Subject: May 2022 survey results

From: Joanne Hsu, PhD, Director

The final May reading confirmed the early month decline in consumer sentiment, which fell 10.4% below April and reverted to virtually the same level of sentiment seen in March. This recent drop was largely driven by continued negative views on current buying conditions for houses and durables, as well as consumers’ future outlook for the economy, primarily due to concerns over inflation. While the declines in sentiment were visible across demographic groups, middle-income consumers and middle-educated consumers showed the strongest declines from April.

At the same time, consumers expressed less pessimism over future prospects for their personal finances than over future business conditions. Less than one quarter of consumers expected to be worse off financially a year from now. Looking into the long term, a majority of consumers expected their financial situation to improve over the next five years; this share is essentially unchanged during 2022. Those under the age of 45, who had stronger income expectations than older consumers, showed the most optimism. Across all consumers, a stable outlook for personal finances may currently support consumer spending. Still, persistently negative views of the economy may come to dominate personal factors in influencing consumer behavior in the future.

The median expected year-ahead inflation rate was 5.3%, little changed over the last three months, and up from 4.6% in May 2021. Long term inflation expectations remained at a median of 3.0%, settling within the 2.9 to 3.1% range seen over the last 10 months. In spite of the relative stability of these expectations, inflation remains a top concern for consumers. Consumers generally anticipated wage gains over the coming year, but about 49% of consumers overall expected their incomes to rise less than prices. About 58% of consumers spontaneously mentioned supply shortages, the eighth consecutive month that a majority of consumers have done so. When assessing their current financial situation relative to a year ago, 38% of consumers attributed their negative assessment to inflation.

Consumers expressed a fair amount of certainty that interest rates would continue to rise. With the Fed’s 50 basis point increase in interest rates early this month, 87% of all consumers still expect interest rates to increase during the next year, relatively unchanged from the all-time high 88% reading from April, prior to the rate hike. Meanwhile, opinions on government policies to fight inflation or unemployment are at their lowest reading since 2014.