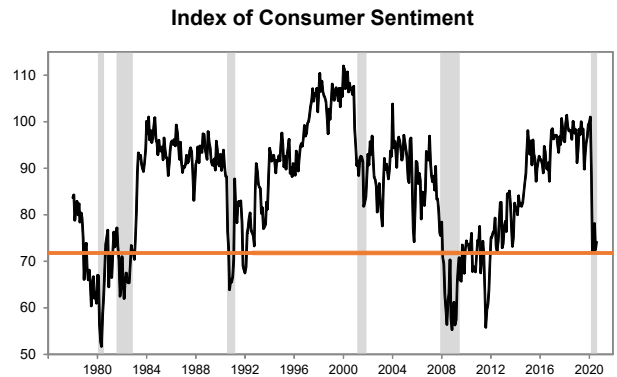


Subject: Muted Recessionary Decline  
From: Richard Curtin, Director

September 11, 2020

Why has consumer sentiment remained largely unchanged since April? The University of Michigan's Consumer Sentiment Index reached a cyclical peak in February, which is identical to NBER's cyclical peak announced in June. The Sentiment Index then plunged by nearly one-third in just two months. GDP also posted a quarterly decline of nearly one-third in the 2<sup>nd</sup> quarter of 2020, while the surging unemployment rate quadrupled from February to April. News about the economy remained quite unfavorable in succeeding months, along with ending payments under the CARES act as well as steeply rising covid-19 infections and deaths. None of these developments in the past six months caused consumers to become more pessimistic about the economic outlook than they were in April. As depicted in the chart, the April low in sentiment was not nearly as pessimistic as at the recessionary lows in the two most severe recessions that occurred in 2008 (55.3) and 1980 (51.7). Needless to say, the lack of further declines may simply reflect that the current downturn is hardly over, and like the prior two severe downturns, further declines may still follow.



There are two major groups of factors that could cause additional declines, and importantly, these two groups could mutually reinforce and accelerate the size of the future declines. First, the economic damage done over the past six months will result in more bankruptcies of households and firms, with state and local governments cutting services and raising taxes. The primary impact on many consumers will be inadequate employment and lower income gains. Nonetheless, many other consumers were able to work from home and maintain their incomes, although many higher salaried workers' bonuses were lost or delayed, some experienced cut hours or temporary salary cutbacks. The second group of factors are non-economic. They could have a significant impact, typically by inducing greater uncertainty about how they will be resolved. The upcoming presidential election, the voting process, the tabulation of votes, and the eventual outcome could increase uncertainty about prospects for the economy and impact economic policy expectations. In addition, while the availability and distribution of the coronavirus vaccine is now assumed to accelerate the pace of economic growth, the opposite could happen due to delays in the vaccine's availability, the determination of priority groupings for receiving the inoculations, and trust in the efficacy of the vaccine. Transforming all economic and non-economic issues into ideological planks in debates that support one or the other political parties has the potential to heighten uncertainty about economic prospects even more.

This is the second time in the past two decades that a non-economic event was expected to foster substantial changes in consumer spending and saving preferences. The 9/11 terrorist attacks, which occurred on this date in 2001, were expected to have a deep and prolonged impact on the consumer economy. Those claims were exaggerated and completely disappeared in less than a year following the attacks. The most notable impact proved to be heightened security checks, which have spread from airports to many other public and private venues. The coronavirus pandemic has prompted the same rise in concerns about its prolonged impact on the consumer economy. Other than accelerating some already established trends, the most likely permanent impact will be on the widespread adoption of health checks. These checks will become as widespread as security checks and employ comparable high tech solutions.

People will not change the importance they attach to social gatherings, whether small or large groups, at private or public events, at places of worship, theaters, concerts, stadiums, classrooms, or any other social activities. People are social animals; nothing can change that basic fact. Evolution has endowed people with extraordinary mental faculties and instincts that heighten survival through social interactions. The University of Michigan surveys have asked respondents to identify their main concern about the coronavirus pandemic. While a majority have cited health concerns in each month since April, the proportion of consumers who cited social isolation has risen and has now overtaken the proportion that cited financial concerns due to the pandemic.

In the years ahead, many will claim some significant non-health related change in consumer behavior. The data, however, will be confounded by the already anticipated changes in spending that will occur among the aging baby-boom generation, as well as by the natural acceleration of ongoing changes in spending patterns among the millennial generation. Nonetheless, the extended period of time that the pandemic will last will provide ample opportunity for many commercial as well as public interest groups to take advantage of unsettled conditions to advance their products, services, or agenda.