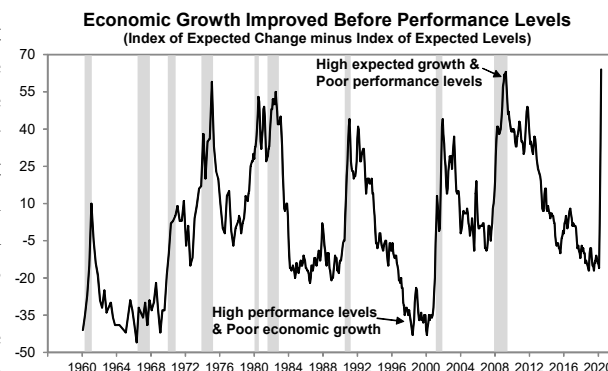




Subject: May 2020 survey results
From: Richard Curtin, Director

May 29, 2020

Consumer sentiment has remained largely unchanged during the past two months, with the final May estimate just a half index point above the April reading. The CARES relief checks and higher unemployment payments have helped to stem economic hardship, but those programs have not acted to stimulate discretionary spending due to uncertainty about the future course of the pandemic. It should not be surprising that a growing number of consumers expected the economy to improve from its recent standstill, or that the majority still thought conditions would remain unfavorable in the year ahead. This has been a common occurrence in past cycles (see the chart). The gap between judgements about economic growth and the current performance is likely to grow significantly when the 2nd quarter GDP is announced. More widespread price discounting as well as low interest rates have helped to improve buying plans, but buying plans remain well below the levels recorded three months ago. Adding to consumers' concerns about a significant expected drop in income growth, year-ahead inflation expectations rose sharply, putting extra pressure on consumers' abilities to maintain their living standards.



Current personal finances hardly changed from last month. Although the proportion reporting improved finances was 20 percentage points below the February reading, net income gains were reported by just 10% in May, down from 32% three months ago. Expected income gains in the year ahead fell to just 0.5% in May from 2.2% three months ago. Those with incomes in the top third, expected income gains of just 0.4% in both April and May, but well below January's 3.0%.

Consumers reported hearing more negative economic news in May than at any other time in the long history of the surveys, with an all-time record of 89% mentioning the steep increases in unemployment. When asked about future job prospects, the proportion that anticipated a lower unemployment rate in the year ahead rose to 41% in May, from just 21% in March. Interestingly, the 41% that anticipated a declining jobless rate was the highest since the mid 1983 peak of 42%, which followed the peak jobless rate of 10.8% in December 1982; it took nearly two decades for the unemployment rate to fall below 4% in 2000. The timing of a return to the 2019-20 low of 3.5% is now well beyond the planning horizon of most consumers.

Consumers voiced a near universal view (95%) that the economy was in recession in May, and the highest proportions in April (58%) and May (56%) thought that the economy would improve in the year ahead. For the year ahead, 67% of consumers expected the continuation of bad economic times, more than twice the 31% recorded three months ago. Of greater concern, consumers downgraded their views about long term economic prospects: 50% anticipated bad financial times over the next five years, the second worst reading since Trump entered office. Moreover, 37% of all consumers judged current economic policies as poor in May, the worst since 38% was recorded in July 2017 soon after Trump first took office.

The median expected year ahead inflation rate was 3.2% in May, substantially above last month's 2.1%. The expected inflation rate reported by all subgroups rose from last month, and the subgroup differences from last year's May survey increased from 0.5 to 0.8 percentage points across age groups and from 0.4 to 2.0 percentage points across income groups.

Favorable views of vehicle buying conditions rose to 64% from 57% last month, with 77% of consumers citing steep discounts on prices and interest rates in May, up from 42% last May. Importantly, fewer consumers mentioned job and income uncertainty as a reason for postponing purchases, falling to 28% from last month's 38%. Favorable home buying conditions were slightly more positive, while references to low prices and mortgage rates rose to 71%, up from last month's 60%. Fewer home owners thought that selling conditions were favorable, falling to 33% from 79% three months ago.

	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 2020
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	72.3
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	82.3
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	65.9
Index Components													
Personal Finances—Current	134	131	131	127	131	134	134	137	134	141	128	106	107
Personal Finances—Expected	135	134	137	123	128	134	131	131	133	133	124	126	117
Economic Outlook—12 Months	130	121	122	104	109	108	116	120	121	127	83	58	58
Economic Outlook—5 Years	112	104	106	93	98	96	105	106	110	111	112	96	88
Buying Conditions—Durables	151	160	156	146	150	160	156	164	163	157	141	86	105