

Subject: December 2018 survey results.

December 21, 2018

From: Richard Curtin, Director

T'was the night before Christmas, and all over the nation,
The economy was the cause for some widespread elation.
Low inflation, interest, and unemployment—a trifecta,
At last broad based wage gains made it almost perfecta!

Consumers were nestled, all snug in their beds,
Dreams of endless expansion danced round in their heads.
Growth doesn't die of old age, it needs a policy blunder,
Given the DC dysfunction, its persistence is a wonder.

Blues won gains in the House, claiming Trump's full rebuke,
But had Republicans won, it would still be a fluke.
The midterm outcome changed no economic views,
Blues and Reds still look only for supporting cues.

Each whistled and shouted: "My partisan views? True!"
First accept the facts. Then you will adopt my view.
Red and Blue pleas were formed with the utmost of care,
In hopes that federal courts would soon answer their prayer.

When what to my wondering eyes should appear,
"Tariff Man!" Declared the Don for all people to hear.
Leveling the trading field was his ultimate goal,
Even at a very high domestic and global toll.

And then in a twinkling, I heard out on the street,
Wealth had disappeared in a steep stock retreat.
Financial markets were in a tizzy, it made all quite dizzy,
Will the real economy prevail? Or sink like a tin lizzy?

A wink of Jay's eye and a twist of his head,
"Interest rate increases were nothing to dread."
With each rate hike, the Fed adds to its defenses,
And raises the chance that a recession commences.

Aiming for the neutral rate of interest, its oft stated goal,
But turning quant expansion to contraction will exact a toll.
What rate was neutral with liquidity auto deflated?
Confidence in rates as the sole policy tool is inflated.

When out in the Courts, there arose such a clatter,
I sprang to my PC, to see what was the matter.
Mueller's probe of Russian intrusion in our own election!
Cries of "Drain the swamp" had a new suspect connection.

Facebook falsies, dirty tricks, they were all quite the rage,
All acted as if this was the first election rampage.
What had changed was the cost of a campaign disruption,
The Internet allowed access to cheap global corruption.

Happy holidays to all and to all a good year.

Consumer confidence remained in December at the same record favorable levels as it has throughout the year. The Sentiment Index averaged 98.4 in 2018, the best year since 107.6 in 2000. Over the past half century, sentiment was higher in only two other time periods: 1964-65 and 1997-2000. These periods correspond to the two longest prior expansions since the mid 1800's. If the current expansion lasts past mid-2019, as is likely based on current data, it will become the longest expansion ever recorded. Growth in real personal consumption expenditures is expected to moderate to 2.6% in 2019.

While the plunge in stock prices has recently garnered the most attention in the national press, consumers have focused more on their concerns about income and job prospects. Consumers reported more negative than positive news about job prospects for the first time in two years, with the shift widespread across socioeconomic subgroups. When asked about prospects for the national unemployment rate, 30% expected increases, up from last month's 22% and the highest percentage in two years. Importantly, this still meant that 70% anticipated no increase in unemployment in the year ahead. Surprisingly, even in the last week of the survey, falling stock prices were reported by just 12% as a primary concern, which may reflect an initial downplay given the recent volatility in the market. Next month's data are likely to reflect increased concerns. In contrast, the negative impact of tariffs on the economy was cited by one-in-four consumers in December, barely below the last six months.

Inflation expectations also declined slightly from last month: the year-ahead expected inflation rate fell to 2.7% from 2.8%, and the annual long-term inflation rate fell to 2.5% from last month's 2.6%. While the Fed's recent hike in interest rates came as no surprise as it was anticipated by three-quarters of all consumers, rising unemployment and a falling inflation rate suggest consumers were slightly more cautious in their economic outlook for 2019 in December than in prior months.

The overall strength has remained centered on consumers very favorable evaluations of their personal financial situation. In the December 2018 survey, 54% of all consumers reported that their finances had improved, just above the half-century record of 53% for the entire year of 2018. Higher incomes were mentioned by 41% in December, just below the 2018 average of 42%. When asked about income gains they expected for 2019, a gain of 2.4% was anticipated across all consumers, just below last month's 2.5%. The last time a higher two-month gain was expected was in 2007. Importantly, however, among those under age 45, a 2019 gain of 3.4% was expected, well below the July peak of 4.8%.

Buying plans for household durables improved in December, returning to the same favorable level as last December largely due to greater mentions of price discounting. Home and vehicle buying attitudes, however, remained unchanged at the same diminished levels found in the 4th quarter due to less favorable views of prices and interest rates.

	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	June 2018	July 2018	Aug 2018	Sept 2018	Oct 2018	Nov 2018	Dec 2018
Index of Consumer Sentiment	95.9	95.7	99.7	101.4	98.8	98.0	98.2	97.9	96.2	100.1	98.6	97.5	98.3
Current Economic Conditions	113.8	110.5	114.9	121.2	114.9	111.8	116.5	114.4	110.3	115.2	113.1	112.3	116.1
Index of Consumer Expectations	84.3	86.3	90.0	88.8	88.4	89.1	86.3	87.3	87.1	90.5	89.3	88.1	87.0
Index Components													
Personal Finances—Current	127	126	133	142	133	130	136	133	133	135	130	130	133
Personal Finances—Expected	127	131	133	132	131	129	128	134	131	135	131	129	129
Economic Outlook—12 Months	119	121	124	120	113	122	117	116	118	123	123	117	118
Economic Outlook—5 Years	93	95	105	105	111	108	102	101	101	106	105	109	102
Buying Conditions—Durables	168	160	166	173	165	160	166	164	154	164	163	161	169