



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

August 11, 2023

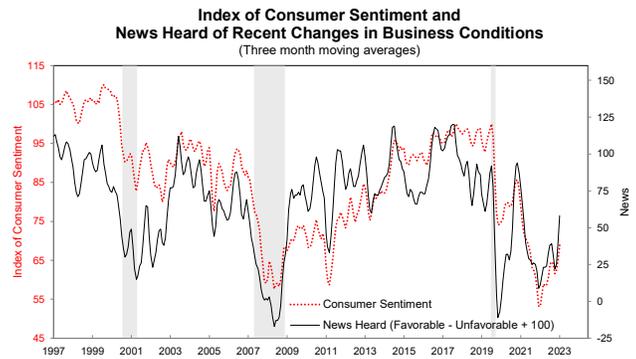
Consumer sentiment was essentially unchanged from July, with small offsetting increases and decreases within the index. At 71.2 index points, sentiment is now about 42% above the all-time historic low reached in June of 2022 and is approaching the historical average reading of 86. In general, consumers perceived few material differences in the economic environment from last month, but they saw substantial improvements relative to just three months ago.

Year-ahead inflation expectations edged down from 3.4% last month to 3.3% this month, showing remarkable stability for three consecutive months. The current reading remains above the 2.3-3.0% range seen in the two years prior to the pandemic. Long-run inflation expectations also remained stable at 2.9%, again staying within the narrow 2.9-3.1% range for 24 of the last 25 months. These expectations are elevated relative to the 2.2-2.6% range seen in the two years pre-pandemic.

Over the last several months, uncertainty over inflation expectations, as measured by the interquartile range of expectations, receded considerably compared with last summer and fall. Consumers have exhibited greater confidence that inflation will indeed continue to slow both in the short and long run. These trends, coupled with the easing expectations themselves, suggest that consumers believe inflation has turned a corner. Price considerations for durables reached their most favorable reading since July 2021. That said, high prices overall still produce some drag on sentiment, with 37% of consumers spontaneously reporting that high prices are eroding their living standards, up slightly from 36% last month and down from 44% a year ago.

Consumers' views are informed not only by their own experiences with inflation and other aspects of the economy, but also by their observations and impressions of the economic environment around them, including news they encounter. In recent months, consumers have reported a dramatic improvement in news about developments in business conditions (see chart). This contrasts starkly to last summer, which was characterized by a preponderance of negative news. At that time, inflation was the most salient subject, but strong labor markets were also reported as an unfavorable development for businesses. The index of news heard about business conditions plunged from a reading of over 90 in spring of 2021 to an average of 11 last summer, June through August. This index had only been lower during two episodes in the last 60 years, during the summer of 2020 just after the pandemic began, and during the trough of the Great Recession.

Following the resolution of the debt ceiling crisis, consumers across income, education, age, and political identification have all reported significant improvements in the news they have heard. This news index reached its most favorable level in over two years, prior to this current inflationary episode. While the share of consumers reporting negative news about labor markets is little changed from a year ago and mentions of high interest rates are up, news about high inflation as well as a "bad economy" have declined substantially. This is both a cause and a consequence of improving consumer sentiment—consumers may gravitate to news stories and discussions that confirm their underlying views—but these trends will likely support consumer attitudes in the months ahead.



	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023	Jul 2023	Aug Prelim
Index of Consumer Sentiment	58.2	58.6	59.9	56.8	59.7	64.9	67.0	62.0	63.5	59.2	64.4	71.6	71.2
Current Economic Conditions	58.6	59.7	65.6	58.8	59.4	68.4	70.7	66.3	68.2	64.9	69.0	76.6	77.4
Index of Consumer Expectations	58.0	58.0	56.2	55.6	59.9	62.7	64.7	59.2	60.5	55.4	61.5	68.3	67.3
Index Components													
Personal Finances - Current	80	80	78	77	75	89	91	88	84	85	85	96	93
Personal Finances - Expected	107	105	106	106	106	112	111	104	105	104	108	113	115
Economic Outlook - 12 Months	54	59	48	49	61	60	67	58	60	50	64	73	73
Economic Outlook - 5 Years	69	66	69	65	71	78	79	73	76	66	73	86	81
Buying Conditions - Durables	69	73	90	73	77	87	90	82	91	81	92	101	107