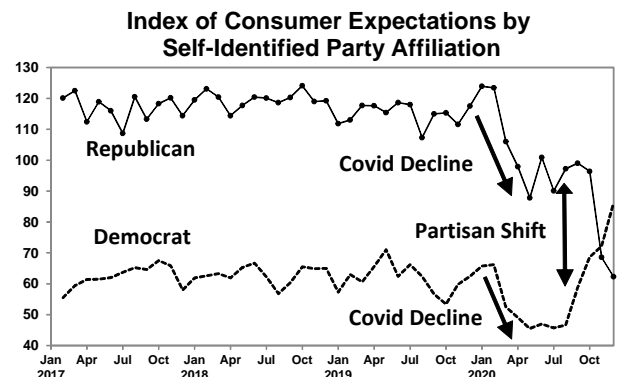




Subject: Preliminary results from the December 2020 survey
From: Richard Curtin, Director

December 11, 2020

Consumer sentiment posted a surprising increase in early December due to a partisan shift in economic prospects. Following Biden’s election, Democrats became much more optimistic, and Republicans much more pessimistic, the opposite of the partisan shift that occurred when Trump was elected. In the five months from August to December, the Expectations Index among Democrats rose by 39.5 points, and fell among Republicans by 34.9 points (see the chart). As has been documented in the past four years, self-identified Independents adopted more balanced views, maintaining their economic expectations in December at the same unfavorable levels as when the covid crisis began nine months ago. It was nonetheless surprising that the recent resurgence in covid infections and deaths was overwhelmed by partisanship. Most of the early December gain was due to a more favorable long-term outlook for the economy, while year-ahead prospects for the economy as well as personal finances remained unchanged. Just as four years ago, the post-election partisan shifts in economic expectations are too extreme to be justified by economic fundamentals. These divergences may persist largely unchanged in the year ahead. In the immediate future, job losses and income declines due to shutdowns are expected to increase, and the long priority queues before most consumers can be vaccinated will make the wait amid rising deaths all the more difficult to endure. A renewed round of federal relief will prevent much greater financial harm to households, small firms, and local governments. Even if immediately adopted, the payments will not reach recipients for at least a month, allowing renewed hardships to dominate the holiday season. The DC dysfunction may act as the grinch that stole Christmas!



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Four years ago, in *Consumer Economic Expectations: Persistent Partisan Differences*, I argued that the rise in partisanship reflected a basic underlying split in preferred economic policies. While expressions of partisanship are often couched in raw animus, the primary and sustaining cause lies in differences about how to best provide for fair and equitable growth in income and wealth. Although policy disagreements have always existed, the broad societal agreement that existed in the past has been transformed by persistent cleavages in desired policies. The extreme partisan shifts following presidential elections simply reflect an expected switch in policies in one or the other direction. It will not be easy to reestablish common policy objectives with rampant animosity. The longer it lasts, however, the greater the drain economic aspirations and motivations.

Consumers anticipated a 1.5% gain in their household income in early December, just below last month’s 1.6% and well below last year’s 2.2%. The highest expected yearly increase was 4.7% among those under age 45; all older households expected annual gains of 0.4%. As might be anticipated, households aged 45 or older anticipated inflation-adjusted income declines in the year ahead. A year ahead inflation rate of 2.3% was anticipated in early December, down from last month’s 2.8%, returning to the same level as last December. Long-term inflation expectations remained unchanged at 2.5% from last month but higher than last year’s 2.2%. The year-ahead decline was due to Democrats, and the long-term rise to Republicans.

Long-term prospects for the economy were quite sensitive to partisanship. Favorable long-term prospects for the national economy were anticipated by 58% among Democrats in early December, surging 19 percentage points above last month and 41 percentage points above August. In contrast, just 33% of Republicans anticipated that the economy would avoid any downturn during the next five years. Changes in the year-ahead economic outlook were unchanged from last month as the more positive outlook among Democrats was offset by more negative prospects among Republicans. Nearly the same offsetting shifts occurred when asked to assess unemployment prospects, with Democrats more optimistic than Republicans.

	Dec 2019	Jan 2020	Feb 2020	Mar 2020	April 2020	May 2020	Jun 2020	July 2020	Aug 2020	Sept 2020	Oct 2020	Nov 2020	Dec Prelim
Index of Consumer Sentiment	99.3	99.8	101.0	89.1	71.8	72.3	78.1	72.5	74.1	80.4	81.8	76.9	81.4
Current Economic Conditions	115.5	114.4	114.8	103.7	74.3	82.3	87.1	82.8	82.9	87.8	85.9	87.0	91.8
Index of Consumer Expectations	88.9	90.5	92.1	79.7	70.1	65.9	72.3	65.9	68.5	75.6	79.2	70.5	74.7
Index Components													
Personal Finances—Current	137	134	141	128	106	107	110	108	108	113	113	111	114
Personal Finances—Expected	131	133	133	124	126	117	132	123	127	127	129	122	121
Economic Outlook—12 Months	120	121	127	83	58	58	67	60	65	83	88	75	75
Economic Outlook—5 Years	106	110	111	112	96	88	90	80	81	92	100	85	104
Buying Conditions—Durables	164	163	157	141	86	105	115	106	106	114	109	114	123