



Economics Group

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Another Body Blow for the Economy as Sentiment Plummets

Consumer sentiment plunged 11.9 points in March, the largest decline since October 2008. The slip is the latest affirmation that consumer spending will be facing unprecedented headwinds.

Sentiment Slips

Not since the height of the credit crunch in October 2008 has the University of Michigan's survey of consumer sentiment reported a larger plunge (top chart). A preliminary read of this measure just two weeks ago put confidence at 95.9 and in the short period of time since, the measure has fallen to 89.1. The slip is the latest affirmation that consumer spending will be facing remarkable and truly unprecedented headwinds as large swaths of the country get used to social distancing and either by choice or by law, remain at home.

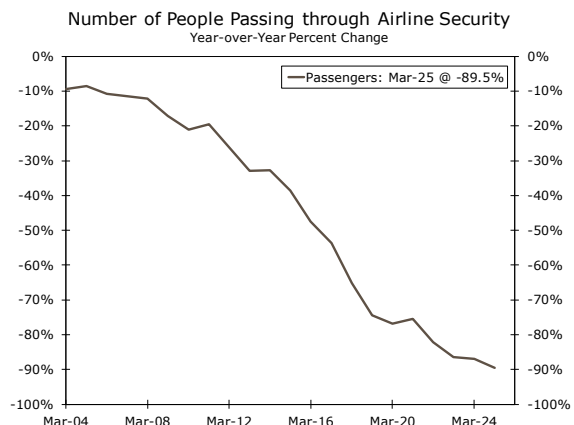
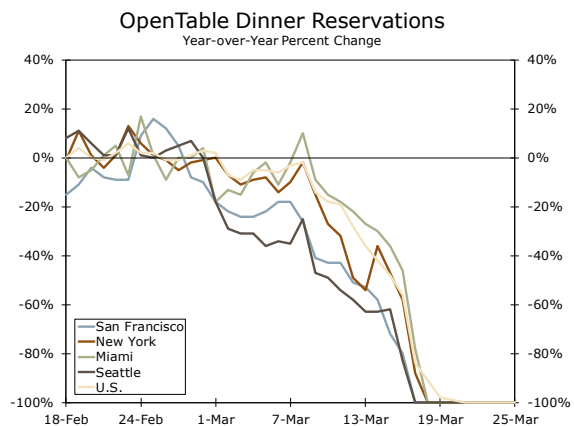
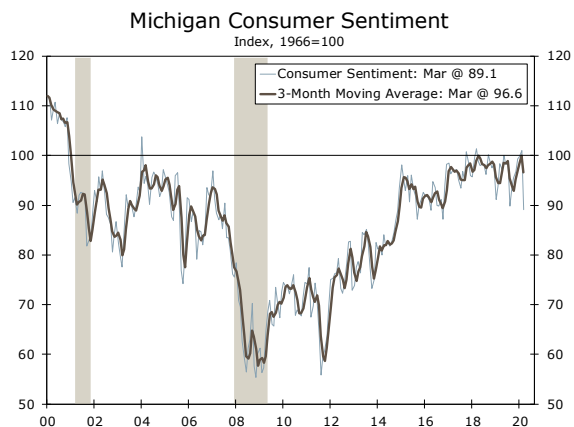
In the latest [update](#) to our U.S. forecast, we sharply revised down our expectation for consumer spending in the second quarter to a 17% annualized rate of decline. If realized, that would mark the largest quarterly decline in PCE on record. After all, the U.S. consumer has basically been stopped in its tracks. With many parts of the country under stay-at-home orders, it is no surprise that restaurants and airports are turning into ghost towns. The charts on restaurant reservations and the number of people passing through TSA checkpoints illustrate just how dramatic the slowdown has been.

Underlining the fear of U.S. households about their job prospects, the director of the survey highlighted the fact that the share of consumers that think the national unemployment rate will increase in the year ahead rose to the highest in nearly a decade. It is a justified concern considering the number of people filing unemployment claims last week came in at more than four times higher than a record set almost 40 years ago.

On that note, sentiment around household finances compared to a year ago declined 13.1 points, which also marks the largest decline since October 2008 (-26 points). This is undoubtedly tied to job losses as well as the recent swoon in equity markets. Household finances sentiment has further room to fall, as more jobs are lost due to temporary business closures, which will weigh on overall sentiment.

We are in the early stages of this crisis and are only now beginning to see its severity in the economic data. It will be important to keep in mind amidst these record-setting figures, that this is not a sudden deterioration in economic fundamentals. This is the inevitable result of what happens when you slam the brakes on the economy by having everyone hole-up in their homes to keep them safe.

The truth is, no one knows what lies ahead in terms of the virus' spread or precisely when the economy will 're-open'. But, assuming the country manages to contain the pandemic in the not-too-distant future and that it does not reappear in the fall, growth should turn positive again by the end of this year. In that case, we would be in store for a pretty quick snap back in activity.



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