



Subject: Views on Discretionary Spending  
From: Richard Curtin, Director

June 19, 2020

The University of Michigan surveys have regularly asked consumers about their views on a range of discretionary purchases, including large household durables, vehicles, and homes. Last week's report found that consumers held more favorable spending views than at the April 2020 lows, but those favorable views were still well below the peak levels recorded at the start of the year. A unique aspect of the Michigan surveys is that consumers are also asked to explain in their own words the reasons underlying their overall buying assessments. This report focuses on two sets of these unaided responses: net references to low prices and low interest rates (see the first block in the table below) and net favorable references to job and income prospects (the second block). These two sets of reasons often move in opposite directions, with lower prices and interest rate dominating the start of recoveries and favorable job and income prospects dominating near the ends of economic recoveries. Consumers have also learned that the size of price discounts quickly decline along with a rebounding economy. Consumers once thought that interest rates would begin to rise in a recovery, but the recent Fed announcement that rates will remain low over the next few years has reduced consumers' motivations to speedup purchases based on the anticipation of rising interest rates. When making purchase decisions, each consumer must balance the appeal of discounts against the rise in income uncertainty (see the third block). Rising discretionary spending on household durables, vehicles, and homes can be expected as the economy more fully reopens in the months ahead. Those spending gains, however, will not recapture the levels recorded in January and early February, mostly due to persistent concerns about prospects for jobs and incomes.

**Low Prices and Interest Rates.** All income and age subgroups increasingly reported the availability of discounted prices and low interest rates from January to June 2020. Interestingly, the top income subgroup reported discounts earlier than the lowest income group, and by June the difference in spontaneous references to net discounts was substantial: 64% among top third in household incomes versus 38% among the bottom third in incomes. While the differences in perceptions widened across income groups, they narrowed across age subgroups: the widest gap between age subgroups was 31 percentage points in January, which fell to only 7 percentage points in June. The increase in spontaneous references to low price and interest rates occurred first for consumers over age 55 in April, among the middle aged in May, and among the youngest in June.

**Job and Income Prospects.** Uncertainty about future job and income prospects grew substantially across all income and age subgroups, reaching a peak in April. In the following months these concerns eased, although they still remained well above January's levels. Uncertainty about future job and income prospects was the highest among lower income and younger households, the opposite pattern recorded for discounted prices and low interest rates. The declines recorded in job and income prospects from January to June were nearly identical across all income groups (39 to 41 percentage points) as well as across all age subgroups (39 to 41 percentage points). These judgements should improve in the months ahead along with the reopening of the economy, but cannot be expected to regain the positive levels recorded at the start of 2020 anytime soon.

**Combined Discounts and Income Prospects.** Most purchase decisions reflect combined judgements about available prices and interest rates as well as job and income prospects. These judgements have improved substantially from the April lows across both income and age subgroups but remained well below the January-February levels. Although the percentage point gains recorded from the April lows were lower for those with incomes in the bottom third as well as among consumers 55 years or older, the differences were insignificant. When June is compared with January, however, the reduction in combined favorable views is large for every subgroup, except for those under age 35 which edged upward rather than declined.

**Spontaneous References to Prices and Incomes when Asked to Evaluate Durable, Vehicle, and Home Purchases**

	Net References to Low Prices and Low Interest Rates						Net Favorable Job and Income Prospects						Combined Discounts and Income Prospects					
	Jan	Feb	Mar	Apr	May	Jun	Jan	Feb	Mar	Apr	May	Jun	Jan	Feb	Mar	Apr	May	Jun
<b>Household Income</b>																		
Bottom Third	18	21	19	26	36	38	7	7	-4	-43	-42	-33	25	28	15	-17	-6	5
Middle	29	29	34	41	51	56	14	9	0	-40	-32	-27	43	38	34	1	19	29
Top Third	36	33	44	50	68	64	15	12	1	-39	-24	-24	51	45	45	11	44	40
<b>Householder Age</b>																		
18-34	6	13	15	26	31	47	4	4	-4	-40	-32	-35	10	17	11	-14	-1	12
35-54	27	29	31	37	57	54	10	13	-7	-42	-34	-30	37	42	24	-5	23	24
55 or older	37	34	41	47	56	53	18	9	4	-38	-32	-23	55	43	45	9	24	30