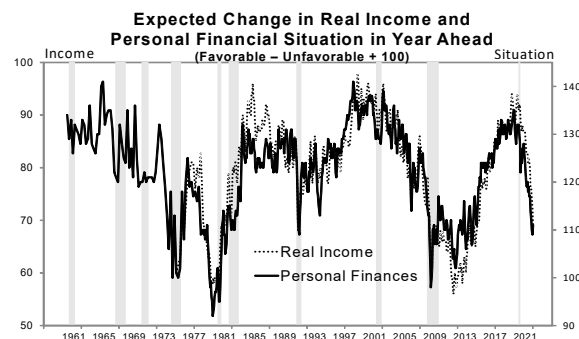




Subject: Preliminary January 2022 survey results
From: Richard Curtin, Director

January 14, 2022

Sentiment posted a small loss in early January (-2.5%), falling to the second lowest level in a decade, which was recorded just two months ago, in November (67.4). The Sentiment Index has averaged just 70.3 in the past six months, whereas in the first six months of 2021 it averaged 82.9. While the Delta and Omicron variants certainly contributed to this downward shift, the decline was also due to an escalating inflation rate. Three-quarters of consumers in early January ranked inflation, compared with unemployment, as the more serious problem facing the nation. Given that inflation's impact is regressive, the Sentiment Index fell by 9.4% among households with total incomes below \$100,000 in early January, but rose by 5.7% among upper income households. The same split was observed for prospects for the national economy, with lower income households more negative and higher income households holding a more positive outlook in early January.



Even among the more optimistic, they are still more likely to anticipate bad rather than good economic times in the year ahead. Confidence in government economic policies is at its lowest level since 2014. It will be a difficult task to gauge the appropriate mix of fiscal and monetary policies when fine-tuning is necessary in an era of large economic and non-economic disruptions. The most crucial and difficult task, in both goals and actions, will be defusing the developing wage-price spiral.

When asked to assess their finances, 33% reported being worse off financially than a year earlier, just above the April 2020 shutdown low of 32%, the worst since 2014. Twice as many households with incomes in the bottom third as in the top third reported worsening finances (40% vs. 20%). Inflationary erosion of living standards was the main explanation offered by consumers. The importance of inflation in determining their future financial prospects was dominated by how consumers judged their future inflation-adjusted incomes (see the chart). Nearly half of all consumers (48%) anticipated that the inflation rate would outdistance income increases to produce real income declines. Just 17% anticipated real income gains in 2022.

The expected year-ahead inflation rate was 4.9% in early January, up from 4.8% in December, repeating that same shift as in October and November. Overall, this was the highest four-month average since 2008. The annual long-term expected inflation rate was 3.1% in early January, just above the tight range of 2.9% to 3.0% recorded since August. While the data continue to point toward a decelerating inflation rate in the future, the 4.9% they anticipate in 2022 is more than twice the 2.1% consumers anticipate in income gains, and higher than the 3.5% income gain expected by those under age 45. These real income declines will prompt greater calls for higher wages, expanding from low to middle and upper income households.

Current conditions in the national economy were reported to have worsened by half of all households in each of the past three months, and just one-third of all households have anticipated improved economic conditions during the year ahead. When asked to evaluate the year-ahead outlook for the economy, 61% reported that they expected bad times ahead, and when asked about longer term prospects, 57% reported that they were more likely to anticipate renewed downturns rather than a continuous expansion. Consumers anticipated that declines in the national unemployment rate will soon end, as additional declines were expected by 29% and renewed increases were anticipated by 27% in early June; 42% expected no change.

Attitudes toward discretionary purchases remained depressed as all-time record numbers of consumers complained about high prices for large household durables and vehicles; reactions to high home prices receded from their all-time peaks but remained higher than in any prior period. Interest rates on borrowed funds were expected to increase by three-quarters of all consumers in June, largely unchanged in the past three months. Mortgage lenders have begun to increase rates, but they remain low.

	Jan 2021	Feb 2021	Mar 2021	April 2021	May 2021	June 2021	July 2021	Aug 2021	Sept 2021	Oct 2021	Nov 2021	Dec 2021	Jan Prelim
Index of Consumer Sentiment	79.0	76.8	84.9	88.3	82.9	85.5	81.2	70.3	72.8	71.7	67.4	70.6	68.8
Current Economic Conditions	86.7	86.2	93.0	97.2	89.4	88.6	84.5	78.5	80.1	77.7	73.6	74.2	73.2
Index of Consumer Expectations	74.0	70.7	79.7	82.7	78.8	83.5	79.0	65.1	68.1	67.9	63.5	68.3	65.9
Index Components													
Personal Finances—Current	109	110	112	126	120	117	116	109	116	115	110	109	105
Personal Finances—Expected	121	118	118	124	113	119	120	111	112	112	106	110	117
Economic Outlook—12 Months	87	83	108	115	110	119	109	74	84	81	73	80	69
Economic Outlook—5 Years	88	82	94	93	93	97	88	75	76	78	73	83	77
Buying Conditions—Durables	115	113	128	126	111	112	102	94	90	85	79	82	83