

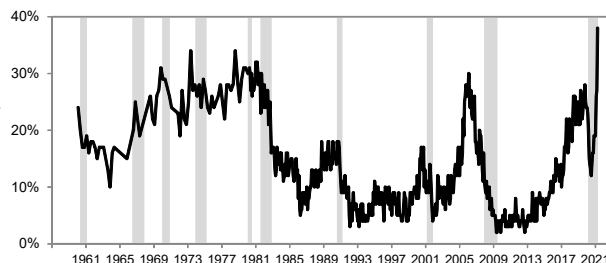


Subject: April 2021 survey results  
From: Richard Curtin, Director

April 30, 2021

The April survey recorded continued gains in consumer confidence due to a growing sense that the upward momentum in jobs and incomes is likely to persist. The renewed confidence is due to record federal stimulus spending, both recent and planned, as well as the positive impact from a growing share of the population who are vaccinated. The largest and most important change in the economic outlook in April was that an all-time record number of consumers expected declines in the unemployment rate in the year ahead. Even if a booming economy resulted in higher inflation, consumer optimism would not diminish since consumers have already anticipated a temporary increase. Overall, the data indicate an exceptional outlook for consumer spending through mid-2022. The size and persistence of the spending gains depend on continued job growth as well as wages that effectively draw people back into the labor force. While temporary price hikes are anticipated, those gains will have an uneven impact across households, and the robust increases in consumer demand will act to lengthen and heighten inflation above the modest increases now anticipated. Indeed, the anticipated spending boom has resulted in six-in-ten consumers to expect rising interest rates on borrowed funds in the year ahead, the highest level since March 2019, the year before the peak of the last expansion. It will be a challenge to fine-tune policy to allow inflation to modestly exceed the 2% target for some time without contributing to an upward momentum in inflation. While it is critical to first secure robust and equitable economic growth, contingency plans are urgently needed to avoid sinking inflation-adjusted incomes and higher interest costs.

Spontaneous References to High Home Prices in Evaluations of Home Buying Conditions



Home buying conditions slipped only modestly in April in spite of an all-time record number of complaints about high home prices (38%—see the chart). The natural tendency of higher prices is to lessen demand, but this reaction will be overwhelmed by strong growth in jobs and incomes. Rising home prices and rising incomes create the most fertile soil for the growth of inflationary psychology. Aside from prevention, all delayed cures exact real income losses and crushingly high interest rates.

Although year-ahead inflation expectations eased from the start of April, it still remained high at 3.4%, up from March’s 3.1% and last April’s 2.1%. Inflation expectations, however, remained well anchored at lower levels. Long term annual inflation was expected to be 2.7% in April, unchanged from earlier in the month and below last month’s 2.8%, just above last year’s 2.5%. Most consumers have no personal recollection of the inflationary psychology that dominated the economy a half-century ago, and even fewer can imagine the reintroduction of Volcker’s extreme economic constraints to conquer inflation.

Consumers were well aware of recent gains in the economy throughout April. Favorable developments in the economy were cited by 64%, 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, 52% expected declines in the year ahead, the largest percentage ever recorded in the long history of the surveys. While consumers judged current conditions in the economy to have greatly improved (46% up from January’s 10%), future growth prospects remained largely at the same favorable levels as at the start of the year (53% up from 51%). Importantly, intermittent downturns were judged somewhat more likely in the next five years than continuous gains (by a 7 point margin, down from 12 points in January).

When asked about their own finances, 46% reported recent improvements, up from last month’s 40%. The improvement was due to fewer consumers mentioning income declines since last March, and the highest number citing income gains. Expected year-ahead income gains rose to 1.8% across all households from last month’s 1.1%; those under age 45 expected gains of 4.7%. Rising home and stock values boosted the finances of households, especially those with income in the top third.

	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 2021
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	88.3
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	82.7
Index Components													
Personal Finances—Current	106	107	110	108	108	113	113	111	114	109	110	112	126
Personal Finances—Expected	126	117	132	123	127	127	129	122	122	121	118	118	124
Economic Outlook—12 Months	58	58	67	60	65	83	88	75	76	87	83	108	115
Economic Outlook—5 Years	96	88	90	80	81	92	100	85	100	88	82	94	93
Buying Conditions—Durables	86	105	115	106	106	114	109	114	119	115	113	128	126