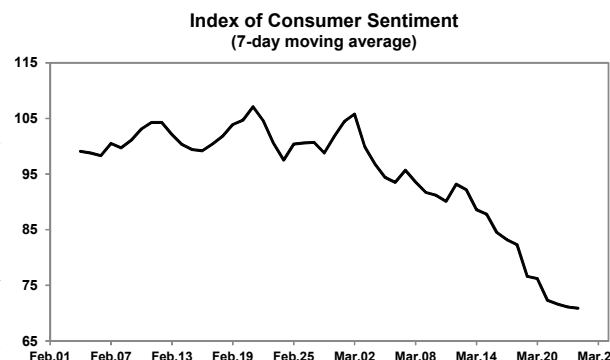




Subject: March 2020 survey results
From: Richard Curtin, Director

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Consumer sentiment dropped 11.9 Index-points in March, the fourth largest one-month decline in nearly a half century. The steepest monthly decline was barely larger at -12.7 Index-points in response to the deepening recession in October 2008, and there were two declines of 12.2 points in response to the 1980 recession and Hurricane Katrina in September 2005. The 1980 and 2008 collapses in consumer confidence occurred late in those recessions, acting to establish the cyclical lows; earlier steep declines preceded the start of the recessions. The Katrina decline was reversed within three months, and some observers compared that “V” shaped economic episode to the expected impact of the coronavirus. What didn’t show a “V” shape response was the recovery of New Orleans, a closer comparison to today’s national economy. A more comparable prior decline occurred in August 1990, when the Sentiment Index fell by 11.8 points due to the invasion of Kuwait, and subsequently recorded an all-time record gain of 17.3 points in March 1991. Those two outsized changes in the Sentiment Index defined the start and end of the 1990-91 recession. Just



as in the 1990-91 episode, the Sentiment Index can be expected to decline in the months ahead. The chart above shows the seven-day moving average of the Sentiment Index over the past two months. Following trendless variations in February, the Index posted sharp declines in March. If the Consumer Sentiment Index were to stabilize at its most recent seven-day average, it would imply an additional decline of nearly 18.2 Index-points in April, amounting to a record setting two-month decline of 30.1 points. Stabilizing confidence at its month’s end level will be difficult given surging unemployment and falling household incomes. The extent of additional declines in April will depend on the success in curtailing the spread of the virus and how quickly households receive funds to relieve their financial hardships. Mitigating the negative impacts on health and finances may curb rising pessimism, but it will not produce optimism. There is no silver bullet that could end the pandemic as suddenly as the military victory that ended the Gulf war. To avoid an extended recession, economic policies must quickly adapt to a new era that will reorder the spending and saving priorities of consumers as well as the relative roles of the public and private sectors in the U.S. economy.

The outlook for the national economy for the year ahead changed dramatically in March, with the majority now expecting bad times financially in the entire country. Perhaps the most important takeaway is that the largest proportion of consumers in nearly ten years anticipated that the national unemployment rate will increase in the year ahead. Consumers still believe that the current downturn will be temporary as half anticipated better times over the next five years, the same proportion that was recorded last month. Optimism about the longer term outlook, however, was mainly voiced by those over age 65.

The year-ahead inflation rate fell to 2.2% in March from 2.4% one month ago and 2.5% one year ago, which was the lowest year-ahead inflation rate recorded for just the third time in the last decade. Importantly, 27% of all consumers expected an inflation rate of zero or less in March, the highest figure in the past decade. Longer term inflation expectations remained unchanged at 2.3% from last month and for the fifth month in the past year. Interest rates were expected to post additional declines in the year ahead by 32% of all consumers in the March 2020 survey, the highest proportion since January 2009.

Personal financial assessments have declined due to job and income losses as well as declines in stocks (but not home values). Year-ahead financial prospects declined across all age and income subgroups, although by modest amounts as consumers still anticipated short-lived negative impacts from the pandemic. Indeed, longer term financial prospects remained unchanged at quite favorable levels. Year ahead income gains of 1.9% were anticipated, below last month’s 2.2% and last year’s 2.6%.

	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 2020
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	89.1
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	103.7
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	79.7
Index Components													
Personal Finances—Current	138	133	134	131	131	127	131	134	134	137	134	141	128
Personal Finances—Expected	131	136	135	134	137	123	128	134	131	131	133	133	124
Economic Outlook—12 Months	124	115	130	121	122	104	109	108	116	120	121	127	83
Economic Outlook—5 Years	102	100	112	104	106	93	98	96	105	106	110	111	112
Buying Conditions—Durables	156	159	151	160	156	146	150	160	156	164	163	157	141