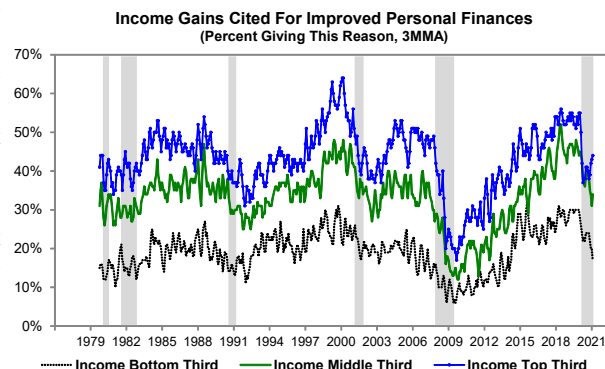




Subject: Preliminary results from the February 2021 survey
From: Richard Curtin, Director

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Consumer sentiment edged downward in early February, with the entire loss concentrated in the Expectation Index and among households with incomes below \$75,000. Households with incomes in the bottom third reported significant setbacks in their current finances, with fewer of these households mentioning recent income gains than anytime since 2014. Presumably a new round of stimulus payments will reduce these financial hardships. More surprising was the finding that consumers, despite the expected passage of a massive stimulus bill, viewed prospects for the national economy less favorably in early February than last month. In contrast, the proposed stimulus is forecast to prompt a strong pace of economic growth, with the differences mainly about the size and pace of federal spending. The legislative debate focuses on whether low inflation or full employment is the more important policy goal, with one side accepting greater employment risks and the other side greater inflationary risks. The February survey found that consumers expected a 3.3% inflation rate during the year ahead, up from last year's 2.4% and the highest expected inflation rate since 2014. Importantly, when asked about long term inflation expectations, the early February survey matched January's 2.7%, well above last February's 2.3%. The results suggest that consumers anticipate only a temporary surge in inflation. While many believe this would be the best possible outcome, others worry that once an inflationary psychology takes hold it cannot be easily reversed. The expected strength in consumer spending in 2021 and 2022 critically depends on a significant reduction in precautionary motives, which in turn depend on progress against the pandemic as well as favorable trends in both inflation and employment.



Partisanship remains an important correlate of economic expectations, with the largest impacts on employment, inflation, interest rates and prospects for economic growth. The survey includes a question about what economic news consumers had heard, asking them to describe the news in their own words. Favorable developments in February were reported much more frequently by Democrats than Republicans (55% vs. 25%), and the opposite partisan mix of economic news was reported before the election in October (20% vs. 53%). The Expectations Index in February was more optimistic among Democrats than Republicans (92.3 vs. 45.6); in October the opposite occurred (68.6 vs. 96.4). As repeatedly noted, despite the shifting levels, the average is nearly identical to level recorded among Independents, who are less vulnerable to partisan messages. When asked about prospects for the national economy during the year ahead, 53% of consumers expected the continuation of bad times financially, while just 35% anticipated an improved economy. When asked about longer term prospects, 54% anticipated another downturn during the next five years, matching the highest percentage recorded in 2020. For both near and longer term economic prospects, younger and those with incomes in the top third anticipated a more favorable outlook. Unemployment expectations remained largely unchanged from last month, with declines expected slightly more frequently than increases, although nearly one-in-three consumers anticipated an unchanged rate as expected unemployment to increase or decrease. Although one might have anticipated greater gains due to Biden's prospective stimulus, it may signal concerns about continued covid infections due to the new variants and slower progress in making the vaccinations widely available. The pandemic has accelerated the income divide among households. When asked to assess their current financial position, the deep divisions become apparent: among those with incomes in the bottom third, just 23% reported improved finances, the lowest since 2014; in contrast, among those with incomes in the top third, 54% reported their finances had improved. Mentions of income gains fell to just 17% among those in the bottom third, compared with 44% in the top income third.

	Feb 2020	Mar 2020	April 2020	May 2020	Jun 2020	July 2020	Aug 2020	Sept 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb Prelim
Index of Consumer Sentiment	101.0	89.1	71.8	72.3	78.1	72.5	74.1	80.4	81.8	76.9	80.7	79.0	76.2
Current Economic Conditions	114.8	103.7	74.3	82.3	87.1	82.8	82.9	87.8	85.9	87.0	90.0	86.7	86.2
Index of Consumer Expectations	92.1	79.7	70.1	65.9	72.3	65.9	68.5	75.6	79.2	70.5	74.6	74.0	69.8
Index Components													
Personal Finances—Current	141	128	106	107	110	108	108	113	113	111	114	109	109
Personal Finances—Expected	133	124	126	117	132	123	127	127	129	122	122	121	116
Economic Outlook—12 Months	127	83	58	58	67	60	65	83	88	75	76	87	82
Economic Outlook—5 Years	111	112	96	88	90	80	81	92	100	85	100	88	81
Buying Conditions—Durables	157	141	86	105	115	106	106	114	109	114	119	115	114