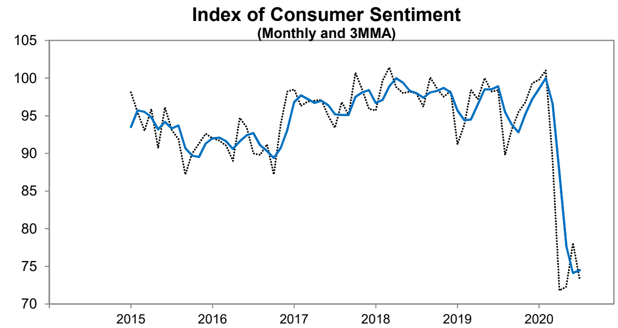
surveys of consumers
UNIVERSITY OF MICHIGAN
Monitoring trends for over 70 years

Subject: Preliminary results from the July 2020 survey July 17, 2020
From: Richard Curtin, Director

Consumer sentiment retreated in the first half of July due to the widespread resurgence of the coronavirus. The promising gain recorded in June was reversed, leaving the Sentiment Index in early July insignificantly above the April low (+1.4 points). Following the steepest two-month decline on record, it is not surprising that consumers need some time to reassess the likely economic impact from the coronavirus on their personal finances and on the overall economy. Unfortunately, declines are more likely in the months ahead as the coronavirus spreads and causes continued economic harm, social disruptions, and permanent scarring. Another aggressive fiscal response is urgently needed that focuses on financial relief for households as well as state and local governments. While financial relief is clearly needed for the most vulnerable households, that relief will not stimulate the extent of renewed consumer spending necessary to restore employment and income to pre-crisis levels anytime soon. No single policy could provide financial relief and stimulate economic growth, and without both, neither one could be ultimately successful. Unfortunately, there is little time left on the political calendar for Congress to act as the election season is about to begin in earnest. Without action, another plunge in confidence and a longer recession is likely.



The reopening of the economy provided consumers with some financial relief and the subsequent resurgence in the virus made consumers less optimistic about their future financial prospects. Assessments of their current finances improved slightly in early July as 42% reported that their financial situation improved, which was barely above last month's 39% and still well below the 58% recorded in February. Importantly, most of the gains were reported by households under age 45 and among those with incomes in the top third. When asked about their prospects for the year ahead, the proportion of households that anticipated gains fell back to 34% from last month's 40%, with larger declines recorded among older and richer subgroups.

The median expected year ahead inflation rate was 3.1% in early July, marking the third consecutive month at that heightened level. The uptick partly represents a shift in consumer purchases from the full range included in the CPI market basket to be more heavily focused on food at home, which posted an annual gain of 5.6% in June. In addition, the one month gain of 0.6% in the June CPI was the largest monthly gain in more than seven years. Long-term inflation expectations also rose modestly, although still below the elevated short term rate indicating that inflation expectations remain well anchored. Consumers anticipated an annual inflation rate of 2.7% over the next five years, up from 2.5% both one month and one year earlier.

Basic assessments of the national economy remained unchanged: the consensus holds that the economy has been severely damaged but just over half of all consumers expected it to improve over the next year. Those expected economic gains, however, still meant that two-thirds of all consumers anticipated the prevalence of bad times financially and more than half feared that the economy would remain prone to a continued series of economic hardships over the next five years. More consumers anticipate the extraordinary levels of unemployment to decline in the year ahead than anticipate renewed increases.

Discretionary purchases of household durables, vehicles, and homes remain quite vulnerable to consumer uncertainty about their future job and income prospects. In all three markets, near record numbers of consumers explained their views by citing job and income uncertainties as the prime cause for postponing purchases. Record low interest rates have helped but their main impact has been on home purchases. An unchecked resurgence in covid-19 infections would prompt an even larger increase in uncertainty about future job and income prospects. Importantly, net references to discounted prices fell in all three markets, with the largest declines voiced about vehicle buying conditions and the smallest decline for home buying conditions.

	Jul 2019	Aug 2019	Sept 2019	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	April 2020	May 2020	Jun 2020	July Prelim
Index of Consumer Sentiment	98.4	89.8	93.2	95.5	96.8	99.3	99.8	101.0	89.1	71.8	72.3	78.1	73.2
Current Economic Conditions	110.7	105.3	108.5	113.2	111.6	115.5	114.4	114.8	103.7	74.3	82.3	87.1	84.2
Index of Consumer Expectations	90.5	79.9	83.4	84.2	87.3	88.9	90.5	92.1	79.7	70.1	65.9	72.3	66.2
Index Components													
Personal Finances—Current	131	127	131	134	134	137	134	141	128	106	107	110	114
Personal Finances—Expected	137	123	128	134	131	131	133	133	124	126	117	132	121
Economic Outlook—12 Months	122	104	109	108	116	120	121	127	83	58	58	67	61
Economic Outlook—5 Years	106	93	98	96	105	106	110	111	112	96	88	90	82
Buying Conditions—Durables	156	146	150	160	156	164	163	157	141	86	105	115	103