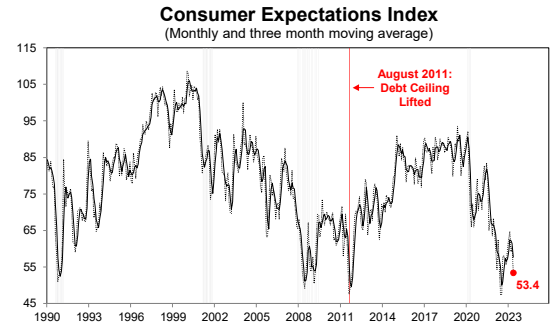




Subject: Preliminary results from the May 2023 survey  
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Consumer sentiment tumbled 9% amid renewed concerns about the trajectory of the economy, erasing over half of the gains achieved after the all-time historic low from last June. While current incoming macroeconomic data show no sign of recession, consumers' worries about the economy escalated in May alongside the proliferation of negative news about the economy, including the debt crisis standoff. Year-ahead expectations for the economy plummeted 23% from last month. Long-run expectations slid by 16% as well, indicating that consumers are worried that any economic downturn will not be brief. Throughout the current inflationary episode, consumers have shown resilience under strong labor markets, but their anticipation of a recession will lead them to pull back when signs of weakness emerge. If policymakers fail to resolve the debt ceiling crisis, these dismal views over the economy will exacerbate the dire economic consequences of default.



Year-ahead inflation expectations receded slightly to 4.5% in May after spiking to 4.6% in April. After two years of relative stability, long-run inflation expectations rose to their highest reading since 2011, lifting from 3.0% last month to 3.2% this month. Consumers anticipate that the era of high prices will continue for longer than previously expected. About 42% of consumers blamed high prices for eroding their living standards, up from 40% last month. Concerns over the high prices of cars and durable goods rose again as well. However, few consumers favored buy-in-advance strategies to avoid future price increases or expected income gains to outstrip inflation in the year ahead, suggesting that the rise in long-run inflation expectations did not reflect the growing influence of inflationary psychology or increased risk of a wage-price spiral.

While details of the debt ceiling debate may be abstract to consumers, they are familiar with handling bills and debt repayment; they generally understand that the consequences of refusing to pay can be catastrophic. During the 2011 debt ceiling crisis, sentiment also slid sharply, reaching levels that typically indicate a recession to come. Consumer views recovered quickly when the ceiling was lifted and recession averted. This month, when asked about news they heard about developments in the economy, consumers' reports reached their most negative level in about a year, primarily due to unfavorable news about the government as well as unemployment. About 51% of consumers reported that the government is doing a poor job with economic policy, the worst reading since last July.

Consumers' outlook for the economy worsened considerably this month and suggests that the improvement that consumers saw in the second half of 2022 will not last (see chart). The Index of Consumer Expectations declined across age, income, education, and political party. In addition, the deterioration of expectations was apparent for multiple dimensions of the economy, reflecting the widespread risks consumers perceive. About 42% of consumers expected unemployment to increase over the next year, up from 29% last May. Over half of consumers expected their inflation-adjusted incomes to fall in the year ahead, the highest share since November 2022. Despite falling house prices in many parts of the country, buying conditions for houses continued to slip. About 82% of consumers reported poor buying conditions for homes, just shy of last November's all-time high of 83% and well above the 77% seen a year ago. All told, consumers are bracing for an economic downturn, amplifying the severe pain that would result from defaulting on federal debt.

	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023 Prelim
Index of Consumer Sentiment	58.4	50.0	51.5	58.2	58.6	59.9	56.8	59.7	64.9	67.0	62.0	63.5	57.7
Current Economic Conditions	63.3	53.8	58.1	58.6	59.7	65.6	58.8	59.4	68.4	70.7	66.3	68.2	64.5
Index of Consumer Expectations	55.2	47.5	47.3	58.0	58.0	56.2	55.6	59.9	62.7	64.7	59.2	60.5	53.4
Index Components													
Personal Finances - Current	91	72	75	80	80	78	77	75	89	91	88	84	85
Personal Finances - Expected	107	95	96	107	105	106	106	106	112	111	104	105	101
Economic Outlook - 12 Months	46	35	34	54	59	48	49	61	60	67	58	60	46
Economic Outlook - 5 Years	66	57	56	69	66	69	65	71	78	79	73	76	64
Buying Conditions - Durables	71	65	73	69	73	90	73	77	87	90	82	91	81