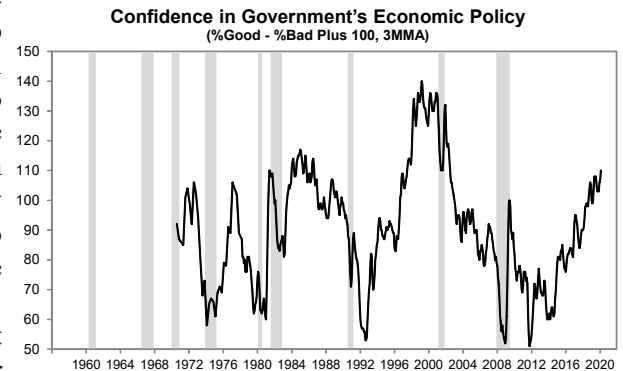




Subject: February 2020 survey results  
From: Richard Curtin, Director

February 28, 2020

Consumer sentiment rose to 101.0 in February, nearly matching the expansion peak of 101.4 set in March 1988. The coronavirus was mentioned by 8% of all consumers in February when describing the reasons for their economic expectations. However, on Monday and Tuesday of this week, the last days of the February survey, 20% mentioned the coronavirus due to the steep drop in equity prices as well as the CDC warnings about the potential domestic threat of the virus. While too few cases were conducted to attach any statistical significance to the findings, it is nonetheless true that the domestic spread of the virus could have a significant impact on consumer spending. Importantly, the early indications suggested only a very modest impact as the Sentiment Index among consumers who mentioned the coronavirus was still quite high (just over 90.0). The warning by the CDC heightened economic as well as health concerns. If the virus spreads into U.S. communities, consumers are likely to limit their exposure to stores, malls, theaters, restaurants, sporting events, air travel, and the like. There is likely to be some advance buying and increased online shopping, but much of the discretionary spending may not occur. To be sure, there is no reason to anticipate that consumers will engage in such extreme measures at this time. It is a fine line that needs to be drawn to encourage people to take normal steps of preventive hygiene but not to engage in panic reactions. Panic is best avoided by a strong sense of confidence in local, state, and federal responses that aim to control the potential spread of the virus as well as limit any resulting damage to the economic welfare of consumers. The most effective fiscal and monetary policies include proposed reactions to the virus that are transparent, well understood, and act to maintain confidence in government economic policies close to its nearly two-decade high (see the chart).



Consumers continued to favorably assess recent changes in their finances. Improving finances were reported by 58% of all consumers in February, up from 49% a year earlier and the highest level ever recorded. Net gains in income and wealth were reported by 48%, up from 29% a year ago. In sharp comparison, when asked about financial prospects for the year ahead, 41% expected gains, between last month's 40% and last year's 42%. The expected year-ahead income gain was 2.2%, down from last month's 2.3%; for those under 45, expected income gains were 3.3%, below last month's 4.5% and last year's 4.7%. Year-ahead inflation expectations fell to 2.4% in February, down from last month's 2.5% and last year's 2.6%. Long term inflation expectations fell to 2.3% in February, down from last month's 2.5% and just ahead of the 2.2% low recorded in December and equal to last year's level. Interestingly, the slow rise in expected increases in interest rate was partially reversed in late February. The reversal was likely due to the coronavirus: those who mentioned the coronavirus were much more likely to anticipate declines in interest rates during the year ahead—an indication that precautionary cuts are expected.

Good times financially were anticipated in the overall economy during the year ahead by 58% of all respondents, up from 48% last February, and just below the cyclical peak of 61% in January 2015. Moreover, when asked about longer term prospects for the national economy, half of all consumers anticipated uninterrupted growth, with 39% who anticipated a downturn sometime in the next five years. Unemployment was on balance anticipated to remain unchanged in the year ahead.

Favorable buying conditions exhibited only insignificant changes over the past month or year. Declines in mortgage rates had a large positive impact on home buying, with low mortgage rates mentioned by 42%, the highest proportion since 2016. Lower rates on auto purchases were mentioned much less frequently, by 19% in February, and low interest rates on purchases of household durables by just 11%. Less positive assessments of prices dominated evaluations of household durables.

	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 2020
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	101.0
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	114.8
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	92.1
Index Components													
Personal Finances—Current	124	138	133	134	131	131	127	131	134	134	137	134	141
Personal Finances—Expected	133	131	136	135	134	137	123	128	134	131	131	133	133
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	111
Buying Conditions—Durables	158	156	159	151	160	156	146	150	160	156	164	163	157