

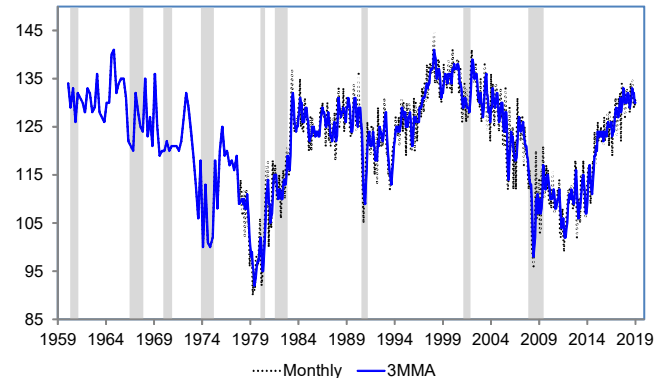
Subject: January 2019 survey results

February 1, 2019

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Consumer sentiment remained at month-end at its lowest level since Trump was elected. The end of the shutdown caused only a modest boost in the Sentiment Index; while consumers became somewhat more optimistic about the outlook for the national economy, they viewed current economic conditions slightly more negatively due to the worse than anticipated impact of the shutdown on the economy. The typical impact of such “crisis” events is short lived, with consumers quickly regaining lost confidence. That is unlikely to occur this time as the deadline for resolution has only been extended until mid February. If the standoff continues into late February, it could foster sustained declines in economic optimism among consumers. Even small spending cutbacks, occurring simultaneously across the majority of consumers, could push the economy into a recessionary downturn. Each proponent appears to put more weight on the political rather than on the economic implications of their actions. Continued strength in consumer spending is essential, especially given the volatile financial markets and weakened global growth prospects. It is of some importance to note that consumers still viewed their financial

Personal Financial Expectations



prospects quite positively (see the chart above). Expected income gains during the year ahead in January matched the average percentage gain recorded during the past twelve months. Nonetheless, consumers were not as optimistic about future job gains, which was a consequence of the expected weakening of the economy due to the shutdown. Those losses could be sustained if the shutdown crisis lingers past mid February. There is still time to avoid a sustained decline in confidence, but it would require an end to the standoff. Indeed, if the current level of confidence is maintained, it would be consistent with a 2.6% growth in consumer spending in 2019.

The year-ahead expected inflation rate was 2.7% in January, unchanged from the prior month and year. The annual long term inflation rate was expected to be 2.6% in January, up from 2.5% a month and a year earlier. Importantly, the expected inflation rates over both the near and longer terms remained in the same narrow bands they have traveled in the past two years.

Consumers’ evaluations of their current finances were slightly less favorable than last month, as 50% reported improved finances, between last month’s 54% and last year’s 49%. Households were more likely to report income gains this year than in last January’s survey (40%, up from 35%), but slightly less likely to report gains in asset holdings (8%, down from 13%). When asked about their financial prospects for the year ahead, consumers judged their financial outlook largely unchanged; 41% expected improved finances, between last month’s 39% and last year’s 42%. A nominal income increase of 2.2% in 2019 was anticipated, between last month’s 2.4% and last year’s 2.1% but equal to the reading across the last 12 months.

The current state of the national economy was judged to have significantly weakened in January due to the shutdown. Whereas in December, twice as many consumers judged the economy to have improved as worsened, in January equal proportions thought the economy had worsened as improved (43%). And when asked about prospects for the year ahead, more consumers anticipated the economy to worsen than to improve; this weakness was related to less positive job prospects. Just 19% anticipated lower unemployment in the year ahead, the lowest figure since mid 2016, while 33% expected increases.

While buying attitudes toward vehicles and homes remained largely unchanged in January near the lowest levels recorded during the past year, buying plans for large household durables fell, with the declines steeper the lower the household income. Net references to durable pricing grew more negative in January, with the largest declines among those with lower incomes.

	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 2019
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	91.2
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	108.8
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	79.9
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	131
Economic Outlook—12 Months	121	124	120	113	122	117	116	118	123	123	117	118	92
Economic Outlook—5 Years	95	105	105	111	108	102	101	101	106	105	109	102	97
Buying Conditions—Durables	160	166	173	165	160	166	164	154	164	163	161	169	155