

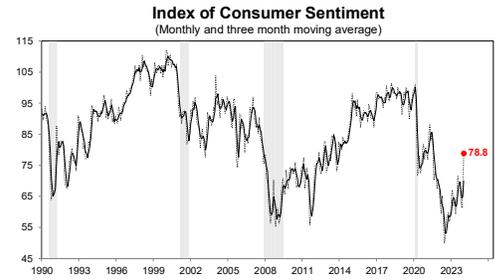


Preliminary results from the January 2024 survey

Joanne Hsu, PhD, Director

January 19, 2024

Consumer sentiment soared 13% in January to reach its highest level since July 2021, showing that the sharp increase in December was no fluke. Consumer views were supported by confidence that inflation has turned a corner and strengthening income expectations. Over the last two months, sentiment has climbed a cumulative 29%, the largest two-month increase since 1991 as a recession ended. For the second straight month, all five index components rose, with a 27% surge in the short-run outlook for business conditions and a 14% gain in current personal finances. Like December, there was a broad consensus of improved sentiment across age, income, education, and geography. Democrats and Republicans alike showed their most favorable readings since summer of 2021. Sentiment has now risen nearly 60% above the all-time low measured in June of 2022 and is likely to provide some positive momentum for the economy. Sentiment is now just 7% shy of the historical average since 1978.



Year-ahead inflation expectations softened to 2.9% after plunging in December. The current reading is the lowest since December 2020 and is now within the 2.3-3.0% range seen in the two years prior to the pandemic. Long-run inflation expectations edged down to 2.8% falling just below the 2.9-3.1% range seen for 26 of the last 30 months. These expectations remained slightly elevated relative to the 2.2-2.6% range seen in the two years pre-pandemic. Improvements in inflation expectations have been supported by perceptions of easing price pressures in buying conditions for both durable goods and vehicles. Furthermore, consumers increasingly expect Fed policy to loosen in 2024, consistent with the belief that inflation will not accelerate in the near future. Almost 40% of consumers expect interest rates to fall in the year ahead, up sharply from 26% last month and 12% in November, when consumers were much more uncertain about the path of inflation.

This month, consumers exhibited stronger views on multiple facets of the economy, suggesting greater confidence of a soft landing. Only 23% of consumers expect the economy to worsen in the year ahead, the lowest share since July 2021 and down sharply from 38% just two months ago. Less than one-third of consumers expect unemployment rates to rise in the year ahead, compared with 41% a year ago. Stock market expectations are at their strongest in over two years. Consumers exhibited more confidence in their own personal prospects as well. Over half of consumers expect their incomes to grow at least as fast as inflation, the highest share since July 2021. Concurrently with these broad based improvements in sentiment and expectations, the index of economic news surged by 29% to the highest level since May 2021. This measure reflects consumers’ responses to questions regarding changes in business conditions they have heard about recently. Consumers reported hearing considerably more favorable news this month than last month on prices/inflation (highest since 2015), labor markets (highest since April 2022), and credit conditions.

Despite the steep increases in sentiment the last two months that restored the upward trajectory that began in mid 2022, overall consumers are hardly sanguine about the economy. Consumers are split in their expectations of business conditions over the next year; 41% expect good times, while 48% expect bad times. High prices continue to weigh on consumers; about 37% blamed them for eroding their living standards, little changed from a year ago, despite a substantial slowdown in actual inflation during this time period. Still, the fact that sentiment has reached its highest reading in 30 months demonstrates how far the economy has come along, from the consumer’s perspective, since the trough in June 2022.

	Jan 2023	Feb 2023	Mar 2023	Apr 2023	May 2023	Jun 2023	Jul 2023	Aug 2023	Sep 2023	Oct 2023	Nov 2023	Dec 2023	Jan Prelim
Index of Consumer Sentiment	64.9	66.9	62.0	63.7	59.0	64.2	71.5	69.4	67.9	63.8	61.3	69.7	78.8
Current Economic Conditions	68.5	70.7	66.3	68.5	65.1	68.9	76.5	75.5	71.1	70.6	68.3	73.3	83.3
Index of Consumer Expectations	62.6	64.5	59.2	60.6	55.1	61.1	68.3	65.4	65.8	59.3	56.8	67.4	75.9
Index Components													
Personal Finances - Current	89	91	88	84	85	85	96	93	86	79	84	88	100
Personal Finances - Expected	112	111	104	105	104	107	113	115	110	101	106	112	119
Economic Outlook - 12 Months	59	67	58	60	49	63	73	70	73	61	57	73	93
Economic Outlook - 5 Years	77	79	73	76	65	73	86	76	79	74	63	84	91
Buying Conditions - Durables	87	90	82	91	82	92	101	102	97	102	92	100	115