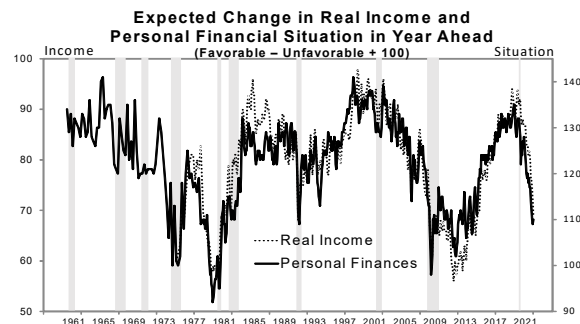




Subject: January 2022 survey results  
From: Richard Curtin, Director

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Sentiment fell throughout January, posting a cumulative loss of 4.8%, sinking to its lowest level since November 2011. The current slump was due to two sharp declines separated by a brief interlude of rising optimism. The initial steep decline occurred in just two months, a 28.9% plunge in optimism from February to April 2020 due to the shutdown in the economy. Confidence recorded an equally strong recovery beginning in late-2020, rising 23.0% by April 2021. That upturn was reversed during the past nine months, with the Sentiment Index falling by 23.9%. The Delta and Omicron variants were largely responsible, but other factors, some of which were initially triggered by covid, have become independent forces shaping sentiment. While supply chains and essential workers have sparked the initial increases in prices and wages, a wage-price spiral that has subsequently developed is no longer tied to those precipitating conditions. Household spending had been supported by an extraordinary pace of rising home and stock prices that is likely to turn negative in the year ahead. Overall confidence in government economic policies is at its lowest level since 2014, and the major geopolitical risks may add to the pandemic active confrontations with other countries. Although their primary concern is rising inflation and falling real incomes (see the chart), consumers may misinterpret the Fed's policy moves to slow the economy as part of the problem rather than the solution.



Understanding the underlying rationales for expectations has been complicated by partisanship. As noted in past reports, the extreme views of Democrats and Republicans when combined closely mirror changes among Independents as well as trends in the overall sample. For example, the partisan difference in year-ahead inflation expectations was 2.7 percentage points (3.1% among Democrats versus 5.8% among Republicans); the difference in expected income gains was 2.3 percentage points (3.1% versus 0.8%). As a result, the data yield a difference in real income expectations of 5.0 percentage points (0.0% versus 5.0%). Independents, presumed to be less affected by partisanship, expected a net real income decline of 3.3%, relatively close to the decline of 2.6% in the pooled sample (although measured with much less precision due to the extreme partisan split.)

A somewhat different picture emerges when consumers were directly asked whether they thought inflation or unemployment was the more serious problem facing the nation. Inflation was deemed the worst problem by 75% of all consumers, with only a small partisan split (Democrats 72% versus Republicans 83%). The diminished impact of partisanship was also evident in the half-century record in the numbers of consumers who unfavorably judged current market prices for homes, vehicles, and household durables. Small, and largely insignificant, differences were observed across the partisan divide. More importantly, unlike the 1970's inflation, consumers have not favored buying in advance of anticipated price hikes, as they did in the earlier inflationary age. This response is based on expecting an accelerating inflation rate over the longer term. At present, the long-term annual inflation rate was 3.1% in January, well below the 4.9% year-ahead expected inflation rate.

Consumers think the national economy started 2022 in a weakened state. Half of all households reported that the economy had worsened, and just one-third thought it would improve during the year ahead. These judgements were quite sensitive to partisan interpretations, with the recent declines occurring largely in parallel across the political spectrum, as Democrats were still much more optimistic than Republicans. When asked about the longer run prospects for the national economy, the partisan gap between a continued expansion and a renewed recession was stunning: continued growth was expected by 49% of Democrats and just 15% of Republicans. Such a sharp partisan divide did not extend to interest rate expectations, with 75% of Democrats and 81% of Republicans who anticipated that interest rates would increase in 2022.

	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 2022
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	67.2
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	72.0
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	64.1
Index Components													
Personal Finances—Current	109	110	112	126	120	117	116	109	116	115	110	109	106
Personal Finances—Expected	121	118	118	124	113	119	120	111	112	112	106	110	114
Economic Outlook—12 Months	87	83	108	115	110	119	109	74	84	81	73	80	67
Economic Outlook—5 Years	88	82	94	93	93	97	88	75	76	78	73	83	75
Buying Conditions—Durables	115	113	128	126	111	112	102	94	90	85	79	82	79