 points among those in the top third of the income distribution. In contrast, the Sentiment Index remained unchanged among Democrats and Republicans prior to and following the election. While changes in economic expectations may develop when Democrats actually take control of the House, there is no evidence that the election immediately influenced consumer expectations.

Interest rate expectations have always traced the outlines of economic cycles. As expansions lengthened, more consumers would expect interest rate increases, pushing the series to cyclical lows; then consumers would suddenly reverse course, lowering expectations just as downturns were about to commence (see the chart). Note that recession dating lags by about one year, meaning that expected declines in rates are recorded about one year before the official announcement. While there is no reason to anticipate a sudden change in expectations in the months ahead, consumers have begun to resist rising interest rates on purchases of housing and vehicles. Hopefully this time the Fed will manage interest rates to avoid hitting the threshold that causes widespread postponement as has been true in the past.



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Consumers reported favorable assessments of their personal finances in the latest survey. Just over half of all consumers reported that their finances had recently improved, with 23% mentioning net income gains in November. Higher net incomes were cited by 38% of consumers under age 45, the same as last November. References to rising incomes have been sharply reduced among consumers with incomes in the top third, falling to 29% in November from 38% last month and 42% three months ago and last December's 52%. When asked about expected gains in nominal incomes, an increase of 2.5% was expected across all consumers (3.4% among prime workers), equal to the highest level in the past decade, first set in June.

The year-ahead expected inflation rate was 2.8% in November, in the middle of the narrow range of 2.7% to 3.0% it has recorded since last December. To be sure, short-term inflation expectations have inched upward in 2018 from the 2017 range of 2.4% to 2.7%. The annual long term inflation rate was expected to be 2.6% in November, up from 2.4% in both last month's and last year's surveys. Long term inflation expectations have varied between 2.4% and 2.6% during 2018 as well as during 2017. Although both near term inflation expectations rose to slightly elevated levels during the past year, long term expectations will still provide a strong anchor and suggest future downward shifts in year-ahead inflation expectations.

Favorable vehicle buying attitudes remained at the same five-year low recorded last month. Consumers made as many favorable as unfavorable references to prices, well below the positive balance in last November's survey, and net references to low interest rates on vehicle purchases were mentioned by one-third of last year's total. Favorable home buying conditions remained at depressed levels, even as the proportion citing attractive pricing inched upward. The market is dominated by mortgage rates, with favorable references falling by more than half compared with last November. Overall, the net declines will act to reduce the number of homes and vehicle sales in the year ahead. Overall, the pace of growth in real personal consumption spending is anticipated to increase by 2.6% in 2019.

	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	June 2018	July 2018	Aug 2018	Sept 2018	Oct 2018	Nov 2018
Index of Consumer Sentiment	98.5	95.9	95.7	99.7	101.4	98.8	98.0	98.2	97.9	96.2	100.1	98.6	97.5
Current Economic Conditions	113.5	113.8	110.5	114.9	121.2	114.9	111.8	116.5	114.4	110.3	115.2	113.1	112.3
Index of Consumer Expectations	88.9	84.3	86.3	90.0	88.8	88.4	89.1	86.3	87.3	87.1	90.5	89.3	88.1
Index Components													
Personal Finances—Current	127	127	126	133	142	133	130	136	133	133	135	130	130
Personal Finances—Expected	132	127	131	133	132	131	129	128	134	131	135	131	129
Economic Outlook—12 Months	123	119	121	124	120	113	122	117	116	118	123	123	117
Economic Outlook—5 Years	103	93	95	105	105	111	108	102	101	101	106	105	109
Buying Conditions—Durables	168	168	160	166	173	165	160	166	164	154	164	163	161