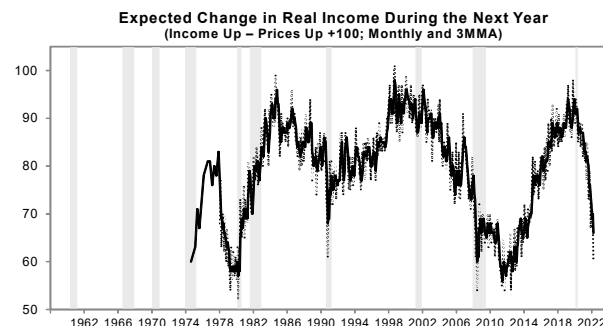




Subject: Preliminary results from the March 2022 survey
From: Richard Curtin, Director

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Consumer Sentiment continued to decline due to falling inflation-adjusted incomes, recently accelerated by rising fuel prices as a result of the Russian invasion of Ukraine. The year-ahead expected inflation rate rose to its highest level since 1981, and expected gas prices posted their largest monthly upward surge in decades. Personal finances were expected to worsen in the year ahead by the largest proportion since the surveys started in the mid-1940s. Consumers held very negative prospects for the economy, with the sole exception of the job market. Consumers were slightly more likely to anticipate declines rather than increases in the national unemployment rate. This underlying strength in jobs comes at the cost of pushing inflation even higher due to unrelenting pressures on aggregate demand and supply lines. The persistent strength in demand was a critical factor that shaped the last inflationary age from 1965 to 1982, with stagflation peaking only near its end. Current expectations are consistent with heightened pressures on wages to meet the continued growth in demand. Like the game of musical chairs, everyone continues racing around the circle of rising prices and higher wages. Although everyone knows the game will end, everyone still wants to obtain the highest income possible before they exit. The game is moderated by fiscal and monetary policies, which now favor increased federal spending and full employment over price stability, enabling ever more rounds of the game.



The greatest source of uncertainty is undoubtedly inflation and the potential impact of the Russian invasion of Ukraine. In the March survey, 24% of all respondents spontaneously mentioned the Ukraine invasion in response to questions about the economic outlook. The impact of this recognition was associated with a drop of 13.2 Index points in the Index of Consumer Expectations across all households. This difference was much larger for those who held higher inflation expectations: the difference was 33.5 Index-points on the Expectations Index for those who expected under 5% compared with over 5%.

Consumers expected a year-ahead inflation rate of 5.4% in March, up from 4.9% in both January and February, and the highest expected inflation since 1981. Importantly, inflation remained well anchored, with the longer term annual inflation rate at 3.0%, unchanged from last month. This pattern of anticipating large year-ahead gains but moderating over the longer term was also true for gas price expectations. An additional gain of 50 cents was expected in gas prices over the next year, up from last month's 15 cents, but gas prices were expected to remain at that same level over the next five years. The same pattern occurred in overall economic outlook: additional losses for the year ahead but small gains over the longer term.

When asked about financial prospects for the year ahead, more households reported they expected worsening finances than ever before in the history of these surveys. Overall, 33% anticipated worsening finances, more than twice last March's reading. Median income gains of just 1.4% were expected by all households in March, down from 1.9% one month ago and 2.3% in January; even gains among those under 45 fell to 3.2% from 3.7% last month and 4.3% in January. Importantly, a majority (54%) expected lower inflation-adjusted incomes in the year ahead, topped in only six surveys since the mid-1970s. Past home value gains were cited more frequently than anytime in the past three decades, with 3.1% gain expected next year.

Just 21% of consumers expected good times in the economy during the year ahead, less than half of last March's 49%. This falloff was not based on negative job prospects as only 24% expected increasing unemployment, just under the 26% recorded last March. Rather, consumers anticipated slowing job gains given that continued declines in unemployment was expected by 30%, down from last March's 45%. Although increasing interest rates were expected by the largest number of consumers ever recorded, it will take repeated hikes over an extended period before they have an appreciable impact on demand.

	Mar 2021	April 2021	May 2021	June 2021	July 2021	Aug 2021	Sept 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	March Prelim
Index of Consumer Sentiment	84.9	88.3	82.9	85.5	81.2	70.3	72.8	71.7	67.4	70.6	67.2	62.8	59.7
Current Economic Conditions	93.0	97.2	89.4	88.6	84.5	78.5	80.1	77.7	73.6	74.2	72.0	68.2	67.8
Index of Consumer Expectations	79.7	82.7	78.8	83.5	79.0	65.1	68.1	67.9	63.5	68.3	64.1	59.4	54.4
Index Components													
Personal Finances—Current	112	126	120	117	116	109	116	115	110	109	106	96	94
Personal Finances—Expected	118	124	113	119	120	111	112	112	106	110	114	102	92
Economic Outlook—12 Months	108	115	110	119	109	74	84	81	73	80	67	66	52
Economic Outlook—5 Years	94	93	93	97	88	75	76	78	73	83	75	68	72
Buying Conditions—Durables	128	126	111	112	102	94	90	85	79	82	79	78	80