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Monitoring trends for over 75 years

Subject: February 2022 survey results February 25, 2022
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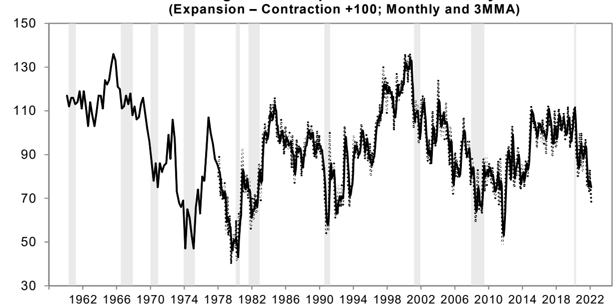
Although Consumer Sentiment posted a slight increase in the last half of February, it still remained at its lowest level in the past decade, and the loss was still entirely due to a 12.9% decline among households with incomes of $100,000 or more. The February descent resulted from inflationary declines in personal finances, a near universal awareness of rising interest rates, falling confidence in the government's economic policies, and the most negative long term prospects for the economy in the past decade (see the chart). Virtually all interviews were conducted prior to the Russian invasion so its impact is yet to be felt by consumers. The most likely linkage to the domestic economy is through rising energy prices, with the size and length of the potential increases subject to substantial uncertainty. This will complicate the Fed's policy actions, tilting their objectives to focus more on inflation at the cost of slower growth and higher unemployment. The financial harm and growing angst among consumers about rising inflation have pushed nearly nine-in-ten consumers to anticipate interest rate hikes. The Fed's clinging to the transient hypothesis meant missed opportunities to nip inflation at its earliest stages; aggressive actions are now needed to avoid the potential establishment of an inflationary psychology that acts to form a self-fulfilling prophecy. The imposition of sanctions against Russia is likely to generate counter measures that could harm the domestic economy, requiring the Fed to give special consideration to any associated economic slowdown and rising unemployment. Presumably, economic sanctions would be lifted only if Ukraine's sovereignty is maintained, but not if Russia prevails. Consumers may double-down on precautionary behaviors if the greater cyber risks associated with the conflict are now borne by domestic households.

Long Term Prospects for the Economy
(Expansion – Contraction +100; Monthly and 3MMA)



It is unlikely that consumers' reactions to the Ukrainian conflict will act to close the partisan gap even though people have usually rallied around the President in times of crisis. The gap between economic statistics and consumer evaluations has never been larger. Many observers have ascribed this divergence to consumers' faulty perceptions of economic reality. There is no denying that jobs and GDP have posted record gains in 2021. The loss of 25 million jobs in just two months was stunning, and so was taking the next 21 months to regain most of those jobs. Partisans simply chose different baselines to judge the economy, with Democrats using the pandemic low and Republicans using the pre-pandemic peak. The Index of Consumer Expectations was twice as high among Democrats as Republicans in February (84.0 vs. 42.1), a far larger gap than across groups defined by income, age, or education. The use of cyber attacks by Russia may narrow the partisan gap, but it is unlikely to disappear. Much is unknown, however, about cyber wars that aim losses on home fronts rather than battlefields.

Consumers expected a year-ahead inflation rate of 4.9% in February, remaining in the tight range of 4.8% to 4.9% for the past five months, but well above last year's 3.3%. The partisan gap was astonishing, with expected inflation nearly twice as high among Republicans than Democrats (6.0% vs. 3.3%). Inflation remained well anchored, with the longer term annual inflation rate at 3.0%, down from last month's 3.1%. Consumers have already increased gas price expectations, with an expected annual median increase of 14.7 cents, up from the December low of 3.2 cents. Gas price expectations will quickly respond to upward pressures from a tightening world energy market and push the overall inflation expectations upward as well.

Worsening personal finances were reported by 40% of consumers in February, with just 36% reporting being better off, the worst net evaluation in nine years. Complaints about rising prices were made by one-in-three consumers. When asked about their future finances, 26% in February expected their finances to worsen, the highest 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 4.9%.

	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 2022
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	62.8
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	68.2
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	59.4
Index Components													
Personal Finances—Current	110	112	126	120	117	116	109	116	115	110	109	106	96
Personal Finances—Expected	118	118	124	113	119	120	111	112	112	106	110	114	102
Economic Outlook—12 Months	83	108	115	110	119	109	74	84	81	73	80	67	66
Economic Outlook—5 Years	82	94	93	93	97	88	75	76	78	73	83	75	68
Buying Conditions—Durables	113	128	126	111	112	102	94	90	85	79	82	79	78