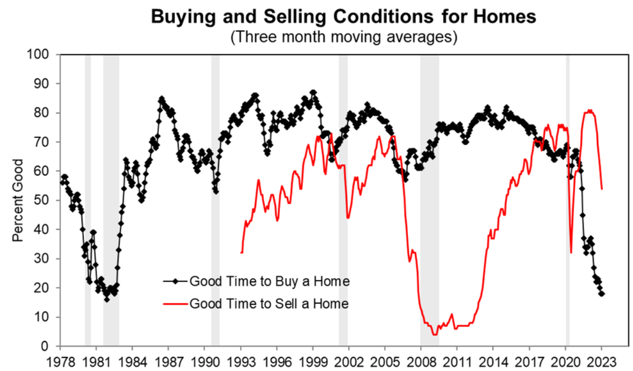
Subject: January 2023 survey results
From: Joanne Hsu, PhD, Director

January 27, 2023



Consumer sentiment confirmed the preliminary January reading, remaining low from a historical perspective but continuing to lift for the second consecutive month, rising 9% above December and reaching about 3% below a year ago. While the short-run economic outlook was relatively unchanged from last month, all other components of the index increased in January. The current conditions index soared 15% above December, with improving assessments of both personal finances and buying conditions for durables, supported by strong incomes and easing price pressures. That said, there are considerable downside risks to sentiment, with two-thirds of consumers expecting an economic downturn during the next year. Notably, the debt ceiling debate looms ahead and could reverse the gains seen over the last several months; past debt ceiling crises in 2011 and 2013 prompted steep declines in consumer confidence.

Year-ahead inflation expectations receded for the fourth straight month, falling to 3.9% in January from 4.4% in December. The current reading is the lowest since April 2021 but remains well above the 2.3-3.0% range seen in the two years prior to the pandemic. About 12% of consumers spontaneously mentioned advance buying motives for avoiding future price increases for durables, cars, or homes—down from 20% in April 2022—suggesting that fewer consumers expect inflation to escalate again in the short run. Long-run inflation expectations remained at 2.9%, yet again staying within the narrow 2.9-3.1% range for 17 of the last 18 months but remaining elevated relative to the 2.2-2.6% range seen in the two years pre-pandemic. Consumers continued to exhibit considerable uncertainty over both long and short-term inflation expectations, indicating the tentative nature of any declines. Global factors, like increases in demand in China with the end of its "zero-Covid" approach, may place upward pressure on prices worldwide in the months ahead.

While the recent easing of inflation has been noted and welcomed by consumers, its positive effects on sentiment were partially offset by the negative impact of rising borrowing costs. For the third consecutive month, at least 30% of consumers spontaneously cited high interest rates as a reason for poor buying conditions for durables, cars, or homes. The negative effects of high interest rates on consumer sentiment are likely to continue. The share of consumers expecting interest rates to rise in the year ahead remained sizable at 70%, though down from a peak of 88% in April 2022, consistent with the expected slowdown in interest rate hikes.

Views of housing markets continued to worsen, as consumers across the income distribution perceived current house prices to be intolerably high. Buying conditions, which have declined broadly since 2020 due to low supply and high prices, have further deteriorated and are now near historic lows from 1982 due to rising borrowing costs (see chart). Selling conditions have also continued to soften; about 53% of consumers reported it is a good time to sell a home, compared with the all-time high of 83% seen in August 2021. About 31% of consumers expected home prices to fall in the year ahead, the largest share since this question first appeared on the January 2007 survey. While such a decline in house prices could create some turmoil in housing markets, it is unlikely to generate a financial crisis given the changes in mortgage financing in the wake of the Great Recession.

	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023
Index of Consumer Sentiment	67.2	62.8	59.4	65.2	58.4	50.0	51.5	58.2	58.6	59.9	56.8	59.7	64.9
Current Economic Conditions	72.0	68.2	67.2	69.4	63.3	53.8	58.1	58.6	59.7	65.6	58.8	59.4	68.4
Index of Consumer Expectations	64.1	59.4	54.3	62.5	55.2	47.5	47.3	58.0	58.0	56.2	55.6	59.9	62.7
Index Components													
Personal Finances - Current	106	96	93	98	91	72	75	80	80	78	77	75	89
Personal Finances - Expected	114	102	93	110	107	95	96	107	105	106	106	106	112
Economic Outlook - 12 Months	67	66	51	62	46	35	34	54	59	48	49	61	60
Economic Outlook - 5 Years	75	68	72	77	66	57	56	69	66	69	65	71	78
Buying Conditions - Durables	79	78	80	80	71	65	73	69	73	90	73	77	87