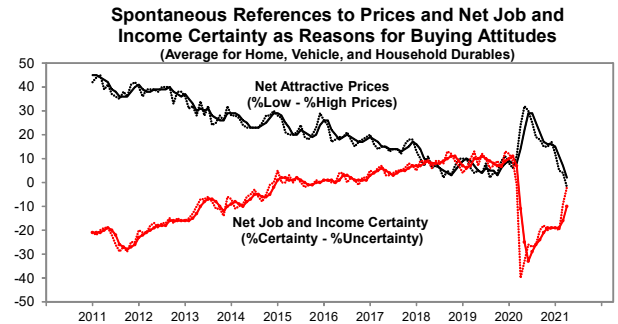




Subject: Preliminary results from the April 2021 survey
From: Richard Curtin, Director

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Consumers in early April reported surging economic growth and strong job gains due to record stimulus spending, low interest rates, and the positive impact of vaccinations. The Sentiment Index rose to its best level in a year on the strength of recent gains in current economic conditions, while future economic prospects remained unchanged from March. This is opposite of the usual pattern over the past fifty years, when recoveries were paced by larger and earlier gains in expectations. The strength in current economic conditions reflects much larger than usual stimulus payments during the past year, and much larger than usual economic gains due to comparisons with last year's shutdowns. Other factors suppressed the pace of expected gains, including persistent concerns with vaccine safety as well as a surge in year-ahead inflation expectations to 3.7%, the highest level in nearly a decade. Fortunately, this surge in inflation expectations was still well anchored by much lower inflation expectations over the next five years (2.7%). Perhaps more importantly, half of all consumers expected declines in unemployment, the highest level ever recorded. When asked to explain their buying plans, references to high prices have receded and have been offset by greater confidence in their future job and income prospects (see the chart). Following the pandemic reversal in trends, in the April survey references to net prices and net income prospects were exactly equal as they had been toward the end of the longest expansion that ended at the start of 2020. Overall, the data support an ongoing surge in consumer spending, but given persistent uncertainty about the course of covid-19 and inflation, cautious drawdowns of savings can be anticipated.



Year-ahead inflation expectations rose to 3.7% in April, up from March's 3.1% and last April's 2.1%. The last time inflation expectations were higher was in March 2012 at 3.9%. The long term annual inflation rate was expected to be 2.7% in early April, between last month's 2.8% and last year's 2.5%. Given last year's lows, larger year-over-year inflation can be expected in the next few months and are likely to add to year-ahead inflation expectations, but hopefully not so much to the long-term.

When asked about their own finances, 45% reported recent improvements, up from last month's 40%. The improvement was due to fewer consumers mentioning income declines (-7 percentage points) than higher incomes (+2 points). Expected year-ahead income gains rose to 1.6% across all households from last month's 1.1%; those under age 45, expected gains of 4.5%. Rising home and stock values boosted the financial position of households, especially those with income in the top third.

Favorable developments in the economy were cited by 63% in April, nearly twice the January level of 32%. Reports of job gains rose (34%, up from January's 14%) while reports of job losses plunged (23%, down from 65%). When specifically asked about the outlook for unemployment, 50% expected declines in the year ahead, the largest percentage ever recorded in the long history of the surveys. While the current state of the economy was much improved according to consumers (44% up from January's 10%), future growth prospects hardly improved (53% up from 51%). Importantly, intermittent downturns were still judged more likely in the next five years than continuous gains (10 point margin, down from 12 points in January).

Although views of buying conditions have shown only modest changes in the past year, the reasoning underlying those views have changed dramatically. Many fewer consumers mentioned the appeal of low prices and many more justified buying based on improved job and income prospects. For homes, net favorable price references declined by 31 percentage points and net positive income expectations increased by 33 points in the past year; for vehicles, net prices declined by 31 and were offset by net income gains of 29 points; for large durables, net prices declined by 16 points, and net positive income cites rose by 50 points. This shift has increased the reliance of the recovery in consumer spending on actual gains in job and incomes.

	April 2020	May 2020	Jun 2020	July 2020	Aug 2020	Sept 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	April Prelim
Index of Consumer Sentiment	71.8	72.3	78.1	72.5	74.1	80.4	81.8	76.9	80.7	79.0	76.8	84.9	86.5
Current Economic Conditions	74.3	82.3	87.1	82.8	82.9	87.8	85.9	87.0	90.0	86.7	86.2	93.0	97.2
Index of Consumer Expectations	70.1	65.9	72.3	65.9	68.5	75.6	79.2	70.5	74.6	74.0	70.7	79.7	79.7
Index Components													
Personal Finances—Current	106	107	110	108	108	113	113	111	114	109	110	112	125
Personal Finances—Expected	126	117	132	123	127	127	129	122	122	121	118	118	119
Economic Outlook—12 Months	58	58	67	60	65	83	88	75	76	87	83	108	110
Economic Outlook—5 Years	96	88	90	80	81	92	100	85	100	88	82	94	90
Buying Conditions—Durables	86	105	115	106	106	114	109	114	119	115	113	128	126