

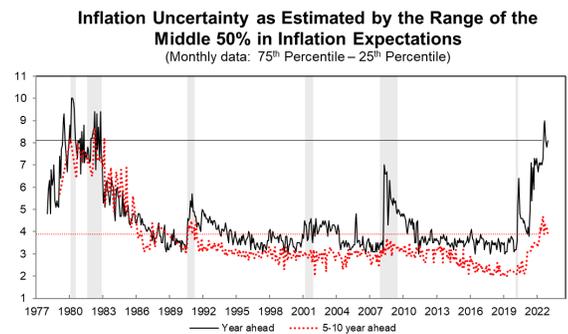


Subject: December 2022 survey results
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December 23, 2022

Consumer sentiment confirmed the preliminary reading earlier this month, rising 5% above November. Sentiment remains relatively downbeat at 15% below a year ago, but consumers' extremely negative attitudes have softened this month on the basis of easing pressures from inflation. One-year business conditions surged 25%, and the long-term outlook improved a more modest but still sizable 9%. Still, both measures are well below 2021 readings. Assessments of personal finances, both current and future, are essentially unchanged from November.

Year-ahead inflation expectations improved considerably but remained elevated, falling from 4.9% in November to 4.4% in December, the lowest reading in 18 months but still well above two years ago. Declines in short-run inflation expectations were visible across the distribution of age, income, education, as well as political party identification. At 2.9%, long run inflation expectations have stayed within the narrow, albeit elevated, 2.9-3.1% range for 16 of the last 17 months.



While the sizable decline in short-run inflation expectations may be welcome news, consumers continued to exhibit substantial uncertainty over the future path of prices (see chart), though the uncertainty has eased a bit since the summer. Consumers may agree that inflation will decelerate from the rates we have seen the past few months, but there is considerable uncertainty over how much and how quickly inflation will recede. Though consistent with recent trends in CPI and gas prices, the reduction in short-run inflation expectations remains tentative, particularly given the continued evolution of the many global factors influencing prices. Indeed, in spite of the fact that consumers' concerns over high prices in a variety of contexts have lessened in December, the share of consumers reporting that their living standards are being eroded by inflation remained over 40% for the seventh straight month.

Expected business conditions over the next year and the next five years both substantially improved this month, reaching their strongest reading in eight months on the basis of easing price pressures. Improvements were seen across age, income, and education. Even Republicans, the sole subgroup that posted declines in their one-year outlook, held views that were considerably better than six months ago. That said, despite this recent surge, the general outlook remains broadly negative; 65% of consumers expect "bad times" in the year ahead for business conditions, down from nearly 80% during the summer but still higher than the 56% seen last December. Similarly, for the long-run outlook for business conditions, about 60% expect unfavorable developments, down from 68% over the summer but up from 53% a year ago.

Furthermore, unemployment expectations continued to worsen. About 45% of consumers expect unemployment to rise in the year ahead, the largest share since April 2020 as the economy shut down from the pandemic. Consumers noted the negative influence of rising borrowing costs on buying conditions for durables, cars, and homes. With 74% of consumers expecting further rate hikes ahead, these concerns will remain salient in the new year. At the same time, strong income expectations continue to support consumer spending; the median expected change in income was a 2.5% increase, unchanged from November. While sentiment appears to have turned a corner from its all-time low from June, its trajectory, as well as that of consumer spending, will be contingent on strength in labor markets and incomes.

	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 2022
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	59.7
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	59.4
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	59.9
Index Components													
Personal Finances - Current	109	106	96	93	98	91	72	75	80	80	78	77	75
Personal Finances - Expected	110	114	102	93	110	107	95	96	107	105	106	106	106
Economic Outlook - 12 Months	80	67	66	51	62	46	35	34	54	59	48	49	61
Economic Outlook - 5 Years	83	75	68	72	77	66	57	56	69	66	69	65	71
Buying Conditions - Durables	82	79	78	80	80	71	65	73	69	73	90	73	77