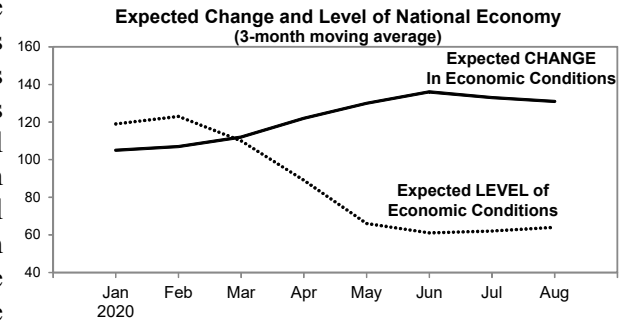




Subject: August 2020 survey results
From: Richard Curtin, Director

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Consumer sentiment has remained trendless in the same depressed range it has traveled in the past five months. The August figure posted an insignificant gain of just +0.4 Index points above the April to July average. The small August gain reflected fewer concerns about the year-ahead outlook for the economy, although those prospects still remained half as favorable as six months ago. The only questions that resisted steep pandemic declines were expected changes in personal finances and anticipated changes in business conditions. This exception was due to the belief that compared with the economic collapse in April caused by the shutdown, personal finances and the economy were much more likely to improve than worsen any further. These positive expectations were aided by a persistent optimism that an effective vaccine would ultimately end the pandemic. Unfortunately, a vaccine is at best still months away, and when most consumers can be expected to be vaccinated is even more distant. Although strong gains in consumer spending from the 2nd quarter lows can be anticipated, those gains will significantly slow without some additional spending programs to diminish the hardships faced by unemployed workers, small businesses, as well as support for state and local governments.



The pandemic has created distinctive consumer reactions to the economy (see the chart). Since the shutdown of the economy was due to health not economic reasons, a sizable number of consumers thought conditions could hardly get any worse. The natural response was that economic conditions would improve given the absence of any negative economic causes. For example, while nine-in-ten consumers viewed the current state of the economy negatively in August, half of all consumers anticipated the economy would improve in the year ahead. However, although an improved economy was anticipated, when asked to judge the state of the overall economy, 62% still thought that conditions in the economy would remain unfavorable.

Consumers' assessments of their current finances remained depressed, as the proportion who reported improved finances stayed 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 just 9% in August, down from 32% six months ago. Consumers anticipated some improvement in the year ahead, as they expected a 1.6% gain in their household income, up sharply from the April low of 0.4% and near the 2020 peak of 2.3%. Household income gains expected among those under 45 rose to 3.3%, but that was still below the 2020 peak of 4.5%. Importantly, just 9% of all households in the August survey expected their finances to worsen in the year ahead.

Consumers anticipated a year-ahead inflation rate of 3.1% in August, the fourth consecutive month at 3.0 or above. Several factors caution against interpreting the data as representing heightened concerns about escalating inflation. First, consumers expected very modest increases in inflation over the next five years, with an annual average of 2.7% in August, barely above last month or last year's 2.6%. In addition, the largest expected rise in year-ahead inflation expectations was among middle and lower income consumers, which are likely to reflect higher prices for items showing strong demand in the pandemic.

The positive sales gains of new and existing homes have been mainly due to historic lows in mortgage rates that effectively offset uncertainty about future job and income prospects. Consumers have become more convinced that interest rates on consumer loans will remain no higher than at present, a view held by two-thirds in the most recent survey. In contrast, at the end of 2018, three-in-four consumers anticipated rising interest rates. The impact of job and income uncertainty on home sales fell to 26% in August, down from the April peak of 39%, but still well above the 10% who voiced these concerns at the end of 2019. Another positive factor was that home values were expected to increase annually by 2.8% over the next five years; only one other survey recorded a higher expected annual home value gain in the past thirteen years.

	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 2020
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	74.1
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	82.9
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	68.5
Index Components													
Personal Finances—Current	127	131	134	134	137	134	141	128	106	107	110	108	108
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	65
Economic Outlook—5 Years	93	98	96	105	106	110	111	112	96	88	90	80	81
Buying Conditions—Durables	146	150	160	156	164	163	157	141	86	105	115	106	106