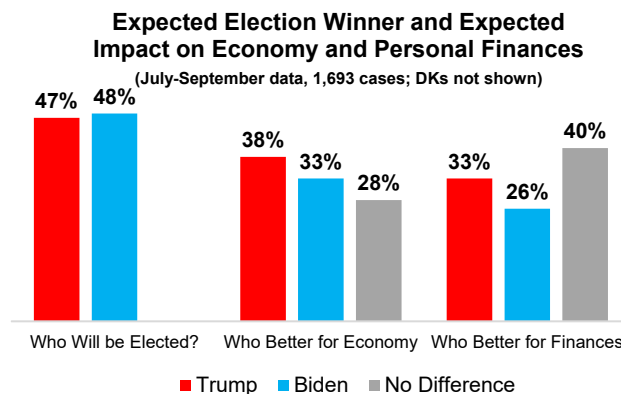




Subject: Preliminary results from the September 2020 survey
From: Richard Curtin, Director

September 18, 2020

Consumer sentiment improved in early September, reaching the top of the range it has traveled since April. While the recent gain was consistent with an unchanged flat trend, the data indicated that the election has begun to have an impact on expectations about future economic prospects. The Michigan surveys have traditionally asked consumers which candidate they thought would win the election, not whom they favored or how they intended to vote. The data from July to September indicate a virtual tie. This question has been asked since Carter ran against Ford in 1976, and in every presidential election, consumers correctly chose the winner, save one: when Trump ran against Clinton in 2016, two-thirds of consumers expected a Clinton victory. In one other election had the data been as close as now—in the 1980 election that had Reagan over Carter by one percentage point. Note that the September gains were primarily in the outlook for the economy, and it was Democrats that posted gains in economic prospects while optimism about the economy weakened among Republicans. When consumers were directly asked which candidate would be better for the economy and for their personal finances, Trump was chosen over Biden as more likely to benefit the economy and their finances, although most consumers said there was no difference with regard to their own finances. Over the next several months, there are two factors that could cause volatile shifts and steep losses in consumer confidence: how the election is decided and the delays in obtaining vaccinations. While the end of the recession will depend on these non-economic factors, the hardships endured by consumers can only be offset by renewed federal relief payments.



The proportion who cited recent positive economic developments rose to 40% in early September, up from 25% last month, and the highest in six months. Most of the positive shift was in news of returning jobs, although negative job news was still cited more than three times as frequently. Just 16% anticipated that the economy would worsen during the year ahead, the lowest proportion since June 2015. Long term economic prospects also showed modest gains, which reflected a net gain of 24 points among Democrats being offset by a net decline of 15 points among Republicans. Expected changes in unemployment during the year ahead improved due to the same offsetting shifts among Democrats and Republicans.

Declines in personal incomes were reported more frequently in September for the first time since the March 2014 survey. The loss of income was particularly sharp among families with incomes in the bottom third of the distribution, while at the same time, net income gains were more frequent among those in the top third of the income distribution (-14 versus +19). For the year ahead, consumers expected income gains of 1.3%, down from 1.6% last month and 2.3% at the start of the year.

The expected year-ahead inflation rate fell to 2.7% in September from 3.1% in August, and was the first month since May that inflation was below 3.0%. It is still true that the gap between the top and bottom thirds of the income distribution was substantial, at 1.2 percentage points. Long term inflation expectations fell slightly to 2.6%, between last month's 2.7% and 2.5% three months ago; unlike year-ahead inflation, longer term inflation differed only slightly across income groups.

Consumers cited more favorable perceptions of prices on household durables, causing overall buying attitudes to post a modest improvement. Consumers reported vehicle prices had increased, justifying a slight overall decline in vehicle buying conditions. The availability of low interest rates on vehicle purchases rose sharply among those with incomes in the top third, reaching 41% in September, the highest reading since December 2015. Home buying attitudes remained largely unchanged, supported by low mortgage rates. Importantly, home selling conditions improved, which should act to increase the supply.

| | Sept 2019 | Oct 2019 | Nov 2019 | Dec 2019 | Jan 2020 | Feb 2020 | Mar 2020 | April 2020 | May 2020 | Jun 2020 | July 2020 | Aug 2020 | Sept Prelim |
|--------------------------------|-----------|----------|----------|----------|----------|----------|----------|------------|----------|----------|-----------|----------|-------------|
| Index of Consumer Sentiment | 93.2 | 95.5 | 96.8 | 99.3 | 99.8 | 101.0 | 89.1 | 71.8 | 72.3 | 78.1 | 72.5 | 74.1 | 78.9 |
| Current Economic Conditions | 108.5 | 113.2 | 111.6 | 115.5 | 114.4 | 114.8 | 103.7 | 74.3 | 82.3 | 87.1 | 82.8 | 82.9 | 87.5 |
| Index of Consumer Expectations | 83.4 | 84.2 | 87.3 | 88.9 | 90.5 | 92.1 | 79.7 | 70.1 | 65.9 | 72.3 | 65.9 | 68.5 | 73.3 |
| Index Components | | | | | | | | | | | | | |
| Personal Finances—Current | 131 | 134 | 134 | 137 | 134 | 141 | 128 | 106 | 107 | 110 | 108 | 108 | 109 |
| Personal Finances—Expected | 128 | 134 | 131 | 131 | 133 | 133 | 124 | 126 | 117 | 132 | 123 | 127 | 125 |
| Economic Outlook—12 Months | 109 | 108 | 116 | 120 | 121 | 127 | 83 | 58 | 58 | 67 | 60 | 65 | 79 |
| Economic Outlook—5 Years | 98 | 96 | 105 | 106 | 110 | 111 | 112 | 96 | 88 | 90 | 80 | 81 | 89 |
| Buying Conditions—Durables | 150 | 160 | 156 | 164 | 163 | 157 | 141 | 86 | 105 | 115 | 106 | 106 | 117 |