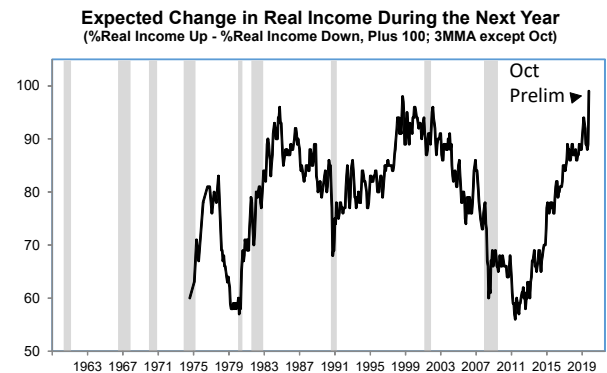


Subject: Preliminary results from the October 2019 survey

October 11, 2019

From: Richard Curtin, Director

Sentiment rebounded in early October as consumers anticipated larger income gains and lower inflation during the year ahead. As a result, real income expectations rose to their most favorable level in two decades (see the chart). Stronger finances and lower interest rates helped to modestly bolster buying plans. These favorable trends did not change consumers' overall prospects for the national economy. A slower pace of overall economic growth is still anticipated, including some modest increases in the national unemployment rate during the year ahead. While uncertainties about trade policies have continued to depress economic prospects, its negative impact has slightly lessened: spontaneous negative references to tariffs were cited by 29% in early October, down from last month's 36%. Importantly, the impeachment inquiry has not had a significant negative impact on economic prospects; it was negatively mentioned by about half as many as negatively mentioned the GM strike (3% versus 5%). Overall, the data indicate that consumption spending will be strong enough to offset weakness in business investment spending so as to keep the economy expanding into 2020. Nonetheless, there are significant global and domestic uncertainties that will keep consumers cautious spenders, although the income gains among lower and middle income households will translate into higher spending among these households. There was a small pullback in expectations for lower interest rates, although consumers were half as likely to expect higher rates than a year ago. The multiple sources of uncertainty will keep consumers focused on potential threats to their prevailing optimism about inflation, unemployment, incomes, and interest rates as well as foster continued vigilance on the level of their indebtedness.



The year ahead inflation rate fell to 2.5% in early October, down from 2.8% last month and 2.9% last year; 2.5% replicates the lowest rate expected since 2.4% was recorded in October 2017. Importantly, just 1% anticipate deflation and 46% anticipate an inflation rate of 2% or less. Long term inflation expectations fell to 2.2% in early October, down from 2.4% in the month and year earlier surveys, and the lowest long term annual inflation rate recorded since this question began in 1979. Long term inflation expectations have been close to this low, at 2.3%, three times in the past 12 months.

Expected increases in household incomes rose to 2.4% in early October, up from last month's 2.0% and last year's 1.8%. Among those under age 45, expected annual income gains rose to 5.1% in early October, up from 3.3% last month and the highest expected gain in more than a year. Higher incomes and lower expected inflation meant that the highest proportion expected net real income gains since this question was first asked in 1974, with real income gains the highest since 1998.

Twice as much negative rather than positive news was reported on the economy in early October. About half of all consumers thought the economy had recently improved and would continue to post modest gains during the year ahead. The longer term outlook for the economy has pointed toward slower overall growth. Perhaps the most important implication for consumers is whether the economy would continue to create more new jobs. The expected change in the national unemployment rate indicated a slowdown in job growth. Although nearly half (46%) expected no change from the current half century low, rising unemployment was anticipated by 33% of all consumers in October, well above the 20% who expected additional declines. Buying conditions for household durables improved in early October, with smaller gains recorded for vehicles and homes. Favorable prices were cited for household durables compared with one and two months ago, although the gain only recouped last year's level. Home buying was dominated by lower mortgage rates, cited by 32%, unchanged from last month, and the highest level since October 2017. Home prices were still viewed on balance negatively among buyers in the October survey.

	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	June 2019	Jul 2019	Aug 2019	Sept 2019	Oct Prelim
Index of Consumer Sentiment	98.6	97.5	98.3	91.2	93.8	98.4	97.2	100.0	98.2	98.4	89.8	93.2	96.0
Current Economic Conditions	113.1	112.3	116.1	108.8	108.5	113.3	112.3	110.0	111.9	110.7	105.3	108.5	113.4
Index of Consumer Expectations	89.3	88.1	87.0	79.9	84.4	88.8	87.4	93.5	89.3	90.5	79.9	83.4	84.8
Index Components													
Personal Finances—Current	130	130	133	127	124	138	133	134	131	131	127	131	135
Personal Finances—Expected	131	129	129	131	133	131	136	135	134	137	123	128	134
Economic Outlook—12 Months	123	117	118	92	108	124	115	130	121	122	104	109	109
Economic Outlook—5 Years	105	109	102	97	99	102	100	112	104	106	93	98	97
Buying Conditions—Durables	163	161	169	155	158	156	159	151	160	156	146	150	160