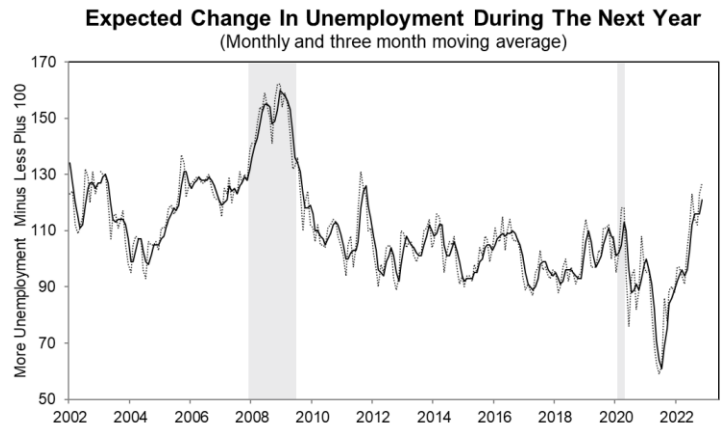




Subject: November 2022 survey results
From: Joanne Hsu, PhD, Director

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Consumer sentiment fell 5% below October, offsetting about one-third of the gains posted since the historic low in June. Along with the ongoing impact of inflation, consumer attitudes have also been weighed down by rising borrowing costs, declining asset values, and weakening labor market expectations. Buying conditions for durables, which had markedly improved last month, decreased most sharply in November, falling back 19% to its September level on the basis of high interest rates and continued high prices. Long-term business conditions declined a more modest 6%, while short-term business conditions and personal finances were essentially unchanged.



Inflation expectations were also little changed from October. The median expected year-ahead inflation rate was 4.9%, down slightly from 5.0% last month. Long run inflation expectations, currently at 3.0%, have remained in the narrow (albeit elevated) 2.9-3.1% range for 15 of the last 16 months. Uncertainty over these expectations remained at an elevated level, indicating that the general stability of these expectations may not necessarily endure.

For the sixth straight month, over 40% of consumers reported that their living standards are being eroded by inflation, with few differences across the income distribution. For lower-income consumers, the pain of high prices is partially offset by favorable incomes, a reflection of continued labor market strength for jobs at the lower end of the wage distribution. On the other hand, higher-income consumers are exposed to turmoil in financial markets; about 16% of middle-income and higher-income consumers spontaneously mentioned the negative effects of declining asset prices on their personal finances. While lower income consumers posted an 11% improvement of personal finances this month, that of higher income consumers deteriorated 10%. Higher income consumers reported worse personal finances than lower income consumers for only the second time in the survey’s history; the first time was in 2009 in the wake of the Global Financial Crisis. In fact, for four of the five components of the sentiment index, lower income consumers reported more favorable views than those with higher incomes. If higher-income consumers spend more cautiously, the impact on aggregate demand could be consequential given their large share of overall consumption.

In spite of the recent improvement for lower income consumers, overall assessments of current personal finances remain low by historical standards. Confidence in incomes appears to be waning: about 52% expect inflation to exceed any income gains in the year ahead, the highest since June. In spite of unemployment rates that remain low at this time, unemployment expectations are at their worst reading since 2011 (see chart). If expectations over labor markets continue to deteriorate, consumer demand is likely to follow, particularly as consumers draw down their savings and express reluctance to borrow under rising costs of credit. With 79% of consumers expecting interest rates to rise in the year ahead, down from the all-time high of 88% reached in April, consumers are well aware that high borrowing costs are likely to persist.

	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022
Index of Consumer Sentiment	67.4	70.6	67.2	62.8	59.4	65.2	58.4	50.0	51.5	58.2	58.6	59.9	56.8
Current Economic Conditions	73.6	74.2	72.0	68.2	67.2	69.4	63.3	53.8	58.1	58.6	59.7	65.6	58.8
Index of Consumer Expectations	63.5	68.3	64.1	59.4	54.3	62.5	55.2	47.5	47.3	58.0	58.0	56.2	55.6
Index Components													
Personal Finances - Current	110	109	106	96	93	98	91	72	75	80	80	78	77
Personal Finances - Expected	106	110	114	102	93	110	107	95	96	107	105	106	106
Economic Outlook - 12 Months	73	80	67	66	51	62	46	35	34	54	59	48	49
Economic Outlook - 5 Years	73	83	75	68	72	77	66	57	56	69	66	69	65
Buying Conditions - Durables	79	82	79	78	80	80	71	65	73	69	73	90	73