

Subject: December 2019 survey results.

December 20, 2019

From: Richard Curtin, Director

T'was the night before Christmas, and in the U.S. House,
Blues voted to impeach, in hopes of giving Don the oust.
Trump passed on the hearing, claiming it was bewitched,
Senate Reds will acquit, but keep Don and them unhitched.

How shocking the testimony! What a stain on democracy!
Misdemeanors were rampant. Entrenched in bureaucracy.
Secret actions by trusted agencies. Hardly misdemeanors,
Those high crimes were brushed aside, without interveners.

The voters were all snug in their partisan bed,
Preferring curated news that was all Blue or Red.
Each partisan laid a finger aside of their nose,
Up the chimney the other party's fake news rose.

When out in the economy, there arose such a clatter,
Blues and Reds sprang to the media to judge the matter.
Good economic news caused the opposite reaction!
Blues were good-news bears; Reds saw only bulls in action.

The partisan gap! For three years it has remained unchanged.
Recession or robust growth! Which side was more deranged?
Independents anchored the middle, and expanded the economy,
Setting an all-time record, due to their fake news autonomy.

And then in a twinkling, I heard on the campaign trail,
A gaggle of candidates, wanting to up the debate scale.
From Warren to Williams, and dozens in between,
Speed-dating debates, provided a buzz-word cuisine.

Medicare for all! Free pre-K to post BA! And more.
All paid by the ultra rich! No tax-man at your door!
Voters know the yin and yang of Federal freebies,
Those promises gave the middle-class the heebie jeebies.

The longest expansion, without any insecurity cessation,
Despite lows in unemployment, interest rates, and inflation!
Those data lows typically usher in a spending blockbuster,
Consumers remained cautious and their spending lackluster.

Negative interest rates! The Fed's newest obsession,
To rescue the nation from the next big recession.
Failing to lower real interest rates by raising inflation,
It's the only option to insure the economy's flotation!

Economic policy solutions are not permanent,
Since people's behavior is the primary determinant.
Negative rates are designed to favor spending over savings,
Rates deflation may cause shoppers to delay their cravings.

Happy holidays to all and to all a good year.

The Sentiment Index remained largely unchanged in late December at the same very favorable level recorded at mid-month. Most of the December gain was among upper income households, with those in the top third of the income distribution gaining 7.5% from last month and those in the bottom two-thirds posting a gain of just 0.8%. The recent shift favoring higher income households is in the opposite direction when compared with all-time peaks in the late 1990's. The impeachment hearings have had a barely noticeable impact on economic expectations, as it was mentioned by just 2% of all consumers in the December survey.

It is of some interest to compare the two best extended periods of optimism in the history of the surveys, both of which included an impeachment: the four years from 1997 to 2000, when the Sentiment Index averaged 105.3, and the three years from 2017 to 2019 when the Index averaged 97.0. On average, the 2017-2019 Index was 92% of the earlier period. Surprisingly, for the bottom 10% in the income distribution, the Index was 96% of the earlier period, while the top 10% the Index was just 89% of the earlier period. There was little difference across income thirds: 93% for the lowest third to 91% for the highest.

Inflation expectations declined in the December survey, with both the year-ahead and five-year expected inflation rates falling. For the year-ahead, an annual inflation rate of 2.3% was expected, the lowest since 2.2% was recorded twice, in December 2016 and September 2010 prior to the Great Recession's lows. Over the next five years, consumers expected an annual inflation rate of just 2.2% in December 2019, the lowest level since this question was first introduced in the late 1970s.

Personal financial assessments remained quite favorable, especially among those with incomes in the top third; 69% of those households reported improved financial conditions, with 27% mentioning gains in net household wealth, just below the 28% and 29% recorded in early 2018 and the all time peak of 32% in 2007. An expected change of 2.2% in nominal income was reported in December, below last year's 2.4%, although real income prospects were unchanged due to falling inflation.

Consumers reported hearing favorable news about recent changes in employment, with job gains mentioned twice as frequently as job losses. When asked about the outlook for the unemployment rate during the year ahead, however, consumers held slightly more negative expectations, especially those in the bottom two-thirds of the income distribution. Importantly, there was still a consensus across income groups that the economy would remain favorable, and the balance of opinion pointed toward an uninterrupted expansion during 2020.

Views of buying conditions for household durables rose to the highest level since last December based on increased favorable price references. The gain was mainly recorded among households with incomes in the top third, whose favorable references to prices for household durables jumped to a net positive 48% from last month's 29%.

	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	June 2019	Jul 2019	Aug 2019	Sept 2019	Oct 2019	Nov 2019	Dec 2019
Index of Consumer Sentiment	98.3	91.2	93.8	98.4	97.2	100.0	98.2	98.4	89.8	93.2	95.5	96.8	99.3
Current Economic Conditions	116.1	108.8	108.5	113.3	112.3	110.0	111.9	110.7	105.3	108.5	113.2	111.6	115.5
Index of Consumer Expectations	87.0	79.9	84.4	88.8	87.4	93.5	89.3	90.5	79.9	83.4	84.2	87.3	88.9
Index Components													
Personal Finances—Current	133	127	124	138	133	134	131	131	127	131	134	134	137
Personal Finances—Expected	129	131	133	131	136	135	134	137	123	128	134	131	131
Economic Outlook—12 Months	118	92	108	124	115	130	121	122	104	109	108	116	120
Economic Outlook—5 Years	102	97	99	102	100	112	104	106	93	98	96	105	106
Buying Conditions—Durables	169	155	158	156	159	151	160	156	146	150	160	156	164