Subject: October 2021 survey results October 29, 2021
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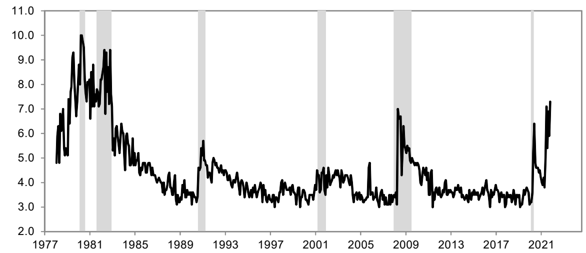
Consumer sentiment remained virtually unchanged from its mid month reading, gaining just 0.3 Index points, and just 0.1 Index points above the average in the past two months. Indeed, the October level of consumer sentiment was just 0.1 Index points below the April 2020 low. The positive impact of higher income expectations and the receding coronavirus has been offset by higher rates of inflation and falling confidence in government economic policies. Consumers not only anticipated the highest year-ahead inflation rate since 2008 in the October survey, consumers also expressed greater uncertainty about the year-ahead inflation rate than anytime in nearly forty years (see the chart). Note that this was the first major spike in inflation uncertainty recorded outside of a recession. Even uncertainty about the long-term inflation rate was the highest in more than a decade. Declining living standards due to inflation were spontaneously mentioned by one-of-every five households, concentrated among older and poorer households.

Inflation Uncertainty as Estimated by the Range of the Middle 50% in Inflation Expectations
(Monthly data: 75th Percentile – 25th Percentile)



The patterns of consumers' reactions to recent rises in inflation represent the preconditions that can promote an escalating inflation rate during the year ahead. Consumers' recognition of high and rising prices is near universal, so too is their desire to reestablish spending for a more traditional holiday season. People understand that the origin of inflation has been in the upheavals in supply lines and labor markets. The acceptance of higher prices was caused by swollen savings due to the record pandemic cash incentives as well as by Biden's new social support programs. The declining resistance to price hikes among buyers will be joined by less resistance among sellers to hiking prices that will be justified by higher materials and labor costs. These reactions promote an accelerating inflation rate until a tipping point is reached when consumers' incomes can no longer keep pace with escalating inflation. In the past inflationary era, one recession was insufficient to realign expectations; it took a series of boom-bust cycles, until the Fed's Volcker finally defeated inflation by raising interest rates to record levels.

The expected year-ahead inflation rate was 4.8% in October, just above September's 4.6%, the highest rate in the past six months, and nearly twice the 2.6% recorded a year ago. Inflation uncertainty increased to its highest level since November 1982, as the inter-quartile range rose to 7.3 percentage points, from the 25th percentile (2.4%) to the 75th (9.7%). Over the longer term, consumers expected an annual inflation rate of 2.9%, just below last month's 3.0%, but it was higher than last October's 2.4%. Long term inflation uncertainty was also elevated, with the middle 50% of the distribution ranging from 1.4% (25th percentile) to 4.9% (75th), or by 3.5 percentage points. The last time a wider range was recorded was in November 2008. It is more likely that in the months ahead, heightened uncertainty will be translated into higher inflation expectations.

The proportion of households who expected to be better off financially in a year was 32% in October, barely above last month's 30%. When asked about expected income gains, the median increase expected was 2.6%, up from last month's 1.5%; the last time a higher percentage was recorded was in 2007. The reason the jump in income expectations was not reflected in the question of personal finances reflects the difference between real and nominal expectations. (This is a key difference from the Conference Board that includes questions in their Index based on nominal dollars.) Although the Michigan question on inflation adjusted incomes improved slightly, twice as many households anticipated real income declines as increases.

Although consumers anticipated that the economy will continue to improve, the pace of gains were expected to slow. Indeed, when asked whether the gains would usher in good economic times, the majority said conditions would still constitute bad times for the year ahead (56%), and over the longer term be interrupted by renewed downturns (57%). Unemployment was expected to fall by 37%, down from 52% three months ago, and increase by 26%, up from 14% three months earlier.

	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 2021
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	71.7
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	77.7
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	67.9
Index Components													
Personal Finances—Current	113	111	114	109	110	112	126	120	117	116	109	116	115
Personal Finances—Expected	129	122	122	121	118	118	124	113	119	120	111	112	112
Economic Outlook—12 Months	88	75	76	87	83	108	115	110	119	109	74	84	81
Economic Outlook—5 Years	100	85	100	88	82	94	93	93	97	88	75	76	78
Buying Conditions—Durables	109	114	119	115	113	128	126	111	112	102	94	90	85