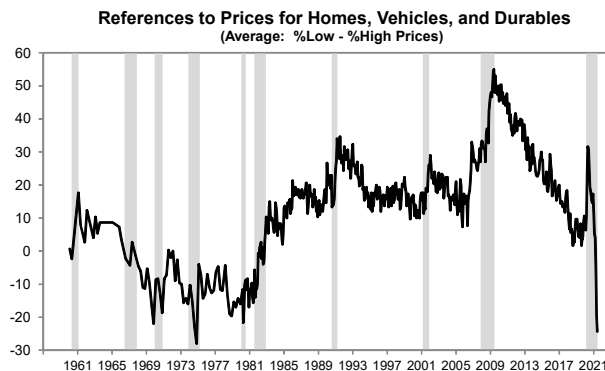




Subject: Preliminary results from the June 2021 survey
From: Richard Curtin, Director

June 11, 2021

Consumer sentiment rose in early June, recouping two-thirds of May’s loss. The early June gain was mainly among middle and upper income households and for future economic prospects rather than current conditions. Stronger growth in the national economy was anticipated, with an all-time record number of consumers anticipating a net decline in unemployment. Rising inflation remained a top concern of consumers, although the expected rate of inflation declined in early June. Spontaneous references to market prices for homes, vehicles, and household durables fell to their worst level since the all-time record in November 1974 (see the chart). These unfavorable perceptions of market prices reduced overall buying attitudes for vehicles and homes to their lowest point since 1982. These declines were especially sharp among those with incomes in the top third, who account for more than half of the dollar volume of retail sales. Fortunately, in the emergence from the pandemic, consumers are temporarily less sensitive to prices due to pent-up demand and record savings as well as improved job and income prospects. The acceptance of price increases as due to the pandemic, makes inflationary psychology more likely to gain a foothold if the exit is lengthy. While expansive monetary and fiscal policies are still warranted, the accompanying rise in inflation will cause uneven distributional impacts. Those impacts have already been noticed in June among the elderly and lower income households. A shift in the Fed’s policy language could douse any incipient inflationary psychology, it would be no surprise to consumers, as two-thirds already expect higher interest rates in the year ahead.



References to high prices in evaluations of home buying conditions were made by 64% of consumers in early June (up from last month’s 52%), the highest proportion ever recorded; references to high vehicle prices were made by 35% (up from 26%), the highest since 1981; mentions of high prices for household durables by 25% (up from 23%), the highest since 1981. These reports of rising prices, however, were not accompanied by increases in buy-in-advance rationales, even for homes: just 7% said it was better to buy a home before prices went even higher, down from 9% last month. These negative price effects on sales will be offset to some degree by the positive impact of expanding incomes and substantial accumulations of savings. The expected year-ahead inflation rate declined to 4.0% in early June, although down from 4.6% in May, it was still higher than any other time in the past decade. More vulnerable households, those aged 65 or older and those with incomes in the bottom third, complained more often that inflation had already reduced their living standards, and those same households also anticipated a higher inflation rate in the year ahead. Importantly, there was much less division in prospects for the long-term inflation rate. The annual inflation rate expected over the longer term fell in early June to 2.8% from last month’s 3.0%, and was just above the 2.7% average from January to April 2021. While these results are consistent with the view that the recent CPI figures are distorted by last year’s pandemic lows, these figures also don’t rule out a trend toward persistent inflation. Prospects for the national economy improved in early June. The year-ahead economic outlook as well as the longer term prospects for the economy were the best since the start of the pandemic. When asked about prospects for the national unemployment rate, 54% expected it to decline in the year ahead, tied with May as the highest percentage ever recorded. When asked to describe how their finances had changed, net income gains were cited by one-third of those with incomes in the top third as well as among those under age 45. This disparity was also present in income expectations for the year ahead as those under age 45 expected income gains of 4.7% compared with income declines of 1.8% among those age 65 and older. The gaps across incomes and ages were even larger when asked about inflation-adjusted prospects for the year ahead.

	Jun 2020	July 2020	Aug 2020	Sept 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	April 2021	May 2021	June Prelim
Index of Consumer Sentiment	78.1	72.5	74.1	80.4	81.8	76.9	80.7	79.0	76.8	84.9	88.3	82.9	86.4
Current Economic Conditions	87.1	82.8	82.9	87.8	85.9	87.0	90.0	86.7	86.2	93.0	97.2	89.4	90.6
Index of Consumer Expectations	72.3	65.9	68.5	75.6	79.2	70.5	74.6	74.0	70.7	79.7	82.7	78.8	83.8
Index Components													
Personal Finances—Current	110	108	108	113	113	111	114	109	110	112	126	120	119
Personal Finances—Expected	132	123	127	127	129	122	122	121	118	118	124	113	119
Economic Outlook—12 Months	67	60	65	83	88	75	76	87	83	108	115	110	119
Economic Outlook—5 Years	90	80	81	92	100	85	100	88	82	94	93	93	99
Buying Conditions—Durables	115	106	106	114	109	114	119	115	113	128	126	111	116