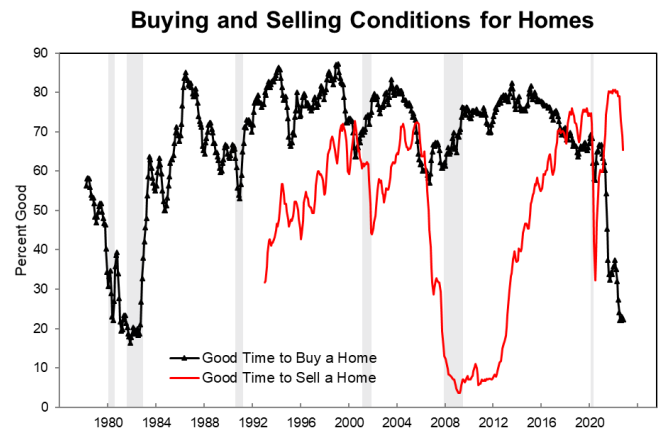


Subject: October 2022 survey results
From: Joanne Hsu, PhD, Director

October 28, 2022

Consumer sentiment confirmed the preliminary reading earlier this month, inching up just 1.3 index points from September. With sentiment sitting only 10 index points above the all-time low reached in June, the recent news of a slowdown in consumer spending in the third quarter comes as no surprise. This month, buying conditions for durables surged 23% on the basis of easing prices and supply constraints. However, year-ahead expected business conditions worsened 19%. These divergent patterns reflect substantial uncertainty over inflation, policy responses, and developments worldwide, and consumer views are consistent with a recession ahead in the economy. While lower-income consumers reported sizable gains in overall sentiment, consumers with considerable stock market and housing wealth exhibited notable declines in sentiment, weighed down by tumult in those markets. Given consumers' ongoing unease over the economy, most notably this month among higher-income consumers, any continued weakening in incomes or wealth could lead to further pullbacks in spending that would reinforce other risks of recession.



The median expected year-ahead inflation rate rose to 5.0%, with increases reported across age, income, and education. Last month, long run inflation expectations fell below the narrow 2.9-3.1% range for the first time since July 2021, but since then expectations have reverted to 2.9%. Uncertainty over inflation expectations remains elevated, indicating that inflation expectations are likely to remain unstable in the months ahead. After 3 months of expecting minimal increases in gas prices in the year ahead, short run expectations rose in October. Long run gas price expectations also increased, reaching their highest level in 7 months. About 28% of consumers spontaneously mentioned gas prices during the interview, down from the peak of 50% this past June, but well above the 16% from a year ago.

Consumers' views of housing markets have worsened quite markedly this year in the wake of multiple interest rate hikes by the Fed. Only 38% of consumers expect home values will grow in the year ahead, down from the high of 65% reached in May 2021. Only 21% of consumers believe it's a good time to buy a home; until this year, this measure had not been so low since 1982, mid-recession (see chart). Buying conditions for homes have broadly declined since 2020, primarily due to low supply and high prices, reaching an abysmally low level by the time this year's rate hikes began. Although a growing share of consumers have since cited high interest rates as a negative factor (56% this month), buying conditions, which have remained steady over the last 6 months, have not fallen further as a result of these concerns.

In contrast, selling conditions reached historic highs earlier this year and only recently took a turn, sliding sharply over the last half year or so. While in February 2022 an all-time low of 14% of consumers believed it was a bad time to sell a home, that share has now risen to 37%, which does not bode well for the already short supply of homes. This deterioration is attributable to less favorable prices for sellers and higher interest rates. This pain is expected to continue, given that for the 8th straight month, over 80% of consumers expect interest rates to rise in the year ahead.

	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022
Index of Consumer Sentiment	71.7	67.4	70.6	67.2	62.8	59.4	65.2	58.4	50.0	51.5	58.2	58.6	59.9
Current Economic Conditions	77.7	73.6	74.2	72.0	68.2	67.2	69.4	63.3	53.8	58.1	58.6	59.7	65.6
Index of Consumer Expectations	67.9	63.5	68.3	64.1	59.4	54.3	62.5	55.2	47.5	47.3	58.0	58.0	56.2
Index Components													
Personal Finances - Current	115	110	109	106	96	93	98	91	72	75	80	80	78
Personal Finances - Expected	112	106	110	114	102	93	110	107	95	96	107	105	106
Economic Outlook - 12 Months	81	73	80	67	66	51	62	46	35	34	54	59	48
Economic Outlook - 5 Years	78	73	83	75	68	72	77	66	57	56	69	66	69
Buying Conditions - Durables	85	79	82	79	78	80	80	71	65	73	69	73	90