

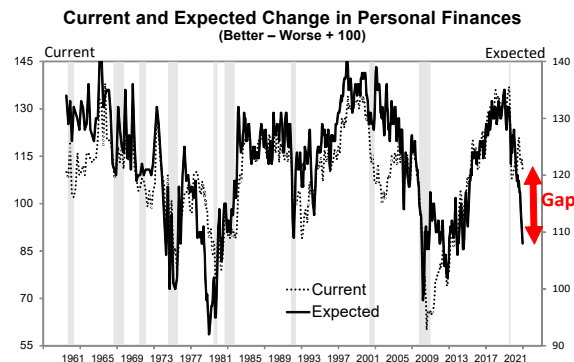


Subject: Preliminary results December 2021 survey

December 10, 2021

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Sentiment posted a small overall gain in early December (+4.5%), although it was still nearly identical to the average reading in the prior four months (70.6). The more interesting result was the large disparity between monthly gain among households with incomes in the lowest third (+23.6%) of the income distribution compared with the modest losses among households in the middle (-3.8%) and top third (-4.3%). While small differences in the direction of change are rather common, it is quite unusual to record such a large change in the bottom third: a larger one-month percentage was recorded only once before, a gain of 29.2% in June 1980. While it is usually assumed that such extreme changes represent an erroneous result due to small samples, in 1980 it was the households in the bottom income third that initially signaled the end of the first part of the double recession in 1980-82, with upper income households following in subsequent months. The core of the renewed optimism among the bottom third was the expectation of income increases of 2.9% during the year ahead; the last time a higher gain for this group was expected was in 1981. This suggests an emerging wage-price spiral that could propel inflation higher in the years ahead. When directly asked whether inflation or unemployment was the more serious problem facing the nation, 76% selected inflation while just 21% selected unemployment (the balance reported the problems were equal or they couldn't choose). The dominance of inflation over unemployment was true for all income, age, education, region, and political subgroups. While a shift in policy emphasis is necessary, it will be difficult to gauge the right balance between fiscal and monetary policies that both trims inflation and maintains the unemployment rate near its current lows.



The pandemic recession had an impact on personal finances like no other crisis in more than a half century. While consumers' evaluations of their current and prospective financial situation have both declined, for the first time there has been a substantial gap between the two assessments. The decline in how consumers have judged their current financial situation was half as large as the decline in how they judged their future financial prospects (see the chart). The split is presumably due to the impact of the cash stimulus and unemployment payments. Future financial evaluations have been lessened primarily by rising inflation as nearly half of all consumers expect falling inflation-adjusted incomes during the year ahead. This divergence provided financial support to the holiday spending spree, but in the months ahead many may turn their focus to changes in wages and prices. The inflationary erosion of living standards are currently reported by one-in-four households, and those inflationary driven cutbacks have continued to spread to middle age, middle income, and middle educational groups.

The expected year-ahead inflation rate was 4.9% in early December, unchanged from November, the highest expected inflation rate since 2008. The annual long-term expected inflation rate was 3.0%, unchanged from last month, and significantly above last December's 2.5%. The December survey marks the eighth consecutive month of elevated inflation expectation, and consumers continued to voice a considerable degree of uncertainty about future inflation rates, mostly about near rather than long term inflation rates. While the range of inflation expectations across demographic groups was small, the range across parties was extreme: Democrats anticipated a year-ahead rate of 2.8%, while Republicans expected 7.0%.

Consumers were slightly more upbeat about future prospects for the national economy, although the gains have been so minor as to not alter the overall negative judgements. For example, 36% expected good times in the national economy in 2022, up from last month's 32%, but there were still 55% who anticipated the continuation of bad times. Importantly, unemployment is still expected to decline rather than increase in the year ahead, with nearly half expecting the current lows to be maintained.

	Dec 2020	Jan 2021	Feb 2021	Mar 2021	April 2021	May 2021	June 2021	July 2021	Aug 2021	Sept 2021	Oct 2021	Nov 2021	Dec Prelim
Index of Consumer Sentiment	80.7	79.0	76.8	84.9	88.3	82.9	85.5	81.2	70.3	72.8	71.7	67.4	70.4
Current Economic Conditions	90.0	86.7	86.2	93.0	97.2	89.4	88.6	84.5	78.5	80.1	77.7	73.6	74.6
Index of Consumer Expectations	74.6	74.0	70.7	79.7	82.7	78.8	83.5	79.0	65.1	68.1	67.9	63.5	67.8
Index Components													
Personal Finances—Current	114	109	110	112	126	120	117	116	109	116	115	110	107
Personal Finances—Expected	122	121	118	118	124	113	119	120	111	112	112	106	106
Economic Outlook—12 Months	76	87	83	108	115	110	119	109	74	84	81	73	81
Economic Outlook—5 Years	100	88	82	94	93	93	97	88	75	76	78	73	84
Buying Conditions—Durables	119	115	113	128	126	111	112	102	94	90	85	79	85