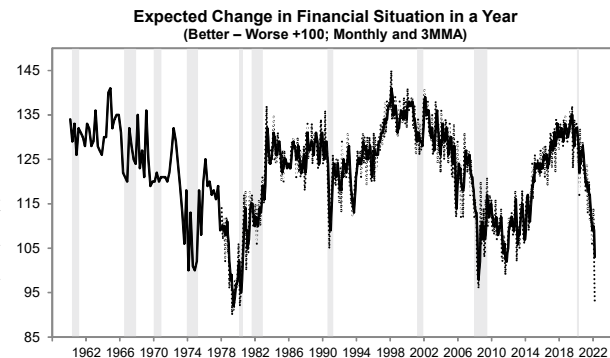




Subject: March 2022 survey results
From: Richard Curtin, Director

March 25, 2022

Consumer Sentiment remained largely unchanged in late March at the same diminished level recorded at mid month. Inflation has been the primary cause of rising pessimism, with an expected year-ahead inflation rate at 5.4%, the highest since November 1981. Indeed, inflation was mentioned throughout the survey, whether the questions referred to personal finances, prospects for the economy, or assessments of buying conditions. When asked to explain changes in their finances in their own words, more consumers mentioned reduced living standards due to rising inflation than any other time except during the two worst recessions in the past fifty years: from March 1979 to April 1981, and from May to October 2008. Moreover, 32% of all consumers expected their overall financial position to worsen in the year ahead, the highest recorded level since the surveys started in the mid-1940s. The combination of rising prices and less positive income expectations meant that half of all households anticipated declines in inflation-adjusted incomes in the year ahead. The sole area of the economy about which consumers were still optimistic was the strong job market. Consumers anticipated in March that during the year ahead it was more likely that the unemployment rate would post further declines than increases (30% versus 24%).



Strong job growth will continue to put upward pressures on wages, resulting in higher income and stronger job prospects. This strength will then act to expand consumer demand and ultimately lead to another cycle of price and wage increases. These factors represent the necessary (but not sufficient) conditions for the development of inflationary psychology as a self-fulfilling prophecy. Prevention of inflationary psychology is much less costly before it becomes ingrained in the economic behavior of consumers and firms. Confidence that economic policies will resolve the problem is essential. Unfortunately, half of all consumers unfavorably assessed current policies, more than three times the 16% who rated them favorably. Making the situation even more difficult, policy makers need to take account of two unusual sources of economic uncertainty, one rather minor (the new covid variant), and a major source of continued economic disruption (the Russian invasion of Ukraine).

The expected year-ahead inflation rate was 5.4% in March, up from 4.9% last month and 3.1% last March. This was the highest inflation rate expected since November 1981. Long term inflation expectations remained unchanged at 3.0% in March, identical to the average during the past seven months. While well-anchored inflation expectations are a positive sign (70% of consumers expected the year-ahead rate to exceed the long term rate), it is still likely in the months ahead that the long term anchor will drift higher to a greater extent than the year-ahead inflation rate will decline. The confounding issue is partisanship: Republicans report a much higher awareness of escalating inflation than Democrats: 7.1% versus 4.4%; even when asked to describe how their finances had recently changed, 50% of Republicans mention inflation compared with just 19% of Democrats. These differences were much larger than across age, income, and education subgroups. Even 40% of the presumably nonpartisan Independents spontaneously mentioned the unfavorable impacts of inflation on their finances.

Buying attitudes remain at record lows due to near universal complaints about high prices for durables, vehicles and homes. Despite the dominance of rising prices, few consumers now favor buying-in-advance to avoid anticipated price increases, and few consumers favor borrowing-in-advance to avoid future interest rate hikes, despite the consensus view that prices and interest rates will continue to rise. This is quite unlike the last inflationary age when advance buying promptly gained favor at the first signs of inflation in the late 1960s. The current absence of such responses is primarily due to the low expected long term inflation rate and that real interest rates will remain relatively low for some time given their zero starting point.

	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 2022
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	59.4
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	67.2
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	54.3
Index Components													
Personal Finances—Current	112	126	120	117	116	109	116	115	110	109	106	96	93
Personal Finances—Expected	118	124	113	119	120	111	112	112	106	110	114	102	93
Economic Outlook—12 Months	108	115	110	119	109	74	84	81	73	80	67	66	51
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