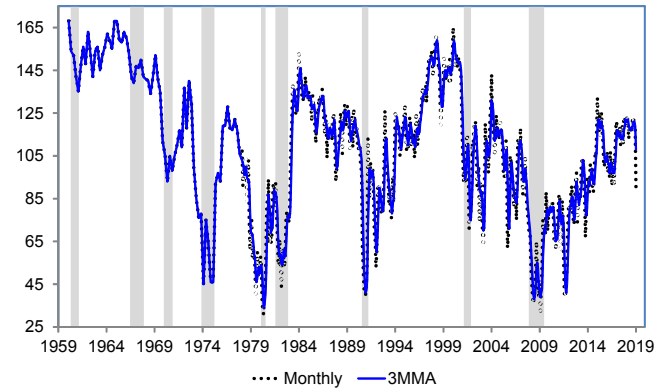


Subject: Preliminary results from the January 2019 survey
From: Richard Curtin, Director

January 18, 2019

Consumer sentiment declined in early January to its lowest level since Trump was elected. The decline was primarily focused on prospects for the domestic economy, with the year-ahead outlook for the national economy judged the worst since mid 2014. The loss was due to a host of issues including the partial government shutdown, the impact of tariffs, instabilities in financial markets, the global slowdown, and the lack of clarity about monetary policies. While the government shutdown was just mentioned by one-in-ten consumers, the most visible event in the media often gets tagged with the foul; unfortunately, the lasting result is likely to be an increase in cynicism about government. Aside from the direct economic impact from these various issues on the economy, the indirect effect meant that half of all consumers believed that these events would have a negative impact on Trump's ability to focus on economic growth. While the January falloff in optimism is certainly consistent with a slowdown in the pace of growth, it does not yet indicate the start of a sustained downturn in economic activity. It is the strength in personal finances that will continue to support consumption expenditures at favorable levels in 2019. Nonetheless, consumers now sense a need to buttress their precautionary savings, which is typically done by reducing their discretionary spending. Evolving job and wage prospects, which were slightly weaker in early January, are critical to extending the current expansion.

Business Conditions Expected During the Next Year



Consumers judged recent news as the least favorable they had heard about the economy since late 2011. Negative references to government policies were cited nearly four times as frequently as positive mentions. These negative references included the shutdown and taxes, both mentioned by about one-in-ten, and tariffs, mentioned by 30%. When asked about current conditions in the economy, as many thought conditions improved as worsened, the least favorable assessment since late 2013. Moreover, more consumers expected economic conditions to worsen in the year ahead than to improve, the most negative since mid 2011. For the first time since Trump's election, half of all consumers expected bad rather than good times in the national economy in the year ahead, and more frequently expected unemployment to increase rather than to decline.

The year-ahead expected inflation rate was 2.7% in early January, unchanged from the prior month and year. The annual long term inflation rate was expected to be 2.6% in early January, up from 2.5% a month and a year earlier. Importantly, expected inflation over both the shorter and longer terms remained within the same narrow bands it has traveled for the past year.

Consumers' evaluations of their current finances were slightly less favorable than last month, as 50% reported improved finances over the past year, down from 54% last month. The small decline was mainly due to an erosion in household wealth (stocks). When asked about their financial prospects for the year ahead, consumers judged their financial outlook largely unchanged for the past three months, although somewhat less favorable than at mid year. Expected income increases declined to 1.8% in early January, down from last month's 2.4% and last year's 2.1%, perhaps reflecting the impact of the shutdown.

Favorable vehicle buying attitudes remained unchanged for the third consecutive month at the lowest levels recorded during the past year. The overall stability was due to more references to attractive interest rates on vehicle purchases being offset by somewhat less favorable references to job and income prospects. Favorable views of home buying conditions were also largely unchanged during the past three months, remaining at yearly lows. Home selling conditions grew less favorable over the past three months, with net references to home selling prices at the lowest level in more than a year.

	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	June 2018	July 2018	Aug 2018	Sept 2018	Oct 2018	Nov 2018	Dec 2018	Jan Prelim
Index of Consumer Sentiment	95.7	99.7	101.4	98.8	98.0	98.2	97.9	96.2	100.1	98.6	97.5	98.3	90.7
Current Economic Conditions	110.5	114.9	121.2	114.9	111.8	116.5	114.4	110.3	115.2	113.1	112.3	116.1	110.0
Index of Consumer Expectations	86.3	90.0	88.8	88.4	89.1	86.3	87.3	87.1	90.5	89.3	88.1	87.0	78.3
Index Components													
Personal Finances—Current	126	133	142	133	130	136	133	133	135	130	130	133	127
Personal Finances—Expected	131	133	132	131	129	128	134	131	135	131	129	129	130
Economic Outlook—12 Months	121	124	120	113	122	117	116	118	123	123	117	118	90
Economic Outlook—5 Years	95	105	105	111	108	102	101	101	106	105	109	102	93
Buying Conditions—Durables	160	166	173	165	160	166	164	154	164	163	161	169	158