

Subject: September 2022 survey results
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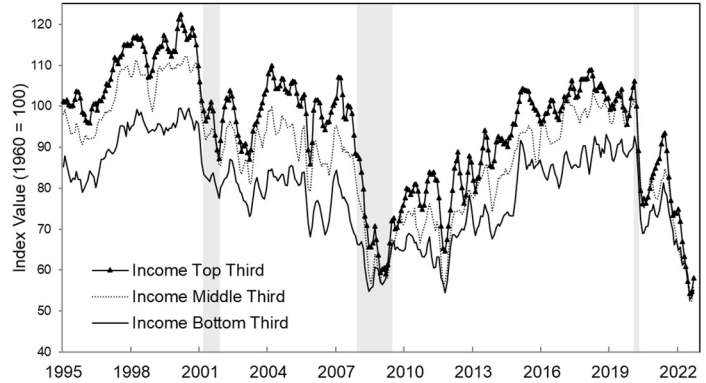
Consumer sentiment confirmed the preliminary reading earlier this month and was essentially unchanged from the month prior, at less than one index point above August. Buying conditions for durables and the one-year economic outlook continued lifting from the extremely low readings earlier in the summer, but these gains were largely offset by modest declines in the long run outlook for business conditions.

The median expected year-ahead inflation rate declined to 4.7%, the lowest reading since last September, driven primarily by softening expectations among more-educated and higher-income consumers. At 2.7%, median long run inflation expectations fell below the 2.9-3.1% range for the first time since July 2021 and reached its lowest reading since April 2021. But consumer uncertainty over these expectations remained high, particularly given the mixed signals on prices, with energy prices falling and food prices rising. Uncertainty over short-run inflation reached levels last seen in 1982, and uncertainty over long run inflation rose from 3.4 last September to 4.4 this month. Inflation expectations are likely to remain relatively unstable in the months ahead, as this uncertainty is unlikely to wane in the face of continued global pressures on inflation.

Even with this tentative improvement in inflation expectations, consumer sentiment remains low by historic standards. Trends are consistent with a recession to come, particularly as developments overseas generate further downside risk to the economy. The continued war in Ukraine, the prospect of higher energy costs in Europe, and climate disasters all have the potential to exacerbate inflation in the US. Even though these factors may be less salient for consumers at the moment, consumers will quickly notice any pass-through to rising prices. For the 8th straight month, over 80% of consumers expected continued interest rate hikes by the Fed in the year ahead, and as policymakers worldwide fight inflation, the risks of economic downturns loom large.

As seen in the chart, sentiment for consumers across the income distribution has declined in a remarkably close fashion for the last 6 months, reflecting shared concerns over the impact of inflation, even among higher-income consumers who have historically generated the lion's share of spending. About 42% of consumers—lower-income and higher-income alike—continued to cite high prices eroding their living standards, down from a peak of 49% in July but more than double the 18% reading from a year ago. But in spite of their relatively dismal outlook for the macroeconomy, consumers reported little change in their outlook for labor markets; about 35% expected unemployment to rise in the year ahead, similar to last month and up from 21% a year ago. Most consumers expect their incomes to rise over the next year, though only 16% expect their gains to exceed inflation. While consumers broadly expect an economic downturn, strength in income expectations and labor markets could temper any declines to come.

The Index of Consumer Sentiment
(3 Month Moving Average)



	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022
Index of Consumer Sentiment	72.8	71.7	67.4	70.6	67.2	62.8	59.4	65.2	58.4	50.0	51.5	58.2	58.6
Current Economic Conditions	80.1	77.7	73.6	74.2	72.0	68.2	67.2	69.4	63.3	53.8	58.1	58.6	59.7
Index of Consumer Expectations	68.1	67.9	63.5	68.3	64.1	59.4	54.3	62.5	55.2	47.5	47.3	58.0	58.0
Index Components													
Personal Finances - Current	116	115	110	109	106	96	93	98	91	72	75	80	80
Personal Finances - Expected	112	112	106	110	114	102	93	110	107	95	96	107	105
Economic Outlook - 12 Months	84	81	73	80	67	66	51	62	46	35	34	54	59
Economic Outlook - 5 Years	76	78	73	83	75	68	72	77	66	57	56	69	66
Buying Conditions - Durables	90	85	79	82	79	78	80	80	71	65	73	69	73