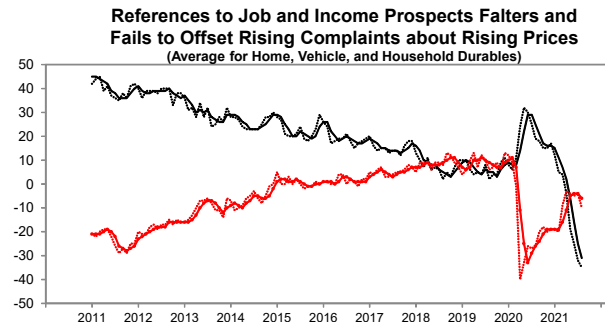




Subject: Preliminary results from the August 2021 survey
From: Richard Curtin, Director

August 13, 2021

Consumers reported a stunning loss of confidence in the first half of August. The Consumer Sentiment Index fell by 13.5% from July, to a level that was just below the April 2020 low of 71.8. Over the past half century, the Sentiment Index has only recorded larger losses in six other surveys, all connected to sudden negative changes in the economy: the only larger declines in the Sentiment Index occurred during the economy’s shutdown in April 2020 (-19.4%) and at the depths of the Great Recession in October 2008 (-18.1%). The losses in early August were widespread across income, age, and education subgroups and observed across all regions. Moreover, the losses covered all aspects of the economy, from personal finances to prospects for the economy, including inflation and unemployment. There is little doubt that the pandemic’s resurgence due to the Delta variant has been met with a mixture of reason and emotion. Consumers have correctly reasoned that the economy’s performance will be diminished over the next several months, but the extraordinary surge in negative economic assessments also reflects an emotional response, mainly from dashed hopes that the pandemic would soon end. In the months ahead, it is likely that consumers will again voice more reasonable expectations, and with control of the Delta variant, shift toward outright optimism. Consumers’ reaction to Delta’s modestly higher precautionary measures indicates the difficulty of producing optimal policy responses.



The expected year-ahead inflation rate was 4.6% in August, barely below July’s 4.7% and it has remained above 4% since May. Although the small August decline is consistent with the transient hypothesis, the recent data on long term inflation expectations were not: inflation was expected to average 3.0% over the next five years, up from 2.8% in the past two months, regaining the same level as in May. Although long term inflation expectations have reached 3.0% in five other months in the past decade, and was higher in March 2011 (3.2%) as well as in 2008 and 2009, reaching a peak at 3.4% in June 2008.

The transient hypothesis received greater support from consumers’ reactions to market prices for homes, vehicles, and household durables. Reactions to market prices on these purchases were the most negative ever recorded in the long history of the surveys. Aversion to higher prices caused consumers to judge buying conditions negatively: favorable ratings fell to just 30% for homes, 31% for vehicles, and 43% for household durables—all were the lowest since the 1980 recessions. This distaste was greatest among households with incomes in the top third, who represent over half of all consumer purchases. Importantly, price hikes by sellers need to be confirmed by buyers before those hikes enter into the various inflation gauges.

Inflation’s impact on family budgets continued to grow in August, cited by 18% of all households, up from 13% last month and 5% at the start of the year. The complaints about lower living standards due to inflation were voiced by 29% of those aged 65 or older, by 25% of those with a high school education or less, and by 24% of households with incomes in the bottom third. In contrast, all age, income and education groups were less likely to spontaneously cite income gains in August than in July. Expected income gains during the year ahead were 1.7% across all households, and fell among those under 45 (to 3.8% from last month’s 4.4%), expected income gains fell from much lower levels among those aged 45 to 64 (to 0.6% from 1.9%).

Consumers also became more pessimistic about further declines in the national unemployment rate, despite the record job openings. Just 36% of consumers anticipated a decline in the jobless rate, down from 52% last month. This likely reflects an anticipated slowdown in the year ahead as just 32% of consumers thought that the economy would improve, well below last month’s 45% and the 50% in June. Fewer consumers thought the year ahead prospects for the economy could be described as good (31%, down from July’s 50%) and the majority (57%) expected a renewed downturn over the longer term.

	Aug 2020	Sept 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	April 2021	May 2021	June 2021	July 2021	Aug Prelim
Index of Consumer Sentiment	74.1	80.4	81.8	76.9	80.7	79.0	76.8	84.9	88.3	82.9	85.5	81.2	70.2
Current Economic Conditions	82.9	87.8	85.9	87.0	90.0	86.7	86.2	93.0	97.2	89.4	88.6	84.5	77.9
Index of Consumer Expectations	68.5	75.6	79.2	70.5	74.6	74.0	70.7	79.7	82.7	78.8	83.5	79.0	65.2
Index Components													
Personal Finances—Current	108	113	113	111	114	109	110	112	126	120	117	116	109
Personal Finances—Expected	127	127	129	122	122	121	118	118	124	113	119	120	111
Economic Outlook—12 Months	65	83	88	75	76	87	83	108	115	110	119	109	72
Economic Outlook—5 Years	81	92	100	85	100	88	82	94	93	93	97	88	77
Buying Conditions—Durables	106	114	109	114	119	115	113	128	126	111	112	102	91