Subject: Preliminary results from the February 2019 survey February 15, 2019
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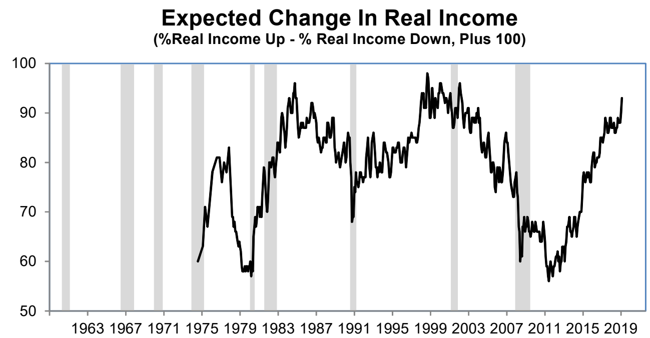
The early February gains reflect the end of the partial government shutdown as well as a more fundamental shift in consumer expectations due to the Fed's pause in raising interest rates. The lingering impact of the shutdown was responsible for some of the negative economic evaluations, and, at the time that these interviews were conducted, uncertainty about whether a second shutdown would occur continued to have a slight depressing impact on confidence. Although the majority of consumers expected some additional rate hikes during the year ahead, that proportion has shrunk to the smallest level in the past two years. Perhaps more importantly, consumers' long term inflation expectations fell to the lowest level recorded in the past half century. While nominal income expectations remained at modest levels, consumers more frequently expected gains in their inflation-adjusted incomes in early February than at any other time in more than fifteen years (see the chart). The data indicate that personal consumption expenditures will remain the strongest sector in the national economy in 2019—up by 2.7% compared with a GDP gain of 2.2%. The data suggest that the Fed will find it even harder to justify another rate hike given the record low inflation expectations; the data will also add to the debate about the evolving relationship between unemployment and inflation as consumers now anticipate lower inflation and higher unemployment.



The expected year-ahead inflation rate was 2.5% in early February, down from 2.7% in the prior month and year. The annual long term inflation rate was expected to be 2.3% in early February, down from 2.6% in January and 2.5% last February. This half-century low in the expected long term inflation rate was observed only once before, in December 2016. Interest rates were expected to increase by 63% of all consumers, down from 77% three months ago and the 2018 peak of 80%. At present, just 7% expected interest rates to decline in 2019, indicating that it is only the pace of increases that has so far been revised.

Consumers' evaluations of their current finances remained quite favorable as 50% reported improved finances, unchanged from last month, barely below the average of 54% in the last half of 2018. The small falloff in early 2019 was not due to fewer consumers reporting income gains, but to less favorable trends in net household wealth—mentions among those in the top income third fell to 9% from 20% three months ago. Future financial prospects rose, with 44% anticipating improved finances in early February and just 8% expecting worsening finances—the best net balance since January 2004. Nominal income expectations actually fell in early February, to 1.9% from 2.2% in the prior month and year. Real income expectations, however, rose to their highest level since January 2002. Just one-third expected real income declines in 2019.

The end of the shutdown meant that consumers held a more favorable outlook for the national economy, but those prospects were still less favorable than a year ago. Favorable conditions in the economy were anticipated by 48% in February, up from last month's 40%, but still well below last year's 57%; long term prospects were judged as equally likely to include or exclude an economic downturn. These diminished prospects meant that the national unemployment rate was expected to increase rather than decline any further in each of the past three months, although nearly half expected no change from its current low.

Buying attitudes toward household durables, vehicles, and homes improved from last month by modest amounts, moving closer to last February's levels. The shift in buying plans was solely due to lower interest rates on purchases, especially on home purchases. The decline in inflation expectations, however, did not spark more favorable perceptions of market prices for these purchases, perhaps since the lows in inflation were due to energy and food, rather than core prices.

	Feb 2018	Mar 2018	Apr 2018	May 2018	June 2018	July 2018	Aug 2018	Sept 2018	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb Prelim
Index of Consumer Sentiment	99.7	101.4	98.8	98.0	98.2	97.9	96.2	100.1	98.6	97.5	98.3	91.2	95.5
Current Economic Conditions	114.9	121.2	114.9	111.8	116.5	114.4	110.3	115.2	113.1	112.3	116.1	108.8	110.0
Index of Consumer Expectations	90.0	88.8	88.4	89.1	86.3	87.3	87.1	90.5	89.3	88.1	87.0	79.9	86.2
Index Components													
Personal Finances—Current	133	142	133	130	136	133	133	135	130	130	133	127	126
Personal Finances—Expected	133	132	131	129	128	134	131	135	131	129	129	131	136
Economic Outlook—12 Months	124	120	113	122	117	116	118	123	123	117	118	92	110
Economic Outlook—5 Years	105	105	111	108	102	101	101	106	105	109	102	97	100
Buying Conditions—Durables	166	173	165	160	166	164	154	164	163	161	169	155	160