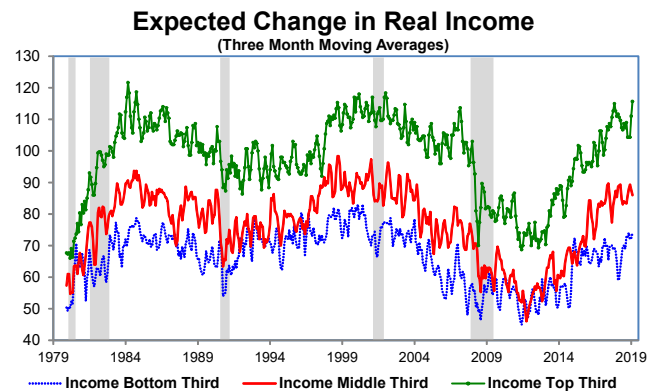


Subject: February 2019 survey results

March 1, 2019

From: Richard Curtin, Director

Although sentiment was still above last month's low, the bounce-back from the end of the Federal shutdown faded in late February. While the overall level of confidence remains diminished, it is still quite positive. Nonetheless, aside from last month, it was only lower in one month since Trump's election, but barely, at 93.4 in July 2017. Consumers continued to react to the Fed's pause in raising interest rates, balancing the favorable impact on borrowing costs against the negative message that the economy at present could not withstand another rate hike. Long-term inflation expectations remained near the lowest level recorded in the past half century. Among households with incomes in the top third, the reduction in inflation expectations was even greater, falling to an all-time low of just 1.9%. Upper income households also anticipated a 3.0% gain in incomes, a gain well above those with incomes in the bottom two-thirds. This meant that real income expectations among upper income households rose to the highest level since the peaks recorded in the expansions in the 1980's and 1990's (see the Chart). Note that no improvement in real income expectations was observed among households with incomes in the bottom two-thirds of the income distribution. The data indicate that personal consumption expenditures will grow by 2.6% in 2019 and the strength in consumer spending will mean that the expansion will set a new record length by mid year.



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The expected year-ahead inflation rate was 2.6% in February, down from 2.7% in the prior month and year. The annual long term inflation rate was expected to be 2.3% in 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. The long-term inflation rate among households in the top third of the income distribution fell to just 1.9%, down from 2.5% one month and one year earlier, and the lowest ever recorded. Importantly, few high income households anticipated deflation; just 4%. Needless to say, the decline needs to be confirmed in subsequent surveys before its implications can be robustly assessed.

A smaller margin, but still the majority of consumers implicitly anticipated that the Fed will again reverse course in 2019. Interest rates were expected to increase by 64% of consumers, down from 77% three months ago and the 2018 peak of 80%. Just 7% expected interest rates to decline in 2019, indicating only the pace of increase that has so far been revised. Prospects for the overall economy, however, remained below the more positive views recorded last year: nearly equal numbers expected the economy to improve as to worsen, and nearly equal numbers anticipated an uninterrupted expansion as an economy-wide downturn in the next five years. For consumers, this meant that the national unemployment rate was more likely to increase than to decline in the year ahead, remaining in the past three months at the least favorable level since Trump was elected.

Consumers' evaluations of their current finances remained favorable as 49% reported improved finances, barely below last month's 50% and down from the average of 54% in the last half of 2018. Worsening finances were reported by 25% of all consumers, the highest proportion recorded since Trump was elected. A positive financial outlook for the year ahead was reported by 42% of all consumers, unchanged from last February; just 9% expected to be worse off financially in the year ahead. An increase in household income of 1.7% was anticipated in February, down from 2.2% a month and year earlier. Those under age 45 anticipated annual income gains of 4.7% and those with incomes in the top third expected gains of 3.0%.

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 due to lower interest rates, especially on home purchases.

| | 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 2019 |
|--------------------------------|----------|----------|----------|----------|-----------|-----------|----------|-----------|----------|----------|----------|----------|----------|
| 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 | 93.8 |
| 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 | 108.5 |
| 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 | 84.4 |
| Index Components | | | | | | | | | | | | | |
| Personal Finances—Current | 133 | 142 | 133 | 130 | 136 | 133 | 133 | 135 | 130 | 130 | 133 | 127 | 124 |
| Personal Finances—Expected | 133 | 132 | 131 | 129 | 128 | 134 | 131 | 135 | 131 | 129 | 129 | 131 | 133 |
| Economic Outlook—12 Months | 124 | 120 | 113 | 122 | 117 | 116 | 118 | 123 | 123 | 117 | 118 | 92 | 108 |
| Economic Outlook—5 Years | 105 | 105 | 111 | 108 | 102 | 101 | 101 | 106 | 105 | 109 | 102 | 97 | 99 |
| Buying Conditions—Durables | 166 | 173 | 165 | 160 | 166 | 164 | 154 | 164 | 163 | 161 | 169 | 155 | 158 |