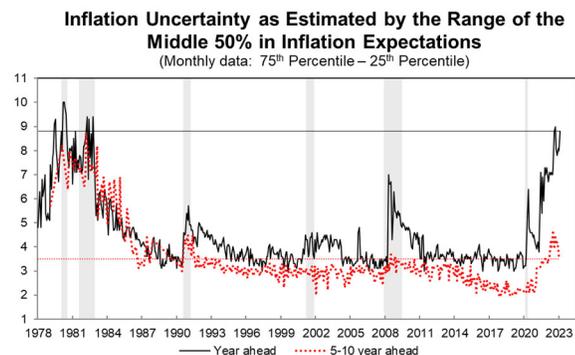




Subject: Preliminary results from the February 2023 survey
From: Joanne Hsu, PhD, Director

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Consumer sentiment was essentially unchanged at 1.5 index points above January. Recent developments in the economy, both positive and negative, have led to mixed attitudes among consumers with little net change in February. After three consecutive months of increases, sentiment is now 6% above a year ago but still 14% below two years ago, prior to the current inflationary episode. Overall, high prices continue to weigh on consumers despite the recent moderation in inflation, and sentiment remains more than 22% below its historical average since 1978. Combined with concerns over rising unemployment on the horizon, consumers are poised to exercise greater caution with their spending in the months ahead.



Year-ahead inflation expectations rebounded to 4.2% this month, from 3.9% in January and 4.4% in December. Much of this increase was concentrated among middle-income consumers and those over the age of 65. Long-run inflation expectations remained at 2.9% for the third straight month and stayed within the narrow 2.9-3.1% range for 18 of the last 19 months. Uncertainty over short-run inflation expectations ticked up recently and continues to be notably elevated (see chart, black solid line), indicating the potential for continued volatility in expected year-ahead inflation. In contrast, uncertainty over long-run inflation receded in recent months, though the uncertainty stands well above averages over the last 20 years (red dotted line).

Rising asset values supported gains in sentiment for some parts of the population. Consumers with large stock holdings reported higher sentiment this month, particularly in how they currently assess their personal finances. In contrast, the recent news of layoffs in the tech sector contributed to some declines in sentiment for consumers in the West region, with little effect in other parts of the country. Amid continued strength in national labor markets and extremely low unemployment, consumers expected a relatively robust 2.5% median growth rate in future incomes, virtually unchanged from the past three months but still expected to be exceeded by inflation. Indeed, 38% of consumers continued to cite prices eroding their living standards. About 42% of consumers are bracing for increases in unemployment in the year ahead, little changed from January but up substantially from 25% a year ago.

With the new Congress divided, gridlock over economic policy is likely to ensue. Sentiment among Republicans surged 16% in February, with substantial improvements across all five components of the index, reaching their highest level since July 2021. Meanwhile, sentiment declined slightly by 3% for Democrats and was virtually unchanged for Independents. Despite the recent narrowing, the partisan gap persists, with a 20 point wedge in sentiment between Republicans and Democrats this month; the average gap since February 2017 is 38 points. Across political affiliations, opinions about the government’s economic policies have moved sideways over the last several months. Past debt ceiling crises in 2011 and 2013 spurred precipitous declines in consumer sentiment. At present, debt ceiling negotiations are not salient for most consumers, but this is likely to change in the months ahead as key deadlines approach.

	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023 Prelim
Index of Consumer Sentiment	62.8	59.4	65.2	58.4	50.0	51.5	58.2	58.6	59.9	56.8	59.7	64.9	66.4
Current Economic Conditions	68.2	67.2	69.4	63.3	53.8	58.1	58.6	59.7	65.6	58.8	59.4	68.4	72.6
Index of Consumer Expectations	59.4	54.3	62.5	55.2	47.5	47.3	58.0	58.0	56.2	55.6	59.9	62.7	62.3
Index Components													
Personal Finances - Current	96	93	98	91	72	75	80	80	78	77	75	89	97
Personal Finances - Expected	102	93	110	107	95	96	107	105	106	106	106	112	111
Economic Outlook - 12 Months	66	51	62	46	35	34	54	59	48	49	61	60	65
Economic Outlook - 5 Years	68	72	77	66	57	56	69	66	69	65	71	78	73
Buying Conditions - Durables	78	80	80	71	65	73	69	73	90	73	77	87	90