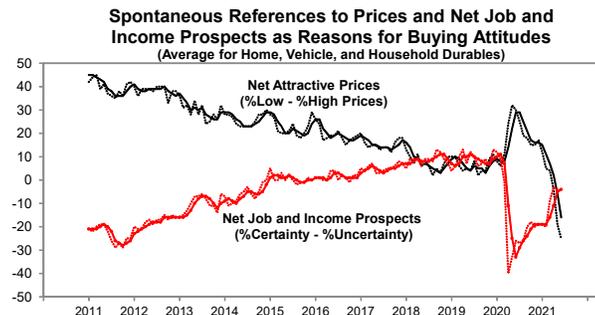




Subject: June 2021 survey results
From: Richard Curtin, Director

June 25, 2021

Although consumer sentiment slipped in late June, it still remained 3.1% above the May reading, and the second highest since the start of the pandemic. All of the June gain was among households with incomes above \$100,000, and mainly in the why they judged future economic prospects. Consumers continued to pay close attention to three critical factors: inflation, unemployment, and interest rates. Not only did year-ahead inflation expectations fall slightly to 4.2% in June from May's decade peak of 4.6%, consumers also believed that the price surges will mostly be temporary. Declines in unemployment rate in the year ahead were expected by 56% of consumers, the largest proportion ever recorded in the history of the surveys. The growing strength in the economy meant that nearly three-quarters of all consumers expected rising interest rates in the year ahead, the highest since 2018 when the economy was near its last peak. When the pandemic first began, consumers were quite uncertain about their job and income prospects, but reported widespread declines in market prices for homes, vehicles, and household durables (see the chart). Those favorable price references have dropped to the most negative in a decade, and job and income prospects have improved, but not quite as favorable as in the last few years of the prior expansion. While many are optimistic about a gradual end to the pandemic, consumers still judged the risks from emerging covid variants as appreciable. It is likely that consumers will not reduce their savings and wealth to pre-pandemic levels, but maintain a higher level of precautionary funds.



The expected year-ahead inflation rate was 4.2% in June, although down from 4.6% in May, it was still higher than any other time in the past decade. Just 24% of all consumers expected the year-ahead inflation rate would be 2% or below in June, while 43% expected inflation to be 5% or above during the year ahead. Inflation expectations of 15% or higher were held by 12% of consumers, the highest since 1981. Indeed, consumers anticipated that inflation would decline over the longer term, at an annual rate of 2.8% in June, down from May's 3.0%. Extreme expectations of an inflation rate of 15% or more over the longer term were rare, held by just 2%, while 39% expected a long-term inflation rate of 2% or less in June.

The year-ahead outlook as well as the longer term prospects for the economy were the best since the start of the pandemic, but not quite at the February 2020 peak. Importantly, more consumers expected other downturns rather than an uninterrupted expansion over the next five years. When asked about prospects for the national unemployment rate, 56% expected it to decline in the year ahead, the highest percentage ever recorded, posting a 21 percentage point gain since January 2021.

Spontaneous references to high prices for homes, vehicles, and household durables rose to its worst level since the all-time record in November 1974. 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, offsetting a portion of the negative price effects, consumers have expressed steadily improved job and income prospects since the shutdown low in April 2020.

Inflation has a disproportionate impact across the population: 16% of households in the bottom third of the income distribution complained more often that inflation had already reduced their living standards, three times the 5% recorded among those with incomes in the top third. Recent income gains were reported by 32% of households in the top income third, compared with not even 1% of households in the bottom third. When asked about expected changes in incomes in the year ahead, households in the top income third anticipated gains of 2.7% in June compared with just 0.6% among those in the bottom third. The highest income expectations were anticipated by younger households, who expected income gains of 4.1%.

	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 2021
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	85.5
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	88.6
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	83.5
Index Components													
Personal Finances—Current	110	108	108	113	113	111	114	109	110	112	126	120	117
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	97
Buying Conditions—Durables	115	106	106	114	109	114	119	115	113	128	126	111	112