

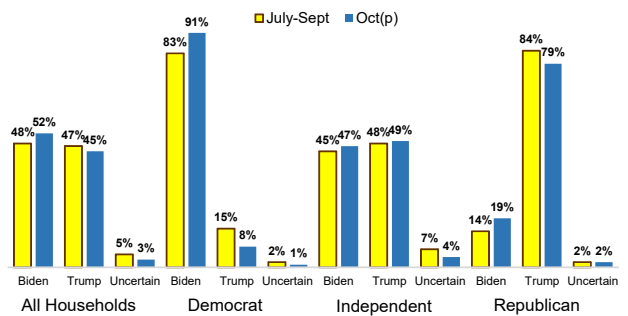


Subject: Preliminary report from the October 2020 survey
From: Richard Curtin, Director

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Slowing employment growth, the resurgence in covid-19 infections, and the absence of additional federal relief payments, prompted consumers to become more concerned about the current economic conditions. Those concerns were largely offset by continued small gains in economic prospects for the year ahead. The Current Conditions Index recorded its second small reversal, the first being in June, but even at its best, it has never come close to its December peak, being still down by 26.5%. The Expectations Index, despite the recent gain, is still down by 14.4% from its February peak. How much has the presidential electioneering influenced this twist in consumer sentiment? Consumers were not asked whom they will or had voted for or their preference, but who they expected to win the election to determine the election’s potential influence on economic expectations. Among all consumers, Biden’s advantage in early October grew to 7 from 1 percentage point in the July to September surveys (see the chart). While self-identified Democrats and Republicans heavily favored the candidate from their own party, that proportion grew by 8 points among Democrats and shrunk by 5 percentage points among Republicans. Most elections are decided by those who are non-aligned with either party; the views of Independents remained unchanged and nearly equal, giving Trump a slight advantage of 2 or 3 points. When the difference in the Expectations Index was calculated by party identification, Trump still held an advantage over Biden with some interesting twists: Trump’s advantage on the Expectations Index greatly narrowed among Republicans (from 31.1 to 13.9 in October) and only slightly among Democrats (from 4.0 to 1.6), but it widened among Independents (from 20.9 to 24.4).

Expected Election Winner by Party Affiliation



Perhaps the most important shift in early October was in long-term inflation expectations. When asked about the annual expected inflation rate over the next five years, consumers reported that the inflation rate would average 2.4%, down from 2.7% in the prior two months and just above last October’s 2.3%. Year-ahead inflation expectations were 2.7% in early October; although barely above last month’s 2.6%, it was well below the 3.0% to 3.2% in the prior four months. The gap in expectation across income groups remained wide, as those with incomes in the lowest third expected a year-ahead inflation rate of 3.1%; these same households were also more likely to report that rising inflation had diminished their living standards. While overall assessments of their finances remained largely unchanged, small gains among lower income households offset declines by those with incomes in the top third. Consumers also left their financial prospects unchanged for the year ahead. Expected changes in annual incomes rose slightly in early October to 2.0%, up from last month’s 1.5%, but still below last year’s 2.5%. The largest gains were expected by those under 45 (3.9%) and among those with incomes in the top third (2.6%). The most positive shift in October was the improvement consumers anticipated in the national economy. Half of all consumers expected the economy to improve during the year ahead. While this view is hardly surprising given the prior shutdown, it does appear to exclude the possibility of a renewed shutdown as just 13% anticipated a worsening economy in the year ahead. The more impressive result is that less than half of all consumers now anticipate the continuation of bad times financially in the economy as a whole during the year ahead. Moreover, consumers judged it an even tossup whether the economy would either avoid or experience another downturn over the next five years, the best reading in the survey during the past six months. Consumers judged buying conditions for household durables and vehicles less favorably in early October, with most of the losses among upper income households due to rising concerns about their jobs and incomes. Home buying continued to gain ground mainly due to very favorable views on the level of current mortgage rates, reaching the highest level in four years.

	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	April 2020	May 2020	Jun 2020	July 2020	Aug 2020	Sep 2020	Oct Prelim
Index of Consumer Sentiment	95.5	96.8	99.3	99.8	101.0	89.1	71.8	72.3	78.1	72.5	74.1	80.4	81.2
Current Economic Conditions	113.2	111.6	115.5	114.4	114.8	103.7	74.3	82.3	87.1	82.8	82.9	87.8	84.9
Index of Consumer Expectations	84.2	87.3	88.9	90.5	92.1	79.7	70.1	65.9	72.3	65.9	68.5	75.6	78.8
Index Components													
Personal Finances—Current	134	134	137	134	141	128	106	107	110	108	108	113	112
Personal Finances—Expected	134	131	131	133	133	124	126	117	132	123	127	127	126
Economic Outlook—12 Months	108	116	120	121	127	83	58	58	67	60	65	83	91
Economic Outlook—5 Years	96	105	106	110	111	112	96	88	90	80	81	92	100
Buying Conditions—Durables	160	156	164	163	157	141	86	105	115	106	106	114	107