surveys of consumers
UNIVERSITY OF MICHIGAN

Monitoring trends for over 75 years

Subject: Preliminary results from the February 2022 survey February 11, 2022

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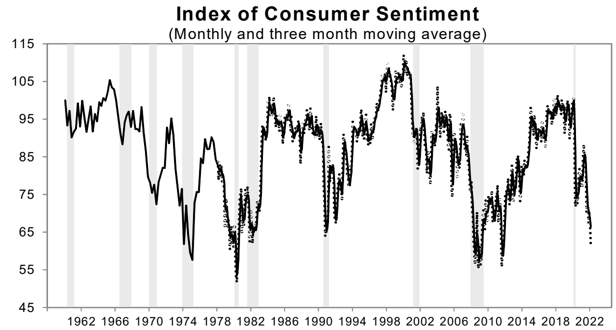
Sentiment continued its downward descent, reaching its worst level in a decade, falling a stunning 8.2% from last month and 19.7% from last February. The recent declines have been driven by weakening personal financial prospects, largely due to rising inflation, less confidence in the government's economic policies, and the least favorable long term economic outlook in a decade. Importantly, the entire February decline was among households with incomes of $100,000 or more; their Sentiment Index fell by 16.1% from last month, and 27.5% from last year. Noteworthy, the entire decline also occurred among Democrats and Independents, with Republicans reporting a slight gain in early February, although still having the lowest level. The impact of higher inflation on personal finances was spontaneously cited by one-third of all consumers, with nearly half of all consumers expecting declines in their inflation adjusted incomes during the year ahead. In addition, fewer households cited rising net household wealth since the pandemic low in May 2020, largely due to the falling likelihood of stock price increases in 2022.



The recent declines have meant that the Sentiment Index now signals the onset of a sustained downturn in consumer spending (see the chart). The depth of the slump, however, is subject to several caveats that have not been present in prior downturns: the impact of unspent stimulus funds, the partisan distortion of expectations, and the pandemic's disruption of spending and work patterns. Households have amassed substantial savings and reserve funds from the stimmies as well as due to more limited consumption choices, especially services. There may be a lessened need for additional precautionary savings and a greater desire to engage in discretionary spending. Although the partisan gap was just a bit smaller in February, the Sentiment Index among Independents was just 57.2, somewhat above the Republicans' 50.1, but well below the Democrats' 81.0.

Consumers expected a year-ahead inflation rate of 5.0% in early February, just above the tight range of 4.8% to 4.9% in the prior four months, but well above last year's 3.3%. Although differences across age and income subgroups were within a half percentage point, the partisan gap was enormous, with Republicans expecting a rate nearly twice as high as Democrats (6.2% versus 3.2%). Importantly, inflation remained well anchored, with the longer term annual inflation rate at 3.1%, unchanged from last month; partisan differences also narrowed to less than a percentage point. Nonetheless, inflation rather than unemployment was seen as the more serious problem facing the nation by eight-in-ten consumers in early February. Consumers are well aware of the Fed's intentions, as nearly nine-in-ten consumers anticipated higher interest rates in 2022.

Worsening personal finances were reported by 40% of all households in February, up from 33% one month earlier, with the change particularly sharp among younger householders. When asked to explain their financial situation, higher prices causing declining living standards was cited by 32% of all households. When asked about their future financial prospects, 26% expected their finances to worsen in February, the highest in four decades, since May 1980. The median expected annual increase in household income was 1.9% in February, far lower that the anticipated year-ahead inflation rate of 5.0%. Poor government economic policies were cited by 51%, the highest since 2014, with only a dozen higher levels in the past 50 years.

A strengthening economy was reported by 35% of consumers in February, well below the 50% recorded six months ago, and future gains were expected by just 24%, half as frequently as last year's 50%. Bad financial times were anticipated in the overall economy by nearly two-thirds of all consumers, not only for the year ahead but throughout the next five years, the weakest long-term outlook in the past decade. Thus far consumers do not anticipate much change in the unemployment rate, as equal numbers expecting it will increase as decrease (27% versus 26%), with the largest share expecting no change (46%).

	Feb 2021	Mar 2021	April 2021	May 2021	June 2021	July 2021	Aug 2021	Sept 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb Prelim
Index of Consumer Sentiment	76.8	84.9	88.3	82.9	85.5	81.2	70.3	72.8	71.7	67.4	70.6	67.2	61.7
Current Economic Conditions	86.2	93.0	97.2	89.4	88.6	84.5	78.5	80.1	77.7	73.6	74.2	72.0	68.5
Index of Consumer Expectations	70.7	79.7	82.7	78.8	83.5	79.0	65.1	68.1	67.9	63.5	68.3	64.1	57.4
Index Components													
Personal Finances—Current	110	112	126	120	117	116	109	116	115	110	109	106	97
Personal Finances—Expected	118	118	124	113	119	120	111	112	112	106	110	114	101
Economic Outlook—12 Months	83	108	115	110	119	109	74	84	81	73	80	67	64
Economic Outlook—5 Years	82	94	93	93	97	88	75	76	78	73	83	75	64
Buying Conditions—Durables	113	128	126	111	112	102	94	90	85	79	82	79	79