

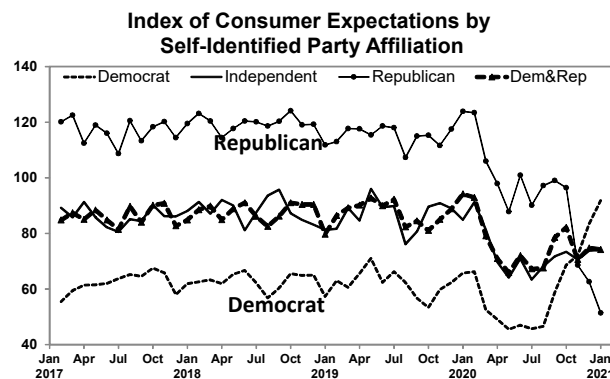


Subject: January 2021 survey results
From: Richard Curtin, Director

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Consumer sentiment remained largely unchanged in the last half of January from earlier in the month. Indeed, the overall level of the Sentiment Index has shown only relatively small variations since the pandemic started, averaging 81.5 in 2020, marginally above January's 79.0. Needless to say, Sentiment levels were well below the average of 97.0 from 2017 to 2019. The same relative stability at its depressed covid levels was also shown by the Expectations Index in the past year. Importantly, the level of these key confidence indicators remained well above prior cyclical lows despite the sudden historic collapse in economic activity. Some have taken this to indicate that consumers mainly considered the pandemic as a health not an economic crisis. Under this scenario, one might have anticipated that shifts in confidence would more closely mirror changes in the pace of covid infections and deaths and for the recent availability of vaccines to signal that the end of the pandemic is in sight. The overall stability of consumer confidence has benefitted from wearing masks and social distancing, the quick substitution of home for office work, and the prompt distribution of generous federal benefits. These factors helped to absorb the pandemic's negative impact on the economy as well as on personal finances. Although the nation is still being ravished by the pandemic, and the nation's cooperative reactions have been far from perfect, consumers have helped to dissipate the potential for further harm. Despite unyielding job and income disparities, as precautionary motives begin to ease, accumulated savings will spark a significant gain in spending in late 2021.

In contrast to the reduced levels but relatively stable trends in consumers' economic expectations, partisan views have remained quite volatile. In the past three months, the Index of Consumer Expectations, the primary gauge for the future performance of the economy, has jumped among Democrats to 91.8 in January from 68.6 in October, and among Republicans it has plunged to 51.4 in January from 96.4 in October (see the chart). This reverses the shift which occurred when Trump was elected. In early 2017, I pointed to the close correspondence of Independents with the overall trend in the Expectations Index, suggesting Independents were less influenced by partisan rhetoric—in the January survey, the Expectations Index among Independents was exactly equal to the all household figure of 74.0. The data also makes another point clear: the weighted average across Democrats and Republicans (74.2) was also nearly identical to the all-household average. Moreover, Dem&Rep line has closely followed trends for Independents, and as a consequence was also very close to the all-household average. Despite the importance of partisan shifts for federal policies, those sharp differences are effectively neutralized in terms of what expectations consumers hold for the economy and personal finances, with the winners and losers shifting sides. There has also been partisan shifts in expressed fears of excessive federal debt and upward pressures on inflation and interest rates. These concerns are now based on partisan views, although the size of the projected deficit is nonetheless a concern. Consumers anticipated a year-ahead inflation rate of 3.0% in January, up from 2.5% a month and year earlier. The gain reflected a much higher expected rates among Republicans than Democrats (3.6% versus 2.0%), although Independents anticipated a rise of 3.1% in the year ahead. In mid-2020 inflation expectations averaged 3.1% for four months before falling back to 2.5% at year end, with higher rates expected by Democrats. While more data is required before any conclusions are drawn, the rise among Independents was somewhat worrying. Long term inflation expectations increased to 2.7% in January, following the same pattern as year-ahead expectations, including the partisan differences, and a rise among Independents. Interest rates were expected to increase on consumer loans by 44% in January, marginally above last month's 39%; 58% of Republicans expected rising rates, 31% of Democrats, and among the key group of Independents, a slightly elevated 45%.



	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 2021
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	79.0
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	86.7
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	74.0
Index Components													
Personal Finances—Current	134	141	128	106	107	110	108	108	113	113	111	114	109
Personal Finances—Expected	133	133	124	126	117	132	123	127	127	129	122	122	121
Economic Outlook—12 Months	121	127	83	58	58	67	60	65	83	88	75	76	87
Economic Outlook—5 Years	110	111	112	96	88	90	80	81	92	100	85	100	88
Buying Conditions—Durables	163	157	141	86	105	115	106	106	114	109	114	119	115