

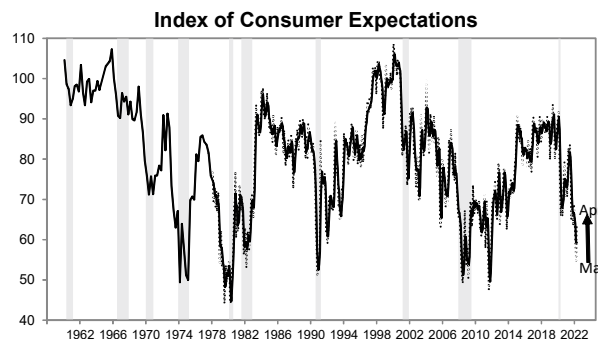


Subject: Preliminary results from the April 2022 survey

April 14, 2022

From: Richard Curtin, Director

Consumer Sentiment jumped by a surprising 10.6% in early April, although it remained below January’s reading and lower than in any prior month in the past decade. Nearly the entire gain was in the Expectations Index, which posted a monthly gain of 18.0%, including a leap of 29.4% in the year-ahead outlook for the economy and a 17.2% jump in personal financial expectations. A strong labor market bolstered wage expectations among consumers under age 45 to 5.3%—the largest expected gain in more than three decades, since April 1990. Consumers still anticipate that the national unemployment rate will inch downward, acting to improve consumers’ outlook for the national economy. Perhaps the most surprising change was that consumers anticipated a year-ahead increase in gas prices of just 0.4 cents in April, completely reversing March’s surge to 49.6 cents. Retail gas prices have fallen since the March peak, and that fact was immediately recognized by consumers. The shift in gas price expectations may be partly due to Biden’s announced release of strategic oil reserves and the relaxing of some seasonal EPA rules. Nonetheless, the April survey offers only tentative evidence of small gains in sentiment, which is still too close to recession lows to be reassuring. There are still significant sources of economic uncertainty that could easily reverse the April gains, including the impact on the domestic economy from Putin’s war, and the potential impact of new covid variants. In addition, the only group that did not fully participate in the upsurge in the Expectations Index was Republicans, who posted a modest gain of 6.0%, compared with a gain of 16.3% among Democrats and 20% among Independents; Republicans also voiced higher gas expectations (up by 24.8 cents).



The median expected year-ahead inflation rate remained at 5.4% in early April. Given the sharp variations in the CPI across spending categories as well as different spending patterns across households, the mean expectation was substantially higher, reaching 8.3% in early April. The year-ahead inflation rate continued to be well-anchored, as the median long term inflation rate remained at 3.0% for the third consecutive month. Nonetheless, consumers have already become less resistant to paying higher prices and firms have become less resistant to offering higher wages. The key question is whether an inflationary psychology extends the expansion before the cumulative erosion in inflation-adjusted incomes causes the economy to collapse in recession. In the last inflationary age from 1965 to 1982, consumers purposely advanced their purchases in order to beat anticipated price increases, and firms readily passed along higher costs to consumers, including anticipated cost increases. The highest proportion ever recorded anticipated rate hikes in the year ahead in the April survey. The Fed needs to balance reductions in inflation with potential increases in unemployment. Consumers, however, now expect the opposite: higher interest rates and a somewhat lower unemployment rate during the year ahead. The unemployment rate was expected to fall by 33% and remain unchanged by 47% in April, while increases were expected by just 19%. An upcoming half-point increase will still leave consumers less resistant to higher prices and still mean that firms will be less resistant to offering higher wages. Prospects for their personal finances improved significantly in April, reversing last month’s negative balance of opinion. Importantly, the gains were widely shared across income, age, and educational groups. When asked about expected income gains, a 2.7% increase was expected by all households, the last time a higher increase was expected was in 2006. Nearly equal income gains were expected by all income groups, with the biggest April improvements expected by those with incomes in the bottom third (2.6% from 0.4%). Given the stabilization of gas prices, expectations for their inflation-adjusted incomes also improved slightly: real income declines were anticipated by 45% in early April, down from 52% in March.

	April 2021	May 2021	June 2021	July 2021	Aug 2021	Sept 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	April Prelim
Index of Consumer Sentiment	88.3	82.9	85.5	81.2	70.3	72.8	71.7	67.4	70.6	67.2	62.8	59.4	65.7
Current Economic Conditions	97.2	89.4	88.6	84.5	78.5	80.1	77.7	73.6	74.2	72.0	68.2	67.2	68.1
Index of Consumer Expectations	82.7	78.8	83.5	79.0	65.1	68.1	67.9	63.5	68.3	64.1	59.4	54.3	64.1
Index Components													
Personal Finances—Current	126	120	117	116	109	116	115	110	109	106	96	93	96
Personal Finances—Expected	124	113	119	120	111	112	112	106	110	114	102	93	109
Economic Outlook—12 Months	115	110	119	109	74	84	81	73	80	67	66	51	66
Economic Outlook—5 Years	93	93	97	88	75	76	78	73	83	75	68	72	80
Buying Conditions—Durables	126	111	112	102	94	90	85	79	82	79	78	80	79