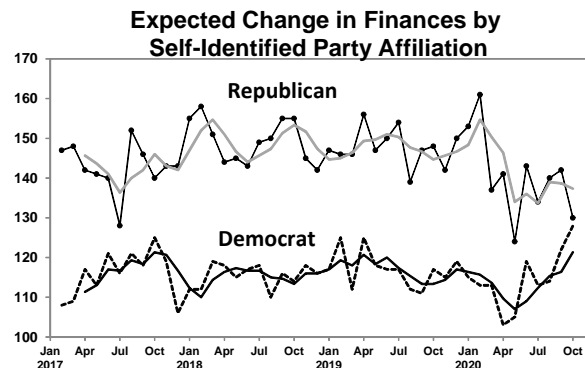




Subject: October 2020 survey report
From: Richard Curtin, Director

October 30, 2020

Consumer sentiment remained virtually unchanged from the first half of October (+0.6 points) and was insignificantly different from last month's figure (+1.4 points). Fear and loathing produced this false sense of stability. Fears were generated by rising covid infection and death rates, and loathing was generated by the hyper-partisanship that has driven the election to ideological extremes. Moreover, the impact of the covid virus and the extremes of hyper-partisanship will continue long past next week's election, with the potential to permanently alter the economic and political landscape. As noted when Trump won over Clinton in 2016, the economic expectations of Republicans and Democrats shifted in opposite directions and by large amounts given that two-thirds of all consumers incorrectly anticipated a Clinton victory. Since a Biden win over Trump (53% vs. 42%) was anticipated in the October survey, it should be no surprise that optimism among Democrats about their future finances rose substantially compared with Republicans.



Importantly, for the first time in nearly four years, personal financial expectations of Republicans and Democrats were nearly equal (see the chart). Compared with three months ago, the Expectations Index rose by 50% among Democrats but just 7% among Republicans. The outcome of the election can accelerate or narrow these partisan shifts, but unlike the 2016 election, renewed optimism now requires progress against the coronavirus and mitigating its uneven impact on families, firms, and local governments.

Consumers judged their current financial situation to have remained largely unchanged from last month, although well below the peak levels recorded in February. Net income gains remained at low levels, cited by just one-third as many consumers as in last October's survey. When asked about prospects for the year ahead, consumers anticipated gains in their household incomes of 2.0% in October, between last month's 1.5% and last year's 2.5%. Consumers under age 45 and those with household incomes in the top third anticipated increases in their inflation-adjusted incomes in the year ahead. The greatest threat to their living standards was voiced by those over age 65 and among households with incomes in the bottom third.

Consumers anticipated a year-ahead inflation rate of 2.6% in October, unchanged from last month, but below the 3.1% mean from May to August. While it was slightly higher than last October's 2.5%, the dispersion of expectations was somewhat wider than last year: 27% expected a zero or negative inflation rate, up from 19% last October, while 26% anticipated inflation of 5% or higher, marginally higher than last year's 23%. Perhaps more importantly, the annual long term inflation rate fell to 2.4% in October, down from last month's 2.7%, and just above last year's 2.3%, with no increase in dispersion.

The largest change in the October survey was the improvement in long term prospects for the national economy. Consumers judged it an even toss-up 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. There was little doubt that the majority of consumers expected the economy to post gains in the near term, but those gains would only slowly improve the overall economy over the longer term.

There is no clearer indication of the negative impact of uncertainty on spending than when consumers spontaneously cite these concerns. High levels of uncertainty will maintain elevated levels of precautionary savings. Buying conditions for household durables have remained at low levels in the past six months, as one-third cited uncertain job and income prospects. Vehicle buying has fared slightly better due to lower interest rates, even as favorable views of vehicle prices have steeply declined since May. The sole exception has been home purchases, which have regained their pre-pandemic peak due to record lows in market mortgage rates, with new home construction boosting demand for appliances and other home furnishings.

	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020	Mar 2020	April 2020	May 2020	Jun 2020	July 2020	Aug 2020	Sept 2020	Oct 2020
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	81.8
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	85.9
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	79.2
Index Components													
Personal Finances—Current	134	134	137	134	141	128	106	107	110	108	108	113	113
Personal Finances—Expected	134	131	131	133	133	124	126	117	132	123	127	127	129
Economic Outlook—12 Months	108	116	120	121	127	83	58	58	67	60	65	83	88
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	109