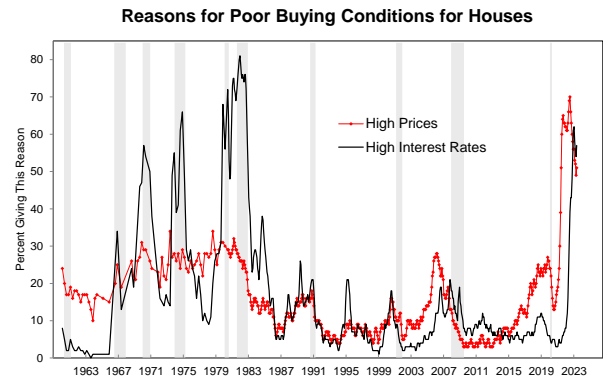


Subject: May 2023 survey results
From: Joanne Hsu, PhD, Director

May 26, 2023

Consumer sentiment slid 7% amid worries about the path of the economy, erasing nearly half of the gains achieved after the all-time historic low from last June. This decline mirrors the 2011 debt ceiling crisis, during which sentiment also plunged. This month, sentiment fell severely for consumers in the West and those with middle incomes. The year-ahead economic outlook plummeted 17% from last month. Long-run expectations plunged by 13% as well, indicating that consumers are concerned that any recession to come may cause lasting pain. That said, consumer views over their personal finances are little changed from April, with stable income expectations supporting consumer spending for the time being.



Year-ahead inflation expectations receded to 4.2% in May after spiking to 4.6% in April. Uncertainty, as measured by the interquartile range of these expectations has been elevated, averaging 7.8 over the last 12 months, but fell this month to 5.7, the lowest level of uncertainty in almost two years. This suggests that consumer views over short-run inflation may be stabilizing following four months of vacillation. Long-run inflation expectations inched up for the second straight month but remained within the narrow 2.9-3.1% range for 21 of the last 22 months.

Although consumers noted that inflation has eased from its peak last year, their views continued to be weighed down by high prices. Four in ten consumers reported that their living standards have been eroded by inflation. Only 16% of consumers expect income gains to outpace inflation in the year ahead. Buying conditions for cars and durables have declined this month, primarily due to high prices.

Similarly, in spite of falling house prices in many parts of the country, home buying conditions also deteriorated considerably this month. About 80% of consumers said it was a bad time to buy houses, compared with 73% in April and 77% a year ago. About 54% of consumers reported worries about high prices; prior to 2021, no more than 34% of consumers reported concerns about high prices, a peak seen in 1978 (see chart, red line). In addition, 62% of consumers also blamed high interest rates (black line). Selling conditions for houses also worsened in May, with 41% of consumers reporting it was a bad time to sell, up from 38% last month and 17% a year ago. Potential sellers have also felt the impact of high interest rates, which have reduced the pool of available buyers for a given selling price. The high cost of credit has also discouraged homeowners from selling and incurring the burden of acquiring another home. With 67% of consumers expecting interest rates to continue to rise in the year ahead, buying and selling conditions are unlikely to improve anytime soon.

Consumer confidence in the government’s handling of the economy fell substantially this month, reflecting the government’s failure thus far to resolve the debt ceiling crisis. About 52% of consumers felt that the government is doing a poor job with economic policy, the highest share in ten months. Notably, the deterioration of views on government policy was strongest among Independents, consistent with frustration over the standoff between Democrats and Republicans, as well as less-educated consumers. Less than 20% of consumers expect business conditions to improve in the year ahead, an example of the bleak views of the economy expressed throughout the interviews.

	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
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	59.2
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	64.9
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	55.4
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	104
Economic Outlook - 12 Months	46	35	34	54	59	48	49	61	60	67	58	60	50
Economic Outlook - 5 Years	66	57	56	69	66	69	65	71	78	79	73	76	66
Buying Conditions - Durables	71	65	73	69	73	90	73	77	87	90	82	91	81