surveys of consumers
UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: February 2021 survey results
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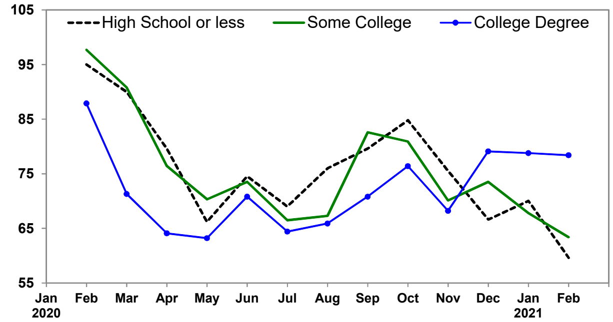
Despite a small gain in late February, consumer sentiment was slightly lower for the entire month than in January. All of February's loss was due to households with incomes below $75,000, with the declines mainly concentrated in future economic prospects. Indeed, the latest description of sentiment trends closely matches last month's changes. The worst of the pandemic may be nearing its end, but few consumers anticipate persistent and robust economic growth in the years ahead or that employment conditions will be soon restored to the very positive pre-pandemic levels. To be sure, there has been a growing divide among those households who retained their jobs and those that lost jobs and incomes. The recent revival in spending mainly reflects drawdowns in precautionary savings, which were predominantly held by households who had retained their jobs and incomes. This shift is best examined across education levels (see the chart). Interestingly, those with a college degree were more cautious about prospects for the national economy until just a few months ago, and since then, they have voiced more positive economic expectations. In contrast, those with less than a college degree recorded the least favorable economic prospects in this month's survey, indicating the high cumulative toll of the pandemic. It is a common occurrence that groups that had suffered the least in a recession are the first to propel the economy forward. Moreover, many of those with the least education depend on the return of jobs in the hardest hit sectors that will be the slowest to fully recover. Renewed financial aid is needed to those with less than median household incomes.

Index of Consumer Expectations Among Education Subgroups



Perhaps the most attention has been garnered by rising inflationary expectations. The year ahead inflation rate was expected to be 3.3% in February, up from 3.0% last month and 2.5% in December. While consumers clearly anticipate a spurt in inflation in the year ahead, long term inflation expectations were lower at 2.7% in February, the same as in January, and only slightly above December's 2.5%. Thus far the overall evidence does not indicate the stirring of an inflationary psychology. Additional data that defines the behavioral reactions to inflationary psychology have also remained near historic lows: unaided references to the inflationary erosion of living standards (which prompt demands for cost-of-living wage increases) and buy-in-advance rationales (which increases demand and causes further price increases). The key is not to underestimate the strength of inflationary psychology, and not overestimate the ability of policies to bring it to an end. Ineffective policies from 1965-80 ranged from President Johnson's 1968 surtax, Nixon's 1971 price controls, Ford's 1974 WIN program, and finally Carter's 1979 selection of Volcker, who ended inflation by pushing Fed Funds to 20% and unemployment to 10.8%.

The Fed as well as consumers judge restoring full employment as top priority. It is the main topic consumers cite when asked to describe current economic conditions. Although half of all consumers expect economic conditions to improve, half also anticipate that bad times financially will persist in the year ahead, and half expect renewed downturns in the next five years. When specifically asked about unemployment, expected declines were barely more frequent than increases (36% vs 32%).

When asked about recent changes in their finances, the same disparities have been recorded as in the past six months: higher income gains were reported by those under age 45 and among households with incomes in the top third, while wealth gains were concentrated among those with incomes in the top third. When asked about expected income increases in the year ahead, in both nominal and inflation adjusted dollars, the same subgroups expected the largest gains. The most effective policy to promote spending and job growth would target financial aid to those with below median incomes and allow the ongoing declines in covid infections to reduce precautionary motives and increase spending out of savings at the upper end.

	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 2021
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	76.8
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	70.7
Index Components													
Personal Finances—Current	141	128	106	107	110	108	108	113	113	111	114	109	110
Personal Finances—Expected	133	124	126	117	132	123	127	127	129	122	122	121	118
Economic Outlook—12 Months	127	83	58	58	67	60	65	83	88	75	76	87	83
Economic Outlook—5 Years	111	112	96	88	90	80	81	92	100	85	100	88	82
Buying Conditions—Durables	157	141	86	105	115	106	106	114	109	114	119	115	113