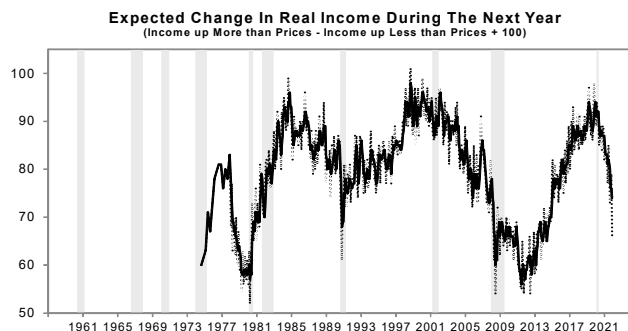




Subject: November 2021 survey results
From: Richard Curtin, Director

November 24, 2021

Consumers expressed less optimism in November 2021 than any other time in the past decade about prospects for their own finances as well as for the growth prospect for the overall economy. The decline was due to a combination of rapidly escalating inflation combined with the absence of any federal policies that would effectively redress the inflationary damage to household budgets. While pandemic induced supply-line shortages were the precipitating cause, the roots of inflation have grown and spread more broadly across the economy. One-in-four consumers cited inflationary erosions of their living standards in November. Rather than gradually easing along with diminished shortages, complaints about falling living standards doubled in the past six months and quintupled in the past year. Consumers anticipated declining inflation adjusted incomes (see the chart), and expected spending cutbacks due to rising inflation to slow the pace of growth in the national economy. With one important caveat: consumers have a strong desire to resume more normal holiday gatherings with family and friends, and to use their accumulated savings to fund their celebrations and gifts despite higher prices. That holiday bye ends in January, but it will not end underlying upward momentum in prices and wages. Even when Biden’s social infrastructure program is finally approved, it will not immediately ease inflation. The real transient issue is the rapidly closing window when effective policy actions can be accomplished by very modest nudges in interest rates and regulations. At present, consumers still expect inflation to revert to a much lower level over the next five years, but that anchor has begun to yield ground: long-term inflation expectations rose by 0.5 percentage points in the past year, to 3.0% in November. If expected long-term inflation continues to accelerate in the first half of 2022, it will make its containment more difficult, and even more so if the rise would continue in the last half of 2022. Moreover, a protracted inflationary period will bring a renewed urgency for expanding relief payments from job losses to also cover the inflationary erosion in living standards.



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. The annual long-term expected inflation rate rose to 3.0%, just above last month’s 2.9% and equal to the level set six months ago, but it was significantly above last November’s 2.5%. Higher inflation expectations were accompanied by increases in interest rates on mortgages, credit cards, and consumer loans, expected by 72% of consumers. A greater share of households than anytime in the last decade expected to be worse off financially in the November survey, largely due to rising inflation. Overall, 51% of all households reported that they expected their inflation-adjusted incomes to decline during the year ahead, up from 41% in October. Just 18% expected rising inflation-adjusted incomes during the year ahead, down from 25% in June and one year ago. The anticipated year-ahead inflation rate was twice the expected gain in nominal incomes (4.9% versus 2.1%); every age and income subgroup also expected falling real incomes. Confidence in government economic policies fell to its lowest level recorded in the past seven years, dating back to September 2014. Half of consumers judged the national economy to have recently weakened, and more consumers anticipated that the economy would further worsen in the year ahead than anytime since the middle of the Great Recession in 2008. Importantly, 58% of consumers anticipated an economy-wide downturn during the next five years. More modest declines in the unemployment rate were expected during the year ahead, although continued decreases were more frequently expected than increases. News reports of inflation rose faster during the past six month than references to job losses (+15 versus +5 percentage points).

	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 2021
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	67.4
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	73.6
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	63.5
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	106
Economic Outlook—12 Months	75	76	87	83	108	115	110	119	109	74	84	81	73
Economic Outlook—5 Years	85	100	88	82	94	93	93	97	88	75	76	78	73
Buying Conditions—Durables	114	119	115	113	128	126	111	112	102	94	90	85	79