

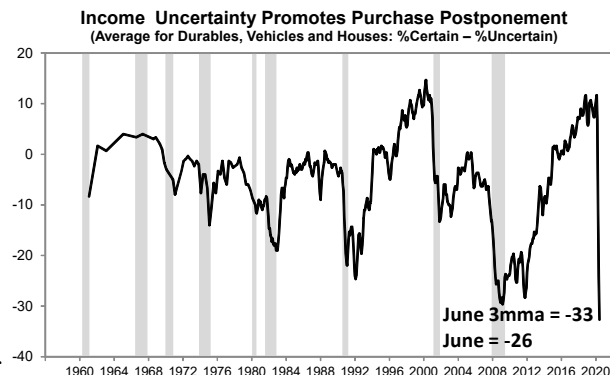


Subject: Preliminary results from the June 2020 survey

June 12, 2020

From: Richard Curtin, Director

Consumer sentiment posted its second monthly gain in early June, paced by gains in the outlook for personal finances and more favorable prospects for the national economy due to the reopening of the economy. The turnaround is largely due to renewed gains in employment, with more consumers expecting declines in the jobless rate than at any other time in the long history of the Michigan surveys. Despite the expected economic gains, few consumers anticipate the reestablishment of favorable economic conditions anytime soon. Bad times financially in the economy as a whole during the year ahead were still expected by two-thirds of all consumers, and a renewed downturn was anticipated by nearly half over the longer term. The most often cited cause of a renewed downturn is a resurgence in the spread of the coronavirus, and the most often cited cause of a slow economic recovery is the financial damage from persistently high unemployment. Each of these factors have increased the uncertainty consumers now attach to their expectations. The resulting record level of income uncertainty has had a significant impact on consumers' willingness to make discretionary purchases, although uncertainty has slightly eased recently (see the chart). Importantly, these concerns have also been mitigated by deep discounts on prices and interest rates. NBER's cyclical peak in February and recession call came as no surprise to consumers: during the past three months 89% to 95% have judged the economy in decline, up from the recent low of 24% in January of 2020.



Assessments of their current finances inched upward, but the proportion who reported improved finances was still 18 percentage points below the February peak. The fewest consumers in six years reported net income gains, falling to just 4% from 32% in February. When asked about prospects for the year ahead, improved finances were expected by 42%, above last month's 32%. The gain was due to rising income with expected annual gains of 1.3%, up from last month's 0.5%. The highest gains were among those under 45 (3.4%) and the smallest among those with incomes in the bottom third (-0.5%).

The median expected year ahead inflation rate was 3.0% in June, just below last month's 3.2%, but above last year's 2.7%. The dispersion narrowed considerably across demographic groups. It is likely that the recent rise in inflation expectations reflects a shift in consumer purchases from the full range included in the CPI to be more heavily focused on food purchases, which posted an annual gain of 4.8% in May. The recent rise in inflation expectations was due to a significant decline in the proportion that anticipated an annual inflation rate of zero or below, which fell from 40% in April to just 25% in early June.

Record numbers of consumers have anticipated gains in the overall economy and employment. Improving economic conditions were expected by 57% of consumers in June (barely below the all-time record 58% set in April), and a record 50% anticipated declines in unemployment. Despite the widespread expectations of gains, it was still true that when asked whether economic conditions would be good or bad, 63% expected bad times, twice the 31% in February. Confidence in government economic policies fell in early June, with the proportion judging policies as poor at the highest level since Trump was elected.

Favorable views of buying conditions for durables, vehicles, and homes all improved in the past two months. The gains have been due to the widespread availability of price discount and low interest rates. Favorable views of home prices rose to 32% in June from 14% in February, for vehicles, references to price discounts rose to 50% from just 23% in February, and for household durables, favorable price references rose to 40% from 34% in February. Pushing against these more attractive deals have been uncertainties about future income and job prospect. Importantly, these concerns have eased since their peak levels in April, but they remain a significant countervailing force given the unknown potential for a resurgence in the coronavirus.

	June 2019	Jul 2019	Aug 2019	Sept 2019	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	April 2020	May 2020	June Prelim
Index of Consumer Sentiment	98.2	98.4	89.8	93.2	95.5	96.8	99.3	99.8	101.0	89.1	71.8	72.3	78.9
Current Economic Conditions	111.9	110.7	105.3	108.5	113.2	111.6	115.5	114.4	114.8	103.7	74.3	82.3	87.8
Index of Consumer Expectations	89.3	90.5	79.9	83.4	84.2	87.3	88.9	90.5	92.1	79.7	70.1	65.9	73.1
Index Components													
Personal Finances—Current	131	131	127	131	134	134	137	134	141	128	106	107	112
Personal Finances—Expected	134	137	123	128	134	131	131	133	133	124	126	117	134
Economic Outlook—12 Months	121	122	104	109	108	116	120	121	127	83	58	58	68
Economic Outlook—5 Years	104	106	93	98	96	105	106	110	111	112	96	88	91
Buying Conditions—Durables	160	156	146	150	160	156	164	163	157	141	86	105	114