

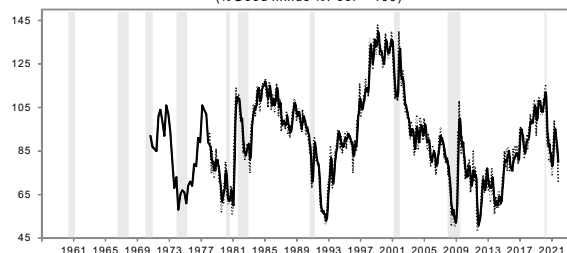


Subject: Preliminary results from the October 2021 survey
From: Richard Curtin, Director

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Consumer sentiment has remained for the past three months at the lows first recorded in response to last year's shutdown of the economy. The Delta variant, supply chain shortages, and reduced labor force participation rates will continue to dim the pace of consumer spending into 2022. There is another, less tangible factor that has contributed to the slump in optimism: confidence in government economic policies has significantly declined during the past six months. To be sure, the DC logjam, including the debates on the debt ceiling and the \$3.5 trillion social infrastructure program did not help, but the staged drama was largely ignored by most consumers. Consumers in the past were more attentive to the debates about extending the debt ceiling, passing major spending programs, or the face-off at the "fiscal cliff" (which may again happen in December). Consumers largely ignored the recent debates as partisan posturing. Unlike past debates, just 3% of consumers mentioned these policy debates when asked about recent news they had heard. Consumers presumably thought that these policies were important, but they largely ignored the dire partisan claims of an ensuing calamity. Consumers have much more basic concerns over policy. The adage "never let a crisis go to waste" mirrors the range and scale of Biden's progressive proposals, but consumers see it as too risky a strategy. When asked about their confidence in economic policies, favorable evaluations fell to 19% in early October from Biden's honeymoon high of 31% in April, while unfavorable policy evaluations rose to 48% in early October from 32% in April (see the chart). The decline in confidence in economic policies was recorded across all age, income, and education subgroups as well as among Democrats, Independents, and Republicans.

Assessments of Government's Economic Policy
(%Good minus %Poor + 100)



Consumers expected a year-ahead inflation rate of 4.8% in early October, up from last month's 4.6% and well above last year's 2.6% and the highest since 2008. Over the past six months, the expected inflation rate has averaged 4.6%, which was well above the average of 3.0% in the prior year, from May 2020 to April 2021. Importantly, consumers still view the recent surge in inflation as unsustainable, since they anticipated a long-term annual inflation rate of just 2.8% in October; importantly, in the last six months it has only exceeded the prior year by a small amount (2.9% versus 2.6%). Perhaps the long-term expected inflation is not explained by its transient nature, but by the 73% who expect rising interest rates next year.

Consumers reported much more favorable income expectations in early October. A median annual income gain of 2.5% was expected across all households, up from 1.5% last month, and 2.0% last year. The last survey larger income gains were expected was in March 2019 (2.6%) and then dating back to November 2007. While this increase was less than the expected inflation rate, it still meant that twice as many consumers anticipated real income declines rather than increases (40% versus 20%). Unemployment was still expected to post declines, although by increasingly smaller amounts. This reflects an unchanged view by the majority of consumers who expect persistently bad times for the economy in the near and longer terms.

Buying conditions for large household durables in early October were less favorable in only two other surveys: when the economy was shutdown in April 2020 and at the recession trough in May 1980. When asked to describe in their own words why conditions were unfavorable, net price increases were cited more frequently than anytime since inflation peaked at over 10% in 1978-80. Vehicle buying conditions were viewed less favorably than any other time in the history of the surveys, with negative views voiced by 69% of consumers, up from 38% six and twelve months earlier. High vehicle prices were cited by 43%, three times as many as that cited attractive pricing. In contrast, home buying conditions posted a small gain in early October, although 62% still held unfavorable views. The gain was due to a small decline in mentions of high prices (59% down from 64%) as well as a small increase in references to low mortgage rates (27% up from 22%).

	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	April 2021	May 2021	June 2021	July 2021	Aug 2021	Sept 2021	Oct Prelim
Index of Consumer Sentiment	81.8	76.9	80.7	79.0	76.8	84.9	88.3	82.9	85.5	81.2	70.3	72.8	71.4
Current Economic Conditions	85.9	87.0	90.0	86.7	86.2	93.0	97.2	89.4	88.6	84.5	78.5	80.1	77.9
Index of Consumer Expectations	79.2	70.5	74.6	74.0	70.7	79.7	82.7	78.8	83.5	79.0	65.1	68.1	67.2
Index Components													
Personal Finances—Current	113	111	114	109	110	112	126	120	117	116	109	116	112
Personal Finances—Expected	129	122	122	121	118	118	124	113	119	120	111	112	113
Economic Outlook—12 Months	88	75	76	87	83	108	115	110	119	109	74	84	79
Economic Outlook—5 Years	100	85	100	88	82	94	93	93	97	88	75	76	76
Buying Conditions—Durables	109	114	119	115	113	128	126	111	112	102	94	90	88