



Subject: Preliminary results from the January 2021 survey  
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Consumer sentiment posted trivial declines in early January despite the horrendous rise in covid-19 deaths, the insurrection, and the impeachment of Trump. Two offsetting shifts helped narrow the January loss in sentiment: the covid-19 vaccines and a partisan shift in expectations due to the anticipated impact of Biden’s economic policies. Importantly, covid’s threats to physical and mental health were seen in January as more important than its financial repercussions. The partisan shift in expectations was due to anticipated changes in economic policies; the shift was as large as the opposite shift that accompanied Trump’s election. Among identical respondents in June and December, the partisan gap in the Expectations Index amounted to a 74.6 Index point shift in 2016 and by a nearly identical but opposite shift of 74.0 points in 2020. Even in the January 2021 survey, the partisan gap among identical respondents remained largely unchanged at 72.2. The Trump and Biden partisan gaps in expectations are too extreme to be justified by economic fundamentals. Rather, the partisan gaps are rooted in sharply different policy preferences, with one side favoring economic growth and efficiency, and the other side giving top priority to greater equity and fairness in the distribution of income and wealth. Nonetheless, the most critical task for Biden is to not only accomplish his promised vaccination of 100 million in his first 100 days, but to accelerate on that pace for the balance of the population.

	Change from June-Dec 2016			Change from June - Dec 2020			Change from July 2020 - Jan 2021		
	Dem	Ind	Rep	Dem	Ind	Rep	Dem	Ind	Rep
Consumer Expectations	-24.1	+14.1	+50.5	+35.1	+8.7	-38.9	+43.3	+21.4	-28.9
Partisan Gap (Dem-Rep)	-74.6			+74.0			+72.2		

A significant shift in prospects for the overall economy occurred in early January: consumers were more optimistic about the year-ahead outlook and became more pessimistic about the economy’s outlook over the longer term. This shift was not accompanied by consistent shifts across socioeconomic subgroups nor in their unemployment, interest rate, or inflation expectations. It is more likely that these views are now dominated by uncertainty about the evolution of the virus and the exact nature of Biden’s new policies, including details of a potential new round of covid relief and unemployment benefits.

There was a good deal of uncertainty about potential changes in the national unemployment rate during the year ahead. Nearly equal proportions of consumers expected increases (30%), decreases (35%), and an unchanged jobless rate (33%). The data has changed significantly since June, when declines rather than increases were expected by a two-to-one margin, and now indicate that consumers believe the pace of declines in the national unemployment rate will continue to slow in the year ahead.

Inflation expectations did increase in early January, with consumers expecting a year-ahead inflation rate of 3.0%, up from last month’s and last year’s 2.5%. This is likely a covid-related increase, as it returned inflation expectations to near the average of 3.1% recorded from May to August. The average expected annual inflation rate over the next five years was 2.7% in early January, up from 2.5% both a month and year ago, and equal to the peak recorded three times in 2020. Interest rate increases were anticipated by 44% of all consumers in early January, the highest level since the July 2019 survey.

When asked to explain how their financial situation had recently changed, higher incomes were more likely to be cited by those with incomes in the top third and by consumers under age 45, and higher net wealth holdings by consumers aged 65 or older as well as among those with incomes in the top third. Across all households, an annual income gain of 1.7% was anticipated in January 2021, between last month’s 1.5% and last year’s 2.3%. Those under age 45 anticipated the largest income gains, 3.5% in early January, although this rate of gain was below the 4.5% recorded one month and one year earlier.

	Jan 2020	Feb 2020	Mar 2020	April 2020	May 2020	Jun 2020	July 2020	Aug 2020	Sept 2020	Oct 2020	Nov 2020	Dec 2020	Jan Prelim
Index of Consumer Sentiment	99.8	101.0	89.1	71.8	72.3	78.1	72.5	74.1	80.4	81.8	76.9	80.7	79.2
Current Economic Conditions	114.4	114.8	103.7	74.3	82.3	87.1	82.8	82.9	87.8	85.9	87.0	90.0	87.7
Index of Consumer Expectations	90.5	92.1	79.7	70.1	65.9	72.3	65.9	68.5	75.6	79.2	70.5	74.6	73.8
Index Components													
Personal Finances—Current	134	141	128	106	107	110	108	108	113	113	111	114	112
Personal Finances—Expected	133	133	124	126	117	132	123	127	127	129	122	122	124
Economic Outlook—12 Months	121	127	83	58	58	67	60	65	83	88	75	76	85
Economic Outlook—5 Years	110	111	112	96	88	90	80	81	92	100	85	100	87
Buying Conditions—Durables	163	157	141	86	105	115	106	106	114	109	114	119	114