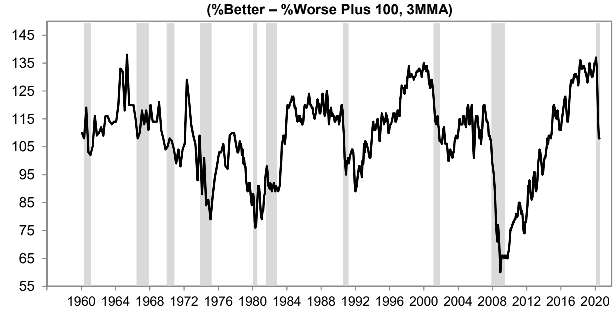
Subject: July 2020 survey results
From: Richard Curtin, Director

July 31, 2020

Consumer sentiment sank further in late July due to the continued resurgence of the coronavirus. In the last four months, the Sentiment Index has remained trendless, averaging 73.7, a decline of 25% from the same period in 2019. The Expectations Index fell back to 65.9 in July, tied with the six-year low recorded in May, providing no indication that consumers expect the recession to end anytime soon. While the 3rd quarter GDP is likely to improve over the record setting 2nd quarter plunge, it is unlikely that consumers will conclude that the recession is anywhere near over. The federal relief programs have prevented more substantial declines in consumer finances, partially shielding consumers from the unprecedented surge in job losses, reduced work hours, and salary cuts (see the chart). The lapse of the special jobless benefits will directly hurt the most vulnerable and spread even further by missed rent, mortgage, and other debt payments. Easing off the added jobless benefit will naturally result with job growth as well as a delayed and gradual reduction in added benefits so that its eventual absence is much less disruptive.

Assessments of Current Financial Situation
(%Better – %Worse Plus 100, 3MMA)



Consumer sentiment is influenced by expected changes in economic policies, which play an essential role in presidential campaigns. Given our primary focus is on how policies influence expectations, the surveys have only asked about which candidate consumers thought would actually win the election, not for which candidate they intended to vote or preferred. These questions date back to the 1976 Carter-Ford election, and the candidate who most consumers expected to win actually won in all cases but one: Clinton was expected to win over Trump in 2016. The surprise Trump victory caused an immediate partisan shift in economic expectations. In the July 2020 survey, there was a virtual toss-up whether consumers expected Trump (48%) or Biden (46%) to win. Two other questions were asked about which candidate would be better for economic growth and for their own personal finances. Trump held the lead on the economy (39% vs. 30%) with an additional 30% who thought both would perform equally. On personal finances, Trump held the lead over Biden (34% vs. 23%), but the most common reply was that it would make no difference (42%). These views will be closely monitored as the election nears.

Consumers for the past three months have anticipated the inflation rate to rise to 3.0% during the year ahead, they also anticipate that it will fall back to an average annual rate of 2.6% over the next five years. If consumers anticipated a sustained surge in inflation, it has always been voiced in the past with inflation references in evaluations of their personal finances, in recent news of higher prices, and when consumers were asked to explained their views on buying conditions. No supporting evidence was found in any of these areas. Rather, the data indicate a sharp division across income subgroups, with most of the rise in inflation among lower income households who spend a greater proportion of their budgets on food. Data based on the CPI and PCE inflation measures have shown large increases in food prices, rising after the start of the pandemic.

Assessments of their current finances remained depress, as 39% of consumers reported an improved finances, largely unchanged since April and down from the all-time peak of 58% in February. Net income gains were reported by just 3%, down from last year's 22%. When asked about income increases during the year ahead, the median expected increase was 1.0%, although the highest since March, it was less than half last year's 2.3%. Consumers under age 45 expected the largest income gains, amounting to 2.9% in July, but this was still a good deal below last July's expectation of a 4.8% increase.

Recent pandemic induced shifts in housing preferences as well as record low mortgage rates have bolstered home purchases. Views about home buying and selling both improved substantially since the April lows, although they are somewhat below the February peaks. Job and income uncertainty have also declined from a peak of 39% in April to a still elevated 28%.

	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 2020
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	72.5
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	82.8
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	65.9
Index Components													
Personal Finances—Current	131	127	131	134	134	137	134	141	128	106	107	110	108
Personal Finances—Expected	137	123	128	134	131	131	133	133	124	126	117	132	123
Economic Outlook—12 Months	122	104	109	108	116	120	121	127	83	58	58	67	60
Economic Outlook—5 Years	106	93	98	96	105	106	110	111	112	96	88	90	80
Buying Conditions—Durables	156	146	150	160	156	164	163	157	141	86	105	115	106