



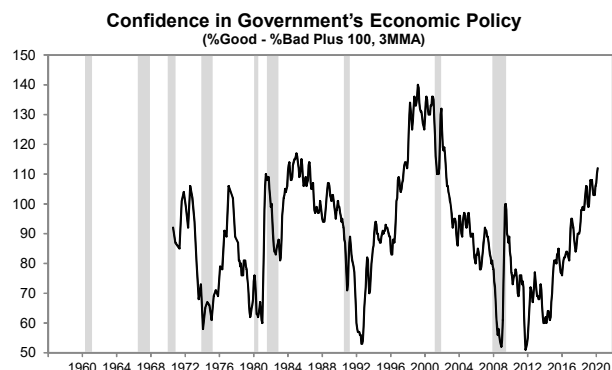
Subject: Preliminary results from the March 2020 survey

March 13, 2020

From: Richard Curtin, Director

Consumer sentiment fell in early March due to the spreading coronavirus and the steep declines in stock prices. Importantly, the initial response to the pandemic has not generated the type of economic panic among consumers that was present in the runup to the Great Recession. Nonetheless, the data suggest that additional declines in confidence are still likely to occur as the spread of the virus continues to accelerate. Perhaps the most important factor limiting consumers' initial reactions is that the pandemic is widely regarded as a temporary event. The component of the Sentiment Index that posted the greatest loss involved judgements about prospects for the economy during the year ahead; this component fell by 29 points, accounting for 83% of the total point decline in early March. In sharp contrast, consumers more favorably judged the economic outlook over the next five years than last month. While the most effective containment efforts are widespread closures and self-isolation, those same actions have the largest negative impact on the economy and significantly increase the probability that the pandemic will be followed

by a recession that lasts longer than the virus. The best policy antidote would be immediate relief provided by multiple sources of cash transfers and debt forbearance. To avoid a recession, speed is more essential than targeting. Moreover, maintaining confidence in the effectiveness of economic policies is essential (see the chart), otherwise the intended behavioral reactions on spending may not be forthcoming. Importantly, the March survey found no significant difference in consumers' confidence in government economic policies between those who mentioned the coronavirus (40% voiced confidence) and those who didn't (41% voiced confidence).



When consumers were asked to explain their economic expectations, the coronavirus was spontaneously mentioned by 38% in early March, up from just 8% in February. Those who mentioned the coronavirus were more pessimistic, with a score on the Index of Consumer Sentiment that was 15.4 Index-points lower than those who did not mention the coronavirus. The Sentiment Index among those who mentioned the coronavirus was still relatively high at 86.4 in early March. The largest differential was on the year-ahead business outlook: among those that mentioned the virus, 58% expected bad times in the overall economy, of those who didn't mention the virus, 52% anticipated good economic times during the next year.

Personal finances declined modestly in early March due to a combination of declines in stock prices and an expected rise in the unemployment rate. The majority of households still reported being better off financially, with no change in the frequency of net income increases since last month. Among those with incomes in the top third, reports of net household wealth gains were about half as frequent as last month. When asked about future financial prospects, 37% expected gains, just below last month's 41%. Expected increases in household incomes during the month ahead fell to just 1.8% from last month's 2.2%, although for those under age 45, it remained relatively high, at 4.6%. The slowdown in the pace of economic growth resulted in less favorable unemployment expectations, with anticipated increases rising to 31% from last month's 23%.

Year-ahead inflation expectations fell to 2.3% in early March, down from last month's 2.4% and last year's 2.5%. The 2.3% rate replicated December's reading; the lowest level in the past decade was 2.2%, recorded just twice. Gas prices were anticipated to increase by less than a penny during the year ahead. Long term inflation expectations remained unchanged at 2.3% in early March from last month, for the fifth time during the past year. Interest rates were expected to decline by 29% of all consumers, the highest level since February 2009. Expected interest rate declines among those who mentioned the virus were anticipated by 36%, while that same percentage anticipated interest rate hikes among those who didn't mention the virus.

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| | Mar 2019 | Apr 2019 | May 2019 | June 2019 | Jul 2019 | Aug 2019 | Sept 2019 | Oct 2019 | Nov 2019 | Dec 2019 | Jan 2020 | Feb 2020 | March Prelim |
|--------------------------------|----------|----------|----------|-----------|----------|----------|-----------|----------|----------|----------|----------|----------|--------------|
| Index of Consumer Sentiment | 98.4 | 97.2 | 100.0 | 98.2 | 98.4 | 89.8 | 93.2 | 95.5 | 96.8 | 99.3 | 99.8 | 101.0 | 95.9 |
| Current Economic Conditions | 113.3 | 112.3 | 110.0 | 111.9 | 110.7 | 105.3 | 108.5 | 113.2 | 111.6 | 115.5 | 114.4 | 114.8 | 112.5 |
| Index of Consumer Expectations | 88.8 | 87.4 | 93.5 | 89.3 | 90.5 | 79.9 | 83.4 | 84.2 | 87.3 | 88.9 | 90.5 | 92.1 | 85.3 |
| Index Components | | | | | | | | | | | | | |
| Personal Finances—Current | 138 | 133 | 134 | 131 | 131 | 127 | 131 | 134 | 134 | 137 | 134 | 141 | 134 |
| Personal Finances—Expected | 131 | 136 | 135 | 134 | 137 | 123 | 128 | 134 | 131 | 131 | 133 | 133 | 127 |
| Economic Outlook—12 Months | 124 | 115 | 130 | 121 | 122 | 104 | 109 | 108 | 116 | 120 | 121 | 127 | 98 |
| Economic Outlook—5 Years | 102 | 100 | 112 | 104 | 106 | 93 | 98 | 96 | 105 | 106 | 110 | 111 | 117 |
| Buying Conditions—Durables | 156 | 159 | 151 | 160 | 156 | 146 | 150 | 160 | 156 | 164 | 163 | 157 | 158 |