

Subject: Long Expansions: “Déjà vu all over again?”

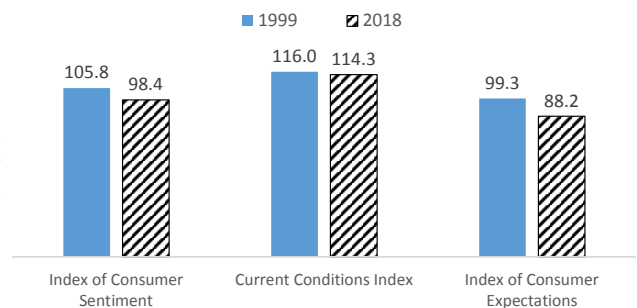
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The current expansion is within a half year of becoming the longest expansion since the mid-1800s. Continued strength in consumer spending is required to achieve that goal. It is of some interest to compare the conditions near the end of the record ten-year expansion from 1991-2001 with current conditions approximately nine years after each expansion started. The 2001 recession was preceded by sharp increases in the Fed Funds rate due to rising inflation; following 9/11, the Fed reversed course and hastened the recovery. The years 1999 and 2018 were selected for this comparison since an exact match is impossible given the current expansion is still ongoing. While the prior expansion lasted five quarters following 1999, the current expansion is just three quarters from establishing a new record—but it is a common forecast that the current expansion will last until mid 2020, about five quarters past 2018. Both years included heightened partisan divisiveness as Clinton was impeached by the House in late 1998 but was not convicted in the 1999 Senate trial; the same may happen to Trump in 2019. Most measures of economic performance were comparable, with some exceptions. The 1999 unemployment rate was 4.2%, compared with 3.9% in 2018; consumer price index rose by 2.2% in 1999 compared with 2.4% in 2018; personal disposable income rose by 3.3% in 1999 and is expected to rise by 2.8% in 2018. The big difference are that GDP rose by 4.8% in 1999 and is expected to rise by 2.9% in 2018, and that the Fed Funds rate was 5.0% in 1999 and just 1.8% in 2018.

The Index of Consumer Sentiment was 7.4 Index points lower in 2018 compared with 1999, with most of the difference in the Expectations Index (-11.1 points). The table below provides information on a number of assessments and expectations. The difference in personal finances is quite small for all households as well as for various demographic subgroups. Given that the annual sample sizes were quite large, some of these small differences were statistically significant, but not meaningful. Differences in inflation expectations showed a similar profile: the differences were rather small and non-systematic. Differences in the year-ahead and five year outlooks for the national economy were quite different, with 2018 providing more pessimistic readings. The differences were especially wide among those with higher incomes and education, with the 2018 data much more negative. These less favorable prospects for the national economy were accompanied by more frequent expectations that interest rates would rise in the year ahead. The falloff in prospects for the overall economy, however, could not be attributed to expected trends in inflation and unemployment. While it is true that some of the rise in interest rate expectations may simply reflect their recent unusually low levels, it is more likely that consumers have fully adapted to the new rate environment. The only issue for consumers is the anticipated pace of rate hikes, not the expected direction. And their only reaction is to adjust the pace of their spending and precautionary savings. The 2019 data will indicate the size of these adjustments and whether the expansion will post a new record length.

The Index of Consumer Sentiment and Components



A Comparison of Consumer Expectations in 1999 and 2018

	Personal Finances				Outlook for Economy				Unemployment		Inflation		Interest Rates	
	%Improved From Year Ago		%Expect Gains In Year Ahead		%Expect Gains In Year Ahead		%Expect Gains In Next 5 Years		%Expect Less In Year Ahead		Expected Rate In Year Ahead		%Expect Higher In Year Ahead	
	1999	2018	1999	2018	1999	2018	1999	2018	1999	2018	1999	2018	1999	2018
All	52%	53%	42%	41%	66%	54%	54%	47%	14%	29%	2.7	2.8	61%	76%
Age														
18 - 34	67	66	57	50	68	51	59	43	18	24	2.7	2.7	63	72
35 - 44	61	60	49	52	67	54	55	47	13	25	2.7	2.6	61	75
45 - 54	54	54	44	47	68	57	54	50	13	33	2.7	2.8	60	74
55 - 64	40	50	37	36	67	55	53	48	14	31	2.7	2.9	64	79
65 or older	23	40	12	24	59	53	45	48	12	32	2.9	2.9	55	78
Education														
Less than High School	33	39	29	31	51	50	37	44	17	28	3.6	3.9	61	66
High School degree	48	51	37	40	64	59	49	51	15	33	2.9	2.9	59	70
Some college	53	53	48	45	68	57	56	51	15	33	2.7	2.8	62	74
College degree	61	57	48	42	70	53	60	45	13	27	2.6	2.7	61	80
Graduate studies	58	53	43	36	71	46	61	40	12	23	2.5	2.8	62	80
Household Income														
Bottom 20%	35	40	34	35	56	46	39	40	19	24	3.3	3.2	59	71
Second 20%	46	45	41	40	62	51	50	46	16	30	2.8	2.9	60	73
Middle 20%	55	56	46	43	68	54	56	48	13	29	2.7	2.8	63	73
Fourth 20%	62	62	43	42	71	58	58	52	12	30	2.6	2.6	62	80
Top 20%	67	65	49	46	75	59	65	49	12	30	2.5	2.6	62	82