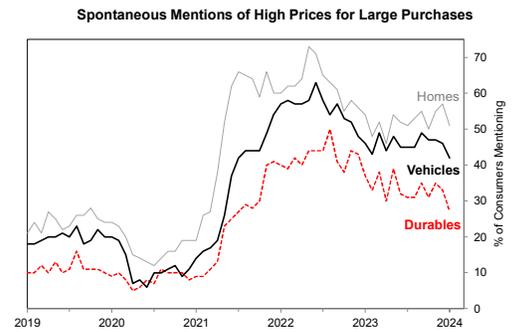




Subject: January 2024 survey results
From: Joanne Hsu, PhD, Director

February 2, 2024

Consumer sentiment confirmed its early-month reading, surging 13% to reach its highest level since July 2021, reflecting improvements in the outlook for both inflation and personal incomes. January's gain has been exceeded only five times since 1978, one of which was last month at an even larger increase of 14%. Consumers expressed gains in their views on their personal finances as well as the macroeconomy; the short-run business outlook soared 27%. After reserving judgment last fall about whether the slowdown in inflation would persist, consumers now feel assured that inflation will continue to soften. Sentiment has resumed the upward trajectory from the all-time low measured in June of 2022, which had stalled in the late summer and fall of 2023. However, consumers expressed considerable disagreement about the future of the economy. About 41% of consumers expect good times in the year ahead for business conditions, while 48% expect bad times. This still represents a vast improvement over the past year and a half; in June of 2022, a whopping 79% of consumers expected challenging times ahead for the economy. Sentiment is now 7% below the historical average since 1978.



Year-ahead inflation expectations eased to 2.9%, down from 3.1% in December and 4.5% in November. 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 were unchanged from last month at 2.9%, staying within the narrow the 2.9-3.1% range seen for 27 of the last 30 months and remaining 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 (see chart). The share of consumers spontaneously mentioning prices of food and gasoline declined substantially this month as well. Meanwhile, concerns about high home prices remain unabated.

Stock market growth has generally provided some support to sentiment, particularly for consumers with larger portfolio holdings; this group posted a particularly large improvement in views this month. However, recent stock market trends are unlikely to be the dominant force behind the historically large and consensus gains in sentiment seen these past December and January. As a comparison, the last time that stock markets reached historic highs, in October and November of 2021, sentiment edged down. This month, about 13% of consumers spontaneously mentioned stock markets during the interview, down from 16% a year ago. Consumers mentioning stock markets did report relatively higher levels of sentiment, but this group was not large enough to explain why sentiment soared as much as it did these past two months.

An indirect effect of the stock market is certainly possible; it is likely that consumers and stock market participants are all buoyed to an extent by similar signals about the economy. The index of economic news heard by consumers improved dramatically over the last two months and reached its most favorable reading since 2021. While only 4% of consumers reported hearing news about stock markets, a much larger 13% of consumers reported hearing positive developments about labor markets, and 10% about favorable credit conditions. Furthermore, about 37% consumers expect interest rates to fall in the year ahead, up from 26% last month and the highest share since March 2008. Note that interviews for this month concluded prior to the January FOMC policy announcement.

	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 2024
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	79.0
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	81.9
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	77.1
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	122
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	94
Buying Conditions - Durables	87	90	82	91	82	92	101	102	97	102	92	100	111