

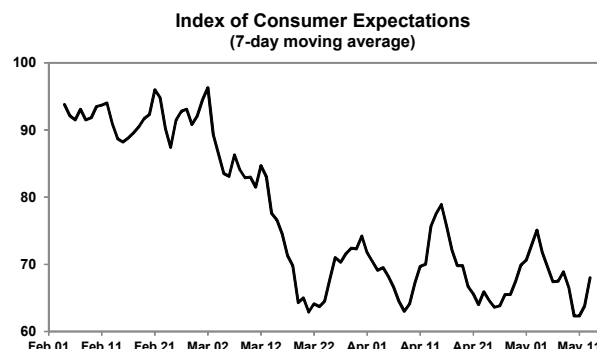


Subject: Preliminary results from the May 2020 survey

May 15, 2020

From: Richard Curtin, Director

Confidence inched upward in early May as the CARES relief checks improved consumers' finances and widespread price discounting boosted their buying attitudes. Despite these gains, personal financial prospects for the year ahead continued to weaken, falling to the lowest level in almost six years, with declines especially sharp among upper income households. Improved views on buying conditions were due to discounted prices and low interest rates, although their impact was partially offset by uncertainties about job and income prospects. Perhaps the most surprising finding concerned consumers' inflation expectations. The median expected inflation rate during the year ahead rose sharply, with wide differences across age and income subgroups. As shown in the chart, the Expectations Index still indicates that no economic restoration is yet anticipated by consumers.



Consumers were asked to identify their top concerns about the pandemic: was it the threat to their health, the required social isolation, or the impact on family finances? The health threat dominated in both months, cited by 61% in April and 57% in May. The original hypothesis was that as their primary concerns shifted from health to finances, consumers would become less accepting of constraints on reopening the economy. Those that cited damages to their finances as their top concern fell to 17% in May from 22% in the prior month. Surprisingly, it was greater concerns about social isolation that increased, cited as the top concern by 21% in May up from 14% in April. While these shifts were quite small, they indicate the growing costs of social isolation and its potential to shift opinions about reopening the economy.

Current personal finances improved slightly in early May due to net income gains, mainly from the federal rebate checks. Personal financial prospects for the year ahead, however, slipped to the lowest level since July 2014. Expected income gains remained at just 0.5% in May, barely above April's 0.4% and well below the 2.2% recorded in February. Households with incomes in the top third anticipated an increase of just 0.3%, the lowest in a decade, and much less than the 1.2% expected by middle income households or the 0.7% for those with incomes in the bottom third of the income distribution.

The median expected year ahead inflation rate was 3.0% in May, substantially above last month's 2.1%. Differences across age and income subgroups were substantial. The difference amounted to 1.6 percentage points across three age groups (oldest - youngest), eight times the average of 0.2 percentage points recorded since 1980. The differential across income terciles was 3.3 percentage points in May (bottom - top tercile), more than five times the average of 0.6 percentage points in the past forty years. Long term inflation expectations rose slightly to an annual rate of 2.6% in May from last month's 2.5%. While the age differential was just 0.1 percentage points, the differences across income terciles was 0.6 percentage points in May.

A worsening economy was reported by 95% of all consumers, only below the peak of 96% in February 2009 at the recession low point. When asked if they expected the economy to improve in the year ahead, 59% anticipated gains; this was twice as many as in February 2009. Despite the expected gains, the majority of consumers anticipated that this still meant that bad financial times would persist in the year ahead, and the balance of opinion expected it to persist over the next five years.

The May survey recorded an improvement in buying conditions mainly due to deep discounting, especially by vehicle manufacturers. Favorable views of vehicle buying conditions rose to 64% from 57% last month, with 76% of all consumers mentioning steep discounts on prices and interest rates in May, up from 61% in April. Favorable home buying conditions were reported by 59%, up from last month's 51%, while references to low prices and mortgage rates rose to 74%, up from last month's 60%. For both markets, uncertainties about job and income prospects acted to dilute the advantages of discounts.

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	May 2019	June 2019	Jul 2019	Aug 2019	Sept 2019	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	April 2020	May Prelim
Index of Consumer Sentiment	100.0	98.2	98.4	89.8	93.2	95.5	96.8	99.3	99.8	101.0	89.1	71.8	73.7
Current Economic Conditions	110.0	111.9	110.7	105.3	108.5	113.2	111.6	115.5	114.4	114.8	103.7	74.3	83.0
Index of Consumer Expectations	93.5	89.3	90.5	79.9	83.4	84.2	87.3	88.9	90.5	92.1	79.7	70.1	67.7
Index Components													
Personal Finances—Current	134	131	131	127	131	134	134	137	134	141	128	106	111
Personal Finances—Expected	135	134	137	123	128	134	131	131	133	133	124	126	115
Economic Outlook—12 Months	130	121	122	104	109	108	116	120	121	127	83	58	61
Economic Outlook—5 Years	112	104	106	93	98	96	105	106	110	111	112	96	94
Buying Conditions—Durables	151	160	156	146	150	160	156	164	163	157	141	86	103