

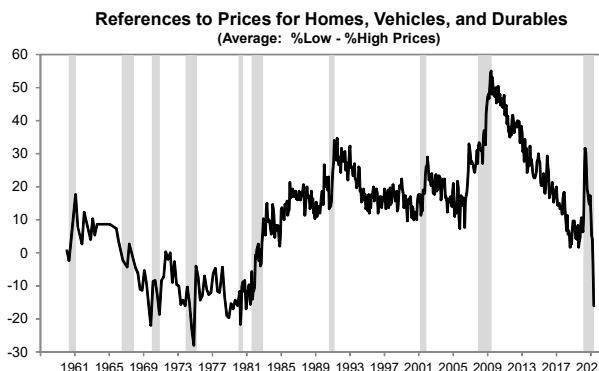


Subject: Preliminary results from the May 2021 survey
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Consumer confidence in early May tumbled due to higher inflation—the highest expected year-ahead inflation rate as well as the highest long term inflation rate in the past decade. Rising inflation also meant that real income expectations were the weakest in five years.

The average of net price mentions for buying conditions for homes, vehicles, and household durables were more negative than any time since the end of the last inflationary era in 1980 (see the chart). Importantly, consumer spending will still advance despite higher prices due to pent-up demand and record saving balances. This combination of persistent demand in the face of rising prices creates the potential for an inflationary psychology, fostering buy-in-advance rationales and cost-of-living increases in wages. At present, these rationales remain relatively uncommon, and the power of corrective economic policies is now relatively potent. Policy commitments to establish full employment while allowing inflation to meaningfully rise have never been attempted



with the additional micro goals of equity and fairness across population subgroups. Shifting policy language and even minor rate increases could douse inflationary psychology. Indeed, such a policy would be consistent with consumer expectations since two-thirds expect a rate hike in the year ahead. It should be no surprise that consumers anticipate a booming economy over the next year or so, including rapid job gains as well as increases in the inflation rate and interest rates. Indeed, consumers think these economic prospects are the natural result of stimulating an economic boom from last year’s shutdown.

The expected year-ahead inflation rate rose to 4.6% in early May, up from 3.4% last month and 3.2% last year. The last time it was 4.6% was in March and April 2011, and it was above that level in April to August of 2008. Just 21% of consumers expected the year-ahead inflation rate to be 2% or below; 43% expected an inflation rate of 5% or more. The annual long term inflation was expected to be 3.1% in early May, up from 2.7% a month and year earlier. The last time it was higher was in March 2011 at 3.2%. A long-term inflation rate of 2% or less was expected by 33% and a rate of 5% or more by 26%.

References to high home prices in evaluations of home buying conditions were made by 48% of all consumers, the highest proportion ever recorded; reference to high vehicle prices were made by 24%, the highest since 1997, and mentions of high prices for household durables by 20%, the highest since 1982. Consumers in early May expected the year-ahead increase in home prices to be 5.0%, the highest since 2007, and the annual increase expected over the next five years to be 3.1%, the highest since 2007. These rates of appreciation make home buying attractive despite their aversion to current home prices.

When asked about their future financial prospects, 29% expected improvements, well below last month’s 39%. Expected household income gains fell to 1.5% in early May from 1.8% last month, with the declines larger in middle and lower income households. When asked about their inflation-adjusted income prospects, 44% of all consumers reported that they thought price increases would outpace income gains, and net increases in real incomes were the lowest during the past five years. These real income expectations fell along with the age of the householder as well as among lower income households.

The recent weakness in job creation did not significantly influence consumers. The net change anticipated in the national unemployment rate was slightly more positive in early May, with 51% anticipating further declines, compared with last month’s 52% and January’s 35%. The news consumers heard about recent economic developments, however, was slightly less positive about jobs, although negative mentions of high prices still offset the net positive references to jobs. Consumers are well aware of the rapid progress the economy has made, with improved conditions rising to 51% from 10% in January.

| | May 2020 | Jun 2020 | July 2020 | Aug 2020 | Sept 2020 | Oct 2020 | Nov 2020 | Dec 2020 | Jan 2021 | Feb 2021 | Mar 2021 | April 2021 | May Prelim |
|--------------------------------|----------|----------|-----------|----------|-----------|----------|----------|----------|----------|----------|----------|------------|------------|
| Index of Consumer Sentiment | 72.3 | 78.1 | 72.5 | 74.1 | 80.4 | 81.8 | 76.9 | 80.7 | 79.0 | 76.8 | 84.9 | 88.3 | 82.8 |
| Current Economic Conditions | 82.3 | 87.1 | 82.8 | 82.9 | 87.8 | 85.9 | 87.0 | 90.0 | 86.7 | 86.2 | 93.0 | 97.2 | 90.8 |
| Index of Consumer Expectations | 65.9 | 72.3 | 65.9 | 68.5 | 75.6 | 79.2 | 70.5 | 74.6 | 74.0 | 70.7 | 79.7 | 82.7 | 77.6 |
| Index Components | | | | | | | | | | | | | |
| Personal Finances—Current | 107 | 110 | 108 | 108 | 113 | 113 | 111 | 114 | 109 | 110 | 112 | 126 | 120 |
| Personal Finances—Expected | 117 | 132 | 123 | 127 | 127 | 129 | 122 | 122 | 121 | 118 | 118 | 124 | 111 |
| Economic Outlook—12 Months | 58 | 67 | 60 | 65 | 83 | 88 | 75 | 76 | 87 | 83 | 108 | 115 | 106 |
| Economic Outlook—5 Years | 88 | 90 | 80 | 81 | 92 | 100 | 85 | 100 | 88 | 82 | 94 | 93 | 94 |
| Buying Conditions—Durables | 105 | 115 | 106 | 106 | 114 | 109 | 114 | 119 | 115 | 113 | 128 | 126 | 114 |