surveys of consumers UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: January 2020 survey results January 31, 2020

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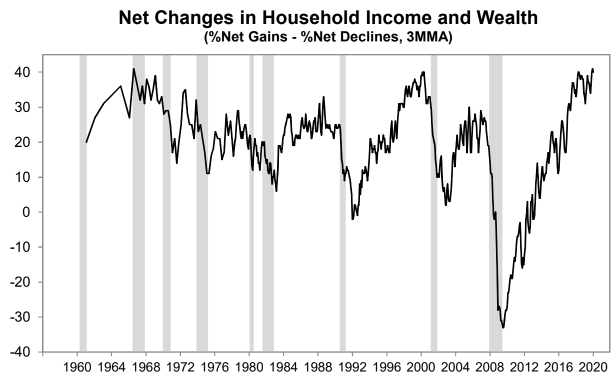
Consumer sentiment remained at very positive levels, with the January reading of 99.8 insignificantly below the cyclical peak of 101.4. The maintenance of consumer sentiment near cyclical peak levels is surprising given the overall slow pace of economic growth, which was accompanied in January by renewed military engagements in the Mideast, an impeachment trial in the Senate, and a fast spreading coronavirus. The resilience of consumers is remarkable and due to record low unemployment, record gains in income and wealth, as well as near record lows in inflation and interest rates. Importantly, the stability of positive levels of optimism during the past three years has favored a type of automatic information processing that acts to minimize the critical scrutiny given to ongoing events. Those same events, if they occurred when consumers were pessimistic, would spark a more detailed examination of every potential negative economic impact. If the mood of consumers begins to shift, the level of scrutiny will begin to rise, acting to accelerate declines in consumer confidence (see my book, *Consumer Expectations,* for a detailed explanation). To be sure, all expansions end when some event is interpreted as a tipping point, which influences the interpretation of ongoing developments as well as a reinterpretation of past events. After some initial consolidation, a cyclical downturn is established. While such tipping points have been repeatedly forecasted over this record long expansion, none have yet emerged. The data currently point toward consumer spending maintaining positive growth, but there is no sense in claiming that consumers will continue to dismiss the economic implications of a presidential election featuring fundamental changes in tax and spending programs.



Consumers continued to favorably assess recent changes in their personal finances. Improving finances were reported by 53% of all consumers in January, exactly equal to the 2018 and 2019 averages—the highest two years in the past half century. Combined net changes in household income and wealth were cited in 40% of all mentions in January, comparable to the 1966 and 2000 peaks (see the chart). When asked about their prospects for future income gains, the median across all households was 2.3%, up from 2.2% a month and year earlier. Consumers under age 45 expected wage gains of 4.5% in 2020.

Year-ahead inflation expectations rose to 2.5% in January, between last month's low of 2.3% and last January's 2.7%. Year-ahead inflation expectations have shown no trend in the past year, varying in a narrow range. Long term inflation expectations rose to 2.5% in January, between last month's 2.2% and last year's 2.6%. Interest rate expectations firmed in January, with expected increases during the year ahead reported by 40%, the highest level in six months, but well below last January's 70%.

Improving conditions in the economy were reported by 60% in January, up from last month's 55% and last year's 43%. Consumers were more likely to expect an uptick in economic growth rather than a weakening in the year ahead, and just over half of all consumers anticipated good economic times during the year ahead. Just 39% anticipated an economic downturn anytime in the next five years, somewhat below last January's 45%. The improved pace of economic growth meant that nearly eight-in-ten consumers anticipated that the national unemployment rate would be no higher by the end of 2020.

Buying conditions for major discretionary purchases showed mixed changes in January. Home buying attitudes improved to the best level in the past year, mainly due to references to lower mortgage rates; home selling conditions were judged slightly less favorably, largely due to lower selling prices. Vehicle buying conditions, in contrast, slipped in January from last month's 2019 peak, but still remained more favorable than last January. Low vehicle prices were cited by just 21% in January, just above last April's 20% and the expansion low of 17% cited in 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	Jan 2020
Index of Consumer Sentiment	91.2	93.8	98.4	97.2	100.0	98.2	98.4	89.8	93.2	95.5	96.8	99.3	99.8
Current Economic Conditions	108.8	108.5	113.3	112.3	110.0	111.9	110.7	105.3	108.5	113.2	111.6	115.5	114.4
Index of Consumer Expectations	79.9	84.4	88.8	87.4	93.5	89.3	90.5	79.9	83.4	84.2	87.3	88.9	90.5
Index Components													
Personal Finances—Current	127	124	138	133	134	131	131	127	131	134	134	137	134
Personal Finances—Expected	131	133	131	136	135	134	137	123	128	134	131	131	133
Economic Outlook—12 Months	92	108	124	115	130	121	122	104	109	108	116	120	121
Economic Outlook—5 Years	97	99	102	100	112	104	106	93	98	96	105	106	110
Buying Conditions—Durables	155	158	156	159	151	160	156	146	150	160	156	164	163