



Subject: December 2020 survey results.

December 23, 2020

From: Richard Curtin, Director

T'was the night before Christmas, isolation was the rule,
To avoid covid sickness, a socially distanced yule.
Stockings were hung by the chimney with care,
Hoping a vaccination soon would be there.

All tossed and turned, couldn't get snug in their beds,
As nightmares on Zoom danced wildly in their heads.
In an instant, it was over. The American Dream faded.
Life, liberty, happiness withered where the virus invaded.

Escape was impossible! Demands insistent! Life must change,
Finances grew more unequal on the pandemic exchange.
Some had remote work and guided learning at a distance,
Others were cast aside. They had to find food bank assistance.

Consumers appreciated how the internet met their demand,
Search, purchase, and delivery options at their command.
Facebook! Amazon! and Google! The government will sue.
As if store clerk gave an unpaid and an unbiased view!

There arose such a clatter out on the White House lawn,
All sprang from bed to read the latest Trump tweet at dawn.
Trump shouted and pouted, "I was cheated in the election poll!"
Routed! His ego shattered! He refused to pay the loser's toll.

Trump whistled and shouted, and called each out by name:
Michigan! Pennsylvania! Wisconsin! You're to blame!
No court agreed. Trump then called his own resist twist,
If the Senate is lost, Reds will excise him like a cancerous cyst.

When, what to my wondering eyes should now appear,
A switcheroo. Partisan deck chairs switched in high gear.
Blues and Reds traded their economic expectations
Switching optimistic and pessimistic aspirations.

The speed of the shift was due to the emotional appeal,
Correcting economic inequities that had since grown surreal.
Standard economic policies could not provide the solutions,
Greater emphasis must be given to political resolutions.

And then, in a twinkling, I heard on the policy roof
The prancing of a new policy, said to be fool proof.
Give the Fed an added fiscal tool to manage cyclical threats,
The Fed would lend at zero interest and then forgive the debts!

Stripping cyclical policies out of the partisan quagmire,
The Federal Reserve could act as an independent umpire!
Congress could then do what it has always done best,
Take credit for their creative ability to avoid any test!

Happy holidays to all and to all a good year.

The Sentiment Index slipped in late December, although it remained higher than last month despite the ongoing surge in covid infections and deaths. The improvement was due to a large and rapid partisan shift, with Democrats becoming much more positive and Republicans much more negative. The largest change was in long term business prospects, as twice as many Democrats as three months ago expected a continuous expansion over the next five years (54% up from 27%), while that same favorable expectation was nearly cut in half among Republicans (32% down from 60%). Based on past trends, it can be anticipated that the partisan gap in levels of optimism will persist, but what is of critical importance for economic forecasts, is that trends over time will likely remain quite similar across political parties. Moreover, as has been true recently, trends among Independents, whose expectations are less susceptible to partisanship, will continue to be the bellwether of change.

The pandemic has had a much greater relative impact on assessments of the overall economy than on assessments of consumers' current personal financial situations. Trends in how consumers evaluate their own finances and how they assess changes in the national economy have followed a close association over the past half century. Since the start of the pandemic, however, a huge divide has grown across households in how they assess their own personal finances: the finances of those that continue to be employed and working at home have remained positive while those who have lost jobs and incomes have been quite negative. Growing inequalities have also been due to rising home and stock prices. In contrast, nearly everyone has reported negative assessments of current conditions in the national economy. This gap signifies the pandemic nature of the current downturn; the second largest gap occurred in the downturn surrounding 9/11. While the rollout of the vaccine has been greeted as the beginning of the end, the end of the pandemic is still on the distant horizon in terms of a return of normalcy for consumer behavior, even among the most favored households. Precautionary motives will continue to shape both economic and personal behavior.

When asked about what news they had recently heard, in each of the past nine months at least six-in-ten consumers made negative references to unemployment. When directly asked about expected changes in the national unemployment rate, consumers were nearly evenly divided between anticipated increases as decreases during the year ahead. These expectations have moderated over the past six months as consumers have reluctantly accepted the fact that the covid virus will persist much longer than they had initially anticipated. Importantly, the partisan shift had only a very small impact on overall employment expectations.

The year ahead expected inflation rate fell to 2.5% in December, between last month's 2.8% and last year's 2.3%. The December figure was the lowest since April's 2.1%, and well below the average of 3.1% from May to August. Long term inflation expectations remained unchanged from last month at 2.5%, but above last December's 2.2%.

	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 2020
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	80.7
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	90.0
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	74.6
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	122
Economic Outlook—12 Months	120	121	127	83	58	58	67	60	65	83	88	75	76
Economic Outlook—5 Years	106	110	111	112	96	88	90	80	81	92	100	85	100
Buying Conditions—Durables	164	163	157	141	86	105	115	106	106	114	109	114	119