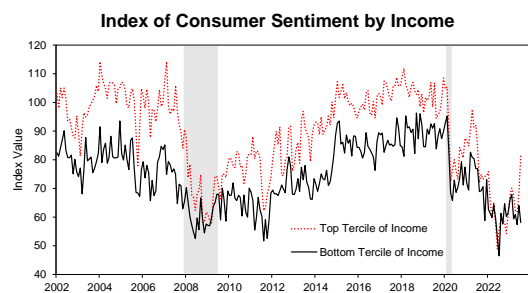


Subject: July 2023 survey results  
From: Joanne Hsu, PhD, Director

July 28, 2023

Consumer sentiment rose for the second straight month, soaring 11% above June and reaching its most favorable reading since October 2021. All components of the index improved considerably, led by a 18% surge in long-term business conditions and 14% increase in short-run business conditions. Overall, the sharp rise in sentiment was largely attributable to the continued slowdown in inflation along with stability in labor markets. However, sentiment for lower-income consumers fell. This group anticipates that inflation and their income prospects will both worsen in the year ahead, highlighting the heterogeneity of views across the population.



Year-ahead inflation expectations were little changed, inching up from 3.3% in June to 3.4% in July. The current reading is well below the high point of 5.4% from April 2022 but remains above the 2.3-3.0% range seen in the two years prior to the pandemic. Long-run inflation expectations were unchanged from June at 3.0%, again staying within the narrow 2.9-3.1% range for 23 of the last 24 months. These expectations remained elevated relative to the 2.2-2.6% range seen between 2018 and 2020. As a whole, the share of consumers spontaneously blaming high prices for eroding their living standards fell to 36%, the lowest reading in a year and a half. That said, for lower-income consumers specifically, this measure rose in July, highlighting the continued salience of high prices. Furthermore, short-run inflation expectations rose considerably this month for lower-income consumers, whereas expectations of other consumers showed much smaller changes.

Similarly, sentiment patterns diverged this month across the income distribution. Sentiment for consumers in the top terciles of income surged 13 index points but fell six points for those in the bottom tercile (see chart). In particular, lower-income consumers' year-ahead expectations of personal finances as well as business conditions plummeted by 15 and 22%, respectively, in contrast to middle and higher-income consumers, who posted substantial gains on both measures. Throughout the interviews, lower-income consumers expressed concerns over labor market prospects. They expect little to no gain in nominal or real incomes over the next year. Overall, lower-income consumers remained quite concerned both about the overall economy as well as their own personal financial situation.

This re-emerging divergence between high- and low-income consumers, if sustained, restores the typical pattern in which higher-income consumers have more favorable sentiment. Recent trends follow an extended period in which sentiment differed very little between lower- and higher-income consumers as high inflation impacted consumers throughout the distribution. In fact, for seven months in 2022, higher-income sentiment was worse than that of lower-income consumers, which had only been seen three other months since 1978. Last year, higher-income consumers were further weighed down by weakening stock market performance, while lower-income consumers were boosted by historically strong labor markets. Consumers' perceptions of these factors have reversed in recent months, with higher-income consumer buoyed by strong stock markets and lower-income consumers bracing for labor markets to weaken. The months ahead will reveal if the recovery in sentiment will be shared across the income distribution. Regardless, given their disproportionate share of spending, the favorable views of higher-income consumers suggest that spending will remain robust.

	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023	Jul 2023
Index of Consumer Sentiment	51.5	58.2	58.6	59.9	56.8	59.7	64.9	67.0	62.0	63.5	59.2	64.4	71.6
Current Economic Conditions	58.1	58.6	59.7	65.6	58.8	59.4	68.4	70.7	66.3	68.2	64.9	69.0	76.6
Index of Consumer Expectations	47.3	58.0	58.0	56.2	55.6	59.9	62.7	64.7	59.2	60.5	55.4	61.5	68.3
Index Components													
Personal Finances - Current	75	80	80	78	77	75	89	91	88	84	85	85	96
Personal Finances - Expected	96	107	105	106	106	106	112	111	104	105	104	108	113
Economic Outlook - 12 Months	34	54	59	48	49	61	60	67	58	60	50	64	73
Economic Outlook - 5 Years	56	69	66	69	65	71	78	79	73	76	66	73	86
Buying Conditions - Durables	73	69	73	90	73	77	87	90	82	91	81	92	101