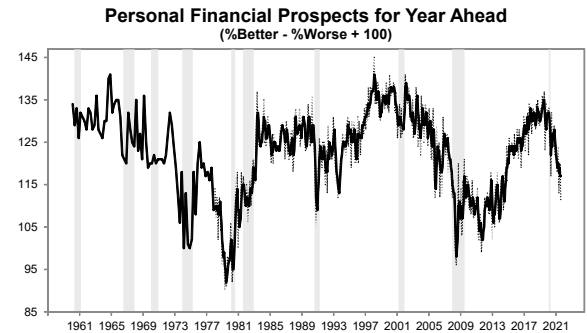




Subject: August 2021 survey results  
From: Richard Curtin, Director

August 27, 2021

There was no lessening in late August of the collapse in consumer sentiment during the first half of the month. The Consumer Sentiment Index fell by 13.4% from July, recording the least favorable economic prospects in more than a decade. The Sentiment Index has only recorded larger losses in six other monthly surveys since 1978. The losses were widespread across all demographic groups, regions, and all aspects of the economy. Personal financial prospects worsened due to smaller income gains amid higher inflationary trends (see the chart). Consumers' extreme reactions were due to the surging Delta variant, higher inflation, slower wage growth, and smaller declines in unemployment. The extraordinary falloff in sentiment also reflects an emotional response, from dashed hopes that the pandemic would soon end and lives could return to normal without the reimposition of strict covid regulations.



The August collapse of confidence does not imply an imminent economic downturn. There was a similar plunge in September 2005, with nearly equal declines in the Sentiment Index (13.7% in 2005 vs. 13.4% in 2021). The cause of the steep falloff in 2005 was the devastation from hurricane Katrina. The impact of 9/11 was another non-economic event that had an immediate impact on consumers' expectations and emotions. Although economic expectations began to improve by year-end, the emotional impact on spending patterns lasted for a much longer time. The same persistent impact is now likely to reoccur.

The expected year-ahead inflation rate was 4.6% in August, just below July's 4.7%, although remaining above 4% since May. Long term inflation expectations rose slightly to 2.9% in August, from 2.8% in the prior two months. Comparing the August figures from 2020 to 2021, year-ahead expectations rose by 1.5 percentage points, while long term expectations barely rose by just 0.2 percentage points. While the data remain consistent with the transient hypothesis, it does not fully reflect the impact of continuing wage gains to bolster employment, or the impact of the potential passage of federal spending proposals.

There is no evidence that consumers will quickly adopt the same type of inflationary psychology as they did in the 1970s. Consumers are now more likely to favor postponing rather than advancing purchases. Indeed, record numbers of consumers have specifically cited high prices for homes, vehicles, and durables, causing them to slow purchases. If inflation does continue at high levels, consumers will focus on obtaining increased incomes, lower taxes, and higher government transfers. Unlike the 1970s developments, inflation will be driven by an "income psychology" rather than an "inflation psychology," with variations in inflation adjusted incomes determining prospects for cyclical expansions or economic contractions.

Inflation's impact on family budgets continued to grow in August, cited by 19% 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 30% of those aged 65 or older, by 24% of those with a high school education or less, and by 23% of households with incomes in the bottom third. In contrast, just 10% mentioned that their household incomes rose in August, down from 15% in July. Expected income gains during the year ahead were 1.6% across all households, and fell among those under 45 (to 3.6% from July's 4.4%), as well as by households with incomes in the top third (2.4% down from 2.8%), both groups accounting for a majority of spending.

Consumers also became more pessimistic about further declines in the national unemployment rate, despite the record job openings. Just 38% of consumers anticipated a decline in the jobless rate, down from 52% last month. This likely reflects an anticipated overall slowdown in the pace of economic growth in the year ahead, as just 31% thought the economy would improve, well below last month's 45% and the 50% in June. Fewer consumers thought prospects for the economy were good for the year ahead (32%, down from July's 50%), and the majority (58%) 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 2021
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	70.3
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	78.5
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	65.1
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	74
Economic Outlook—5 Years	81	92	100	85	100	88	82	94	93	93	97	88	75
Buying Conditions—Durables	106	114	109	114	119	115	113	128	126	111	112	102	94