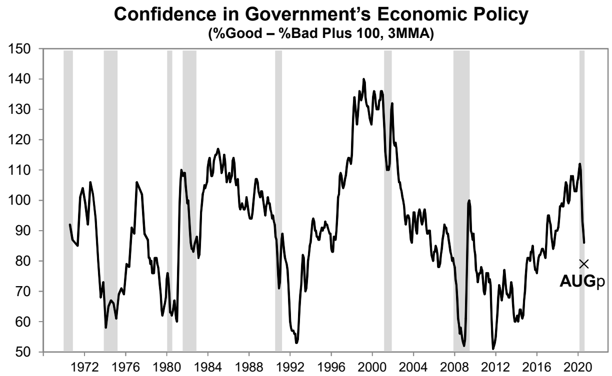
surveys of consumers
UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: Preliminary results from the August 2020 survey — August 14, 2020
From: Richard Curtin, Director

Consumer sentiment remained largely unchanged in early August from the July reading (+0.3 points) or the April low (+1.0). Two significant changes since April have been that consumers have become more pessimistic about the five-year economic outlook (-18 points) and more optimistic about buying conditions (+21). Lower interest rates by the Fed prompted more favorable buying, especially for homes, and the DC policy gridlock was responsible for the weaker outlook. The overall confidence in economic policies fell to the lowest level since Trump first entered office (see the chart). The policy gridlock has acted to increase uncertainty and heightened the need for precautionary funds to offset lapses in economic relief programs and to hedge against fears about the persistence and spread of the coronavirus as the school year gets underway. Bad economic times are anticipated to persist not only during the year ahead, but the majority of consumers expect no return to a period of uninterrupted growth over the next five years. Consumers anticipate declines in the national unemployment rate to significantly slow and expect a rising rate of inflation during the year ahead. While a positive growth rate in consumption is anticipated in the 2nd half of 2020, it will hardly herald the end of the coronavirus recession.



Consumers' assessments of their current finances remained depressed, as the proportion who reported improvement remained in the tight range of 38% or 39% for the past five months, well below the all-time peak of 58% in February. Net income gains were reported by one-fifth as many consumers as at the February peak. Consumers anticipate a 1.4% gain in their household income during the year ahead. Although the size of the gain rose each month since the April low of 0.4%, it remains well below the 2020 peak of 2.3%. Gains expected among those under 45 rose to 3.3%, but still below the 2020 peak of 4.5%.

In each of the past four months, consumers have anticipated the inflation rate to rise to 3.0% during the year ahead. The increase was due to many fewer consumers who anticipated a zero or negative inflation rate (40% in April to 24% in early August). Inflation expectations varied significantly by household income, with those in the bottom income third anticipating an inflation rate of 3.5% and those in the top third, a year-ahead inflation rate of 2.5%. This difference reflected a relative shift among income subgroups, as lower income consumers move away from expecting a zero or negative rate to an inflation rate of 5% or higher. This divergence is likely due to higher annual gains in food prices, which account for a larger share of the budgets of lower income households. Longer term inflation expectations have remained lower and more stable, with an annual expected inflation rate of 2.7% over the next five years, barely above the 2.6% set a month and a year earlier.

In the past several months, it was not surprising that following the shutdown of the economy, most consumers would naturally anticipate that the economy would improve after the lockdown ended. That optimism has begun to fade. Two-thirds of all consumers expect the persistence of bad times for the economy during the year ahead, with half of all consumers anticipating repeated false starts in the economy during the next five years. Perhaps the key indicator that consumers thought would surely improve as the economy reopened was employment. At its peak in the June survey, unemployment was expected to decline by twice as many consumers as thought it would increase. That favorable ratio was nearly reduced to an even bet in early August, with declines in the jobless rate anticipated by 37% of all consumers compared with 34% who expected increases.

Only for the housing market did the appeal of low mortgage rates dominate concerns about job and income prospects, and by a substantial two-to-one margin. Postponement due to job and income uncertainty, however, dominated lower interest rates on discretionary purchases of vehicles and durables, with favorable perceptions of prices remaining a key determinant.

	Aug 2019	Sept 2019	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	April 2020	May 2020	Jun 2020	July 2020	Aug Prelim
Index of Consumer Sentiment	89.8	93.2	95.5	96.8	99.3	99.8	101.0	89.1	71.8	72.3	78.1	72.5	72.8
Current Economic Conditions	105.3	108.5	113.2	111.6	115.5	114.4	114.8	103.7	74.3	82.3	87.1	82.8	82.5
Index of Consumer Expectations	79.9	83.4	84.2	87.3	88.9	90.5	92.1	79.7	70.1	65.9	72.3	65.9	66.5
Index Components													
Personal Finances—Current	127	131	134	134	137	134	141	128	106	107	110	108	106
Personal Finances—Expected	123	128	134	131	131	133	133	124	126	117	132	123	127
Economic Outlook—12 Months	104	109	108	116	120	121	127	83	58	58	67	60	60
Economic Outlook—5 Years	93	98	96	105	106	110	111	112	96	88	90	80	78
Buying Conditions—Durables	146	150	160	156	164	163	157	141	86	105	115	106	107