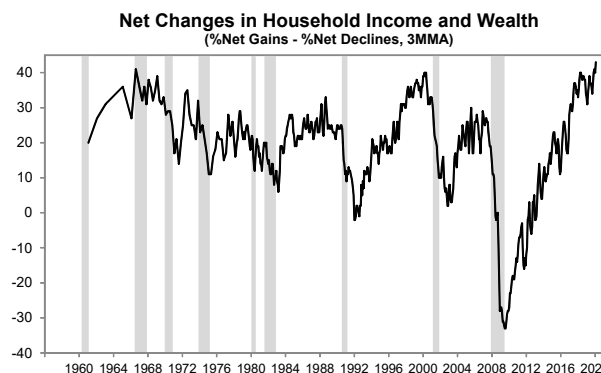




Subject: Preliminary results from the February 2020 survey
From: Richard Curtin, Director

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Consumer sentiment rose to 100.9 in early February to nearly match the expansion peak of 101.4, set two years ago in March 2018. The Expectations Index, the main gauge of future economic conditions, rose to 92.6, also its second highest level in this long expansion. Both measures were still significantly below the levels recorded twenty years ago when the Sentiment Index reached a peak of 112.0 and the Expectations Index peaked at 108.6. The early February gain was not uniform, however. Current personal finances as well as evaluations of the national economy each posted large gains, while consumers' views on buying conditions for household durables posted a significant loss. The overall balance still moved the Sentiment and Expectations Indexes higher. Net gains in household income and wealth were reported more frequently in early February than at any prior time since 1960 (see the chart). These gains in consumers' economic assessments have also been accompanied by a faint stirring of two powerful sources of uncertainty. First, the coronavirus was mentioned by just 7% when asked to explain their economic expectations in early February. While negative impacts on the supply chain are likely to occur, as long as the spread of the virus is mainly localized in China, it is not likely to appreciably affect U.S. consumers. The virtual lack of concern for its economic impact, other than by 7% of consumers, supports this assumption; these concerns can be anticipated to be highly dependent on the evolving virus. Second, the runup to the presidential election is likely to focus on the vast changes to taxes and spending programs; in early February 10% of all consumers mentioned some aspect of the election as having a potential impact on their economic expectations.



Consumers continued to favorably assess recent changes in their finances. Improving finances were reported by 58% of all consumers in February, the highest level ever recorded. Combined net changes in household income and wealth were cited by 50% in February, up from last month's 40%, and the highest ever recorded (see the chart). In sharp comparison, when asked about financial prospects for the year ahead, 41% expected gains, hardly changed from last month's 40% and last year's 42%. The size of expected year-ahead income gains were 2.1% down from last month's 2.3%, for those under 45, expected income gains were 3.0% down from last month's 4.5%; only for those under 45 was the gain less than the past year's average. Year-ahead inflation expectations were unchanged at 2.5% in February and slightly below last year's 2.6% (which was nearly identical to the official CPI at 2.5% for the past year). Long term inflation expectations fell to 2.3% in early February, down from last month's 2.5% and just ahead of the 2.2% low recorded in December. Interest rate expectations continued to slowly rise, as 44% expected higher interest rates in the year ahead, up from a low of 33% in September, well below last year's 64%. When asked about long term prospects for the national economy, 51% in early February anticipated uninterrupted growth, while 39% expected a downturn sometime in the next five years. This level of optimism tied the best outlook in this expansion (recorded four prior times); a higher level was last recorded at the end of 2004. The improved pace of economic growth meant that three-quarters of consumers anticipated that the unemployment rate would be no higher by the end of 2020.

The reduction in favorable buying conditions for household durables was dominated by consumers with incomes in the top third, although the overall level remained quite favorable. While less favorable perceptions of prices caused the decline in durables, lower mortgage rates caused improving home buying conditions. Favorable home buying attitudes rose to the most favorable level since October 2017, with favorable perceptions of mortgage rates the highest since September 2016.

	Feb 2019	Mar 2019	Apr 2019	May 2019	June 2019	Jul 2019	Aug 2019	Sept 2019	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb Prelim
Index of Consumer Sentiment	93.8	98.4	97.2	100.0	98.2	98.4	89.8	93.2	95.5	96.8	99.3	99.8	100.9
Current Economic Conditions	108.5	113.3	112.3	110.0	111.9	110.7	105.3	108.5	113.2	111.6	115.5	114.4	113.8
Index of Consumer Expectations	84.4	88.8	87.4	93.5	89.3	90.5	79.9	83.4	84.2	87.3	88.9	90.5	92.6
Index Components													
Personal Finances—Current	124	138	133	134	131	131	127	131	134	134	137	134	140
Personal Finances—Expected	133	131	136	135	134	137	123	128	134	131	131	133	134
Economic Outlook—12 Months	108	124	115	130	121	122	104	109	108	116	120	121	127
Economic Outlook—5 Years	99	102	100	112	104	106	93	98	96	105	106	110	112
Buying Conditions—Durables	158	156	159	151	160	156	146	150	160	156	164	163	155