



Subject: Greater Losses Still Likely  
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This reports has two objectives. First, it documents that the collapse in economic optimism in the past few months occurred across all major population subgroups defined by income, age, education, and region of residence. Moreover, following the steep declines, the resulting levels of optimism showed smaller differences than would be normally anticipated. The recovery from the coronavirus recession will not only require a significant slowing in infections and deaths due to the virus but also a significant additional increase in financial aid to households. The second objective is to determine the potential for additional consumer sentiment declines during the months ahead. Further declines would increase the expected length of the recession and the financial hardships on households. Will the initial efforts to reopen the economy blunt the six-week surge in unemployment claims to 30 million, or will the efforts to reopen the economy only result in a resurgence in coronavirus infections and a renewed and more lasting slump in confidence? Consumer survey data cannot predict the progression of the virus, but the data can indicate whether consumers' economic expectations are more or less vulnerable to additional declines.

The second objective of this report is to assess that vulnerability. The only positive aspect of the current situation is that consumers anticipate improved finances as well as overall gains in economic conditions during the year ahead. This reaction is quite different from the typical initial responses to a downturn and is due to the belief that the coronavirus will gradually diminish in the months ahead. The University of Michigan's surveys have always included a second type of question that in addition to measuring the direction of change, also measures consumers' evaluations of the level of economic activity. Those two types of questions have typically provided useful information around turning points in the economy: around peaks, economic conditions could be worsening but still remain favorable, and around troughs, confidence could be improving but nonetheless remain unfavorable. Rather than due to economic cycles, the current situation was generated by perceptions of the evolution of viruses. It could hardly be surprising that following the 1<sup>st</sup> quarter decline of 4.8%, and an anticipated 2<sup>nd</sup> quarter decline of around 25%, a small positive uptick, likely to occur over the subsequent year, would qualify as "improving conditions." When asked whether conditions would be good or bad, the majority of consumers expected much smaller income gains, and the majority evaluated the overall state of the economy as representing "bad times financially." Moreover, when consumers were asked to explain their views on buying conditions for household durables, half of all consumers mentioned that they were postponing purchases due to uncertainty about future job and income prospects.

As shown in the table below, the falloff in the Current Index is about twice the size of the Expected Index decline, an even larger margin of decline was recorded among current finances and business conditions than in the year-ahead expectations, but consumers were still quite negative about income gains and judgements about the economy. Overall, the data indicate that further declines in overall confidence due to falloffs in expectations are clearly possible, and are likely to occur due to the continued increases in unemployment and shrinking GDP in the months ahead—both reaching the worst in our lifetimes.

	Overall Indexes						Personal Finances				Business Conditions				Buying Attitudes							
	Consumer Sentiment Index		Current Index		Expected Index		Current Personal Finances <sup>a</sup>		Expected Personal Finances <sup>a</sup>		Income Expectation (Median, Percent)		Current Business Conditions <sup>a</sup>		Expected Change in Business Conditions <sup>a</sup>		Expected Fav/Unf Business Conditions <sup>a</sup>		Durable Goods Buying Conditions <sup>a</sup>		Mentioned Job/Income Uncertainty (Percent)	
	Δ	Level	Δ	Level	Δ	Level	Δ	Level	Δ	Level	Δ	Level	Δ	Level	Δ	Level	Δ	Level	Δ	Level	Δ	Level
<b>All</b>	-29.2	71.8	-40.5	74.3	-22.0	70.1	-35	106	-7	126	-1.8	0.4%	-111	19	+30	137	-69	58	-71	86	+45	53%
<b>Income</b>																						
Bottom third	-26.8	68.4	-41.3	66.5	-17.5	69.6	-34	89	+2	130	-1.3	-0.8	-110	21	+29	130	-56	61	-75	82	+44	52
Middle third	-29.2	74.6	-35.0	80.6	-25.4	70.8	-22	118	-9	127	-1.1	1.4	-110	18	+17	134	-75	59	-70	90	+45	52
Top third	-33.0	72.4	-46.4	76.3	-24.3	70.0	-47	113	-12	123	-2.5	0.4	-116	14	+44	147	-80	53	-75	84	+48	56
<b>Age</b>																						
18 - 34	-26.1	73.4	-29.6	83.0	-23.8	67.2	-11	130	+2	140	+1.2	4.4	-107	18	+27	125	-77	47	-67	84	+46	51
35 - 54	-41.1	66.1	-52.8	68.1	-33.6	64.8	-49	105	-17	128	-3.5	-0.6	-118	20	+22	136	-92	42	-90	70	+52	61
55 or older	-22.0	74.8	-36.8	74.0	-12.5	75.3	-37	93	-3	118	-0.5	0.2	-105	19	+38	143	-48	74	-61	97	+40	48
<b>Education</b>																						
High Sch. or less	-25.6	74.7	-41.4	67.1	-15.4	79.6	-30	98	+8	138	+0.4	1.1	-102	32	+21	133	-51	83	-79	74	+44	55
Some College	-29.3	74.9	-41.6	72.7	-21.3	76.4	-28	104	+2	135	-2.6	-0.7	-106	25	+29	143	-77	61	-81	83	+46	52
College Degree	-30.0	69.3	-39.6	77.5	-23.8	64.1	-41	109	-16	118	-2.3	0.4	-116	11	+34	135	-69	49	-64	91	+44	52
<b>Region</b>																						
West	-26.3	69.7	-35.4	78.2	-20.5	64.3	-17	123	-1	124	-3.2	-0.8	-112	20	+33	132	-70	54	-76	78	+46	54
North Central	-29.3	73.9	-41.0	76.5	-21.8	72.2	-36	107	+1	135	-0.8	0.8	-104	23	+24	135	-79	52	-72	90	+40	47
Northeast	-31.7	66.3	-45.5	63.8	-22.7	68.0	-51	80	-7	118	-3.4	-0.8	-110	14	+44	139	-75	51	-69	83	+45	53
South	-30.2	73.9	-41.5	74.9	-23.0	73.2	-40	105	-16	125	-1.7	0.6	-116	17	+25	139	-59	67	-70	88	+48	56

Note: a=balance score (%Favorable - %Unfavorable + 100)