

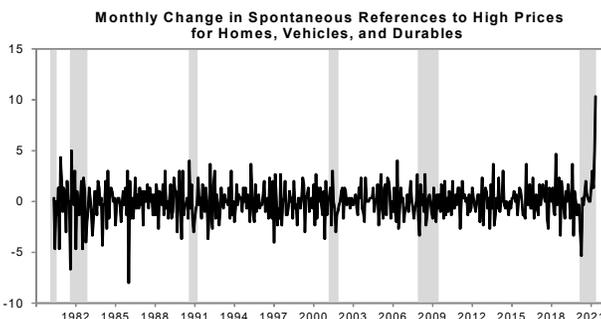


Subject: May 2021 survey results
From: Richard Curtin, Director

May 28, 2021

Consumer confidence remained largely unchanged at the reduced level recorded at mid-month. It is hardly surprising that the resurgent strength of the economy produced more immediate gains in demand than supply, causing consumers to expect a surge in inflation. Record proportions of consumers reported higher prices across a wide range of discretionary purchases, including homes, vehicles, and household durables—the average change in May vastly exceeds all prior monthly changes (see the chart). The impact of higher prices on discretionary spending will be offset by the more than \$2 trillion increase in savings in the past year as well as by improving job prospects—an all-time peak proportion of consumers anticipated declines in the national unemployment rate during the year ahead. While higher inflation will diminish real incomes, the gains in spending will nonetheless be substantial. The key issue is whether the timing of spending decisions will advance due to the expected price increases. At present the growth in inflationary psychology is unlikely, but it cannot be completely dismissed. Early preventative actions are much less costly, but these actions are much more difficult when policy objectives include avoiding uneven distributional impacts across population subgroups. It will require keeping the level of stimulus higher for a longer period than would have seemed prudent in the past. The primary risk of this strategy is an accelerating inflation rate, which also has uneven distributional impacts. Shifting policy language and a small rate increase could douse inflationary psychology; it would be no surprise to consumers, as two-thirds already expect higher interest rates in the year ahead.

recorded at mid-month. It is hardly surprising that



The expected year-ahead inflation rate rose to 4.6% in May, up from 3.4% last month and 3.2% last May, the highest level in a decade. Twice as many consumers expected that the inflation rate would be 5% or more in the year-ahead rather than 2% or below (44% versus 22%). Importantly, consumers still anticipated declining inflation over the longer term, although at a somewhat higher rate of gain. The annual long term inflation was expected to be 3.0% in May, up from 2.7% a month and year earlier. The last time the expected long-term inflation rate was higher was a decade ago, in March 2011 at 3.2%.

References to high home prices in evaluations of home buying conditions were made by 52% of all consumers, the highest proportion ever recorded; reference to high vehicle prices were made by 26%, the highest since 1983, and mentions of high prices for household durables by 23%, the highest since 1982. These complaints about high prices led to sharp one-month declines in net assessments of buying conditions toward homes (-24 points), vehicles (-18 points), and durables (-15 points).

The home market represents the greatest potential for consumers to buy-in-advance of rising prices. Among all homeowners, 80% reported gains in the value of their homes during the past year, the highest level since this question was first asked in the early 1990s. Consumers expected the year-ahead increase in home prices to be 4.8% in May, up from last month's 3.2% and January's 0.5%, and the annual increase expected over the next five years was 3.1%, up from 2.9% in both April and January. The data provide only marginal support for advance buying, with just 9% positively mentioning this strategy in May.

When asked to describe recent changes in their finances, net income gains were cited by one-third of those under age 45 and those with incomes in the top third. Financial prospects for the year ahead declined to the lowest level in seven years, with the falloff mainly among those over 45 and in the bottom two-thirds of the income distribution. Year-ahead expected income increases fell to 1.6% from 1.8% in April, with expected declines in inflation-adjusted incomes voiced by a five year high 43%. Job gains partially offset concerns about inflation, with an all-time record 54% expecting a lower jobless rate in the year ahead. The economy was judged on balance favorably, although the balance did tilt toward downturns over the longer term.

	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 2021
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	82.9
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	89.4
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	78.8
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	113
Economic Outlook—12 Months	58	67	60	65	83	88	75	76	87	83	108	115	110
Economic Outlook—5 Years	88	90	80	81	92	100	85	100	88	82	94	93	93
Buying Conditions—Durables	105	115	106	106	114	109	114	119	115	113	128	126	111