



Subject: Preliminary results from the November 2021 survey  
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Consumer sentiment fell in early November to its lowest level in a decade due to an escalating inflation rate and the growing belief among consumers that no effective policies have yet been developed to reduce the damage from surging inflation. One-in-four consumers cited inflationary reductions in their living standards in November, with lower income and older consumers voicing the greatest impact. Nominal income gains were widely reported but when asked about inflation-adjusted gains, half of all families anticipated reduced real incomes next year. Rising prices for homes, vehicles, and durables were reported more frequently than any other time in more than half a century. The reactions of consumers to surging inflation should be no surprise, as it has been reported during the past several months. The description that inflation would be “transient” has the undertone that consumers could “grin and bear it” as economic policies counted on a quick and automatic self-correction to supply and labor shortages. Instead, the pandemic caused economic dislocation unlike any prior recession, and has been intertwined with partisan interpretations of economic developments.

The moods of consumers play a central role in how information is processed (see my book *Consumer Expectations*). Positive moods promote more casual and less detailed information processing, and negative moods promote more formal and deliberate information processing, especially of potentially negative developments. Partisans aligned with the President’s party have adopted very positive moods, and those in the opposing camp very negative moods. As a result, partisan supporters of one or the other presidents either mentioned or ignored rising home and stock values, inflation and income growth rates, or mentioned or ignored employment or unemployment rates, and so forth. The partisan differences in perceptions were not minor, but were large and equal in size (see the table). They were larger than differences across income, age, and education; moreover, those partisan differences nearly equaled the entire span between cyclical peaks and troughs. The issues underlying the stark partisan divisions are based on stark differences in economic policies. The stylized difference is that one side favors maximizing economic growth and efficiency, the other side on maximizing distributional equity and fairness. Such legislative challenges are won or lost by extreme partisan support drawn from both sides of the aisle. Such extremes, however, make achieving their policy goals much more important than providing effective counter measures to ongoing economic hardships.

The expected year-ahead inflation rate was 4.9% in November, the highest expected inflation rate since 2008. The shift toward higher inflation expectations is longstanding, rising from 2.8% in November 2020 to 3.4% in April 2021, and then surging to 4.6% in May 2021. Long-term inflation expectations remained unchanged at 2.9% from last month, and has averaged 2.9% since May. Higher interest rates in the year ahead were anticipated by 71% of all consumers in November.

The proportion of households who expected to be worse off financially stood at 24% in November, the last time a higher figure was recorded was in June 2008, and marginally less than the 28% who anticipated improved finances. When asked about gains in nominal incomes, the median increase expected was 2.0%, below last month’s 2.6%, with the largest declines recorded among households with incomes in the bottom third. Declines in inflation adjusted incomes were expected by 51% in November, up from 41% last month, with the largest declines anticipated by households with incomes in the bottom third.

Half of consumers judged the national economy to have recently weakened, and were as likely to expect the economy to weaken as to improve during the year ahead. Nearly six-in-ten consumers thought bad times financially would persist during the year ahead as well as over the next five years. Importantly, the November survey recorded no change in unemployment expectation from last month, but those expectations have weakened considerably from mid year: while 37% expected continued declines in unemployment in November, that was well below the 2021 peak of 56% recorded five months ago.

**Partisan Expectations**  
(Trump: 2017:02 – 2020:02; Biden: 2021:02-2021:11; Gap= Democrat - Republican)

	Trump Gap	Biden Gap		Trump Gap	Biden Gap
Index Consumer Expectations	-55.0	+51.5	Net Personal Expectations	-31.3	+45.0
Net Business Expectations	-80.1	+91.1	Net Economic News Heard	-112.1	+100.6
Net Unemployment Expectations	-71.4	+66.5	Net Real Income Expectations	-26.5	+32.2

Note: Positive scores indicate Democrats more favorable; negative scores indicate Republicans more favorable.

	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	April 2021	May 2021	June 2021	July 2021	Aug 2021	Sept 2021	Oct 2021	Nov Prelim
Index of Consumer Sentiment	76.9	80.7	79.0	76.8	84.9	88.3	82.9	85.5	81.2	70.3	72.8	71.7	66.8
Current Economic Conditions	87.0	90.0	86.7	86.2	93.0	97.2	89.4	88.6	84.5	78.5	80.1	77.7	73.2
Index of Consumer Expectations	70.5	74.6	74.0	70.7	79.7	82.7	78.8	83.5	79.0	65.1	68.1	67.9	62.8
Index Components													
Personal Finances—Current	111	114	109	110	112	126	120	117	116	109	116	115	110
Personal Finances—Expected	122	122	121	118	118	124	113	119	120	111	112	112	104
Economic Outlook—12 Months	75	76	87	83	108	115	110	119	109	74	84	81	74
Economic Outlook—5 Years	85	100	88	82	94	93	93	97	88	75	76	78	72
Buying Conditions—Durables	114	119	115	113	128	126	111	112	102	94	90	85	78