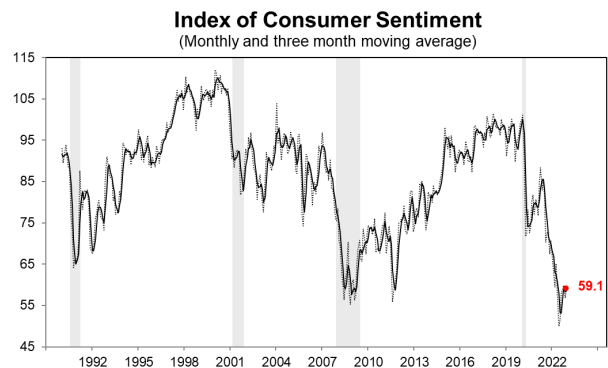




Subject: Preliminary results from the December 2022 survey
From: Joanne Hsu, PhD, Director

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Consumer sentiment rose 4% above November, recovering most of the losses from November but remaining low from a historical perspective. All components of the index lifted, with one-year business conditions surging 14% and long-term business conditions increasing a more modest 6%. Gains in the sentiment index were seen across multiple demographic groups, with particularly large increases for higher-income families and those with larger stock holdings, supported by recent rises in financial markets. Sentiment for Democrats and Independents rose 12% and 7%, respectively, while for Republicans it fell 6%. Throughout the survey, concerns over high prices—which remain high relative to just prior to this current inflationary episode—have eased modestly.



Year-ahead inflation expectations improved considerably but remained relatively high, falling from 4.9% to 4.6% in December, the lowest reading in 15 months but still well above 2 years ago. Declines in short-run inflation expectations were visible across the distribution of age, income, education, as well as political party identification. The moderation of short run inflation expectations was partly due to gas prices, which have fallen to levels similar to a year ago. A majority of consumers expected gas prices to remain the same or fall in the year ahead, but this may change in the months ahead as global factors evolve. At 3.0%, long run inflation expectations has stayed within the narrow (albeit elevated) 2.9-3.1% range for 16 of the last 17 months.

Consumers’ concerns over high prices in a variety of contexts have eased somewhat over the last month—though these concerns still remain substantially higher than a year and a half ago—showing that the decline in year-ahead inflation expectations was not solely an artifact of current gas prices. The share of consumers reporting that their living standards are being eroded by inflation fell slightly in December but remained over 40% for the seventh straight month. A declining share of consumers blamed high prices for poor buying conditions for durable goods, cars, as well as homes. Similarly, following a peak in July, fewer consumers have spontaneously mentioned food prices during their interviews. About 27% of consumers reported hearing news about inflation, down from the peak of 38% in June 2022, but well above the 17% from June 2021. Overall, while consumers appreciated these recent favorable trends, consumer attitudes continued to be weighed down by inflation.

Even as consumers altered their buying habits to cope with rapid price increases, aggregate consumer spending has remained robust in recent months, in large part due to strength in incomes. Income expectations improved further this month, with 60% of consumers expecting gains in the year ahead. The median expected change in income was 2.7% growth, the highest recorded in 15 years. However, given continued high prices, half of all consumers expect prices to rise faster than their incomes over the next year. Furthermore, unemployment expectations, which deteriorated markedly over the past year, were little changed from November. With the continued erosion of buying power of consumers, rapid increases in credit card and auto loan balances, and continued concerns over the high cost of borrowing, the strength in spending we have seen this year will be difficult to sustain.

	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec Prelim
Index of Consumer Sentiment	70.6	67.2	62.8	59.4	65.2	58.4	50.0	51.5	58.2	58.6	59.9	56.8	59.1
Current Economic Conditions	74.2	72.0	68.2	67.2	69.4	63.3	53.8	58.1	58.6	59.7	65.6	58.8	60.2
Index of Consumer Expectations	68.3	64.1	59.4	54.3	62.5	55.2	47.5	47.3	58.0	58.0	56.2	55.6	58.4
Index Components													
Personal Finances - Current	109	106	96	93	98	91	72	75	80	80	78	77	77
Personal Finances - Expected	110	114	102	93	110	107	95	96	107	105	106	106	107
Economic Outlook - 12 Months	80	67	66	51	62	46	35	34	54	59	48	49	56
Economic Outlook - 5 Years	83	75	68	72	77	66	57	56	69	66	69	65	69
Buying Conditions - Durables	82	79	78	80	80	71	65	73	69	73	90	73	77