

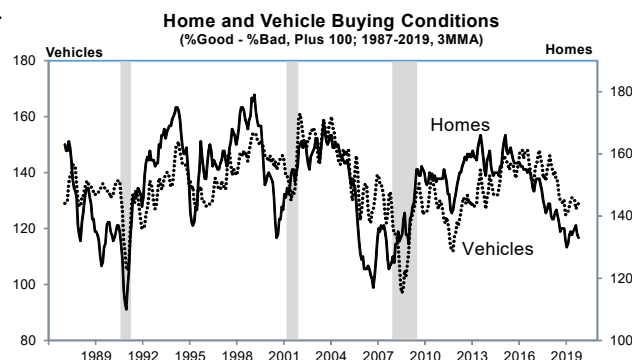


Subject: October 2019 survey results

October 25, 2019

From: Richard Curtin, Director

Sentiment was insignificantly below the mid month level, with the small loss spread over most components of the Index. The overall level of confidence remained quite favorable and largely unchanged during the past few years. The October level was nearly identical to the 2019 average (95.6) and only a few Index-points below the average since the start of 2017 (97.0). The focus of consumers has been on income and job growth, while largely ignoring other news. The most spontaneous references were to the negative impact of tariffs, which fell to 27% in October from last month's 36%; the impeachment inquiry totaled just 2% in October, less than the 5% who mentioned a negative impact from the GM strike. The continued strength in confidence has been due to favorable jobs and income prospects. In contrast, when asked about home and vehicle buying conditions, consumers have increasingly turned negative, although the recent interest rate cuts have arrested the declines (see the chart). Indeed, the mismatched trends in personal finances and buying conditions resulted in the lackluster pace of spending: earlier in the expansion, dismal growth in income and job prospects were matched with record favorable references to prices and interest rates on homes and vehicles; later in the expansion, favorable income and job prospects were matched with the fewest favorable references to prices and interest rates in decades—with those lows becoming the expected norm. On the plus side, the mismatch has kept consumer indebtedness (excluding education loans) at manageable levels, and positive finances have buoyed spending so as to ensure the continuation of the expansion. To be sure, the multiple sources of uncertainty will keep consumers focused on potential threats to their prevailing optimism, with the most critical being threats that could significantly diminish their job and income prospects.



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While consumers do not believe sustained increases in inflation or interest rates are on the horizon, they now anticipate that the slowing pace of economic growth will result in some slight increases in the unemployment rate during the year ahead. The growing weakness in the economy is expected to be modest, however, with 49% still expecting good times in the overall economy during the year ahead, down from 55% last October. Over the longer run, 41% expected an uninterrupted expansion, down from 47% a year ago. This growth slowdown was anticipated to increase unemployment by 32%, while 20% expected some continued small declines in the year ahead; importantly, half (48%) anticipated no change during the year ahead.

The year ahead inflation rate fell to 2.5% in 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. Long term inflation expectations fell to 2.3% in October, although this was the lowest long term inflation rate ever recorded, it has been recorded for the fourth time in the past year. Interest rates increases were expected by 39% in October, up from last month's 33%, but well below last year's 78%.

Recent income gains were reported by 45% of all households, up from 40% last October. Expected increases in household incomes during the year ahead rose to 2.5% in October, up from last month's 2.0% and last year's 1.8%. Overall, 43% of all households anticipated improved finances during the year ahead, between the recent peak of 45% in May and last year's 40%. Higher incomes and lower expected inflation meant record positive real income gains were expected in October.

Buying conditions for household durables improved in October, with marginal gains recorded for vehicles and homes. The delay in tariffs helped foster more favorable perceptions of prices for household durables. The gains in home buying were dominated by lower mortgage rates, cited by 37%, largely unchanged for the past four months. Vehicle buying attitudes showed no change in net references to prices or interest rates, with income and job prospects supporting recent gains.

	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 2019
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	95.5
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	113.2
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	84.2
Index Components													
Personal Finances—Current	130	130	133	127	124	138	133	134	131	131	127	131	134
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	108
Economic Outlook—5 Years	105	109	102	97	99	102	100	112	104	106	93	98	96
Buying Conditions—Durables	163	161	169	155	158	156	159	151	160	156	146	150	160