

Economic Indicator — October 13, 2023

Sentiment Spooked by Recent Developments

Summary

Consumer sentiment slipped by the most in just over a year in early October. Given recent developments including the Israel-Gaza conflict, congressional budget drama and removal of the Speaker of the House, as well as continued labor strikes, we're not surprised sentiment soured.

Economist(s)

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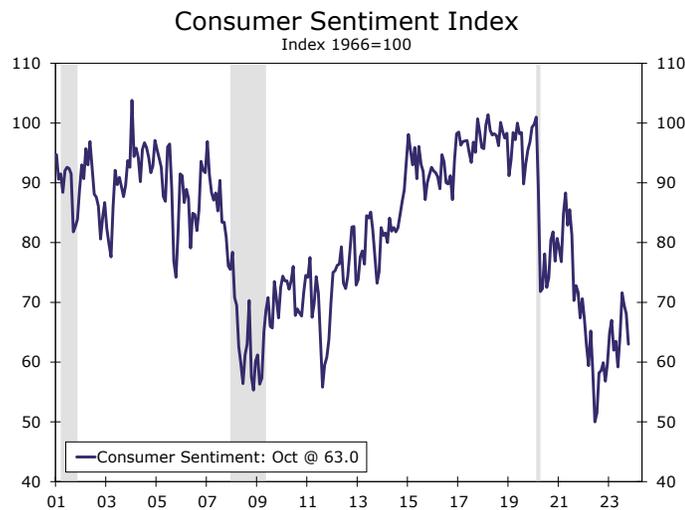
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Source: University of Michigan and Wells Fargo Economics

You're Doomed if You Stay Here

Consumers have been downbeat pretty much since the start of the pandemic in early 2020, and recent developments caused sentiment to slip for the third consecutive month. At 63.0, overall sentiment is now at its lowest point since May ([chart](#)).

Consumers were less optimistic across the board, with views of both current conditions and expectations declining. The current conditions index tumbled to 66.7 from 71.4 in September. The future expectation index fell to 60.7 from 66.0 a month prior. While both remain well-above recent lows, they are still a ways below where they stood prior to the pandemic ([chart](#)).

In addition to the continued uncertainty in the macro environment, current events likely weighed on consumers mindsets in early October, proving to be headwinds to sentiment. The cutoff for today's preliminary survey results was October 11th, several days after the Israel-Gaza conflict began. Worry about this, as well as continued uncertainty around U.S. congress in both the vying for a new Speaker of the House and budget negotiations, leaves consumers little room to look for reprieve in the near term. Continued labor strikes and still-elevated prices are two more factors leaving little for households to be cheery about thus far this month.

Inflation Expectations Are More Trick Than Treat

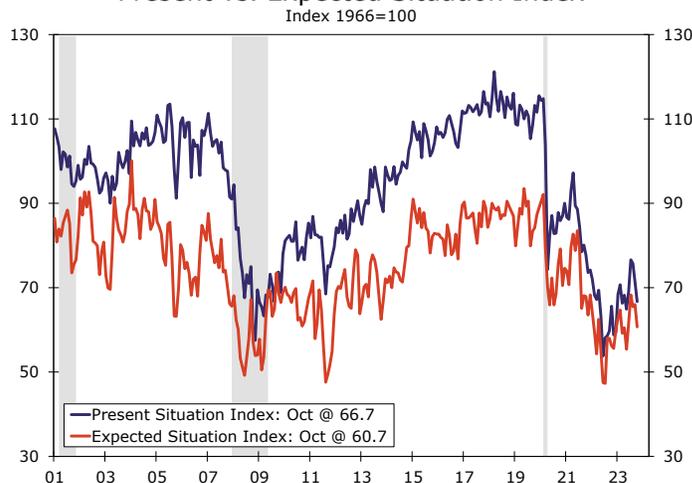
One of the most important takeaways from the consumer sentiment release continues to be inflation expectations. There are two cuts of this data; *short-term expectations*, which measure consumers' view on where inflation will be in one year, and *long-term expectations*, or where consumers expect inflation will be in five-to-ten years from now.

As seen in the nearby [chart](#), short-term expectations tend to be much more volatile and receptive to the price of things like gas and food, which impact consumers' immediate perception of purchasing power. Longer-term expectations are a bit more stable, and while the Fed pays attention to both measures, longer-term expectations are the focus to ensure inflation remains well-anchored.

In early October, year-ahead expectations rose to 3.8%, the highest reading in six months amid higher prices at the grocery store and for other necessities. Further, even though gas prices have fallen since late September, consumer expectations for gas prices to go up in the next twelve-months increased to 50%, possibly reflecting the burgeoning conflict in the Middle East. Longer-term expectations also came in higher at 3.0%, but still remain well-within the recent range over the past two years.

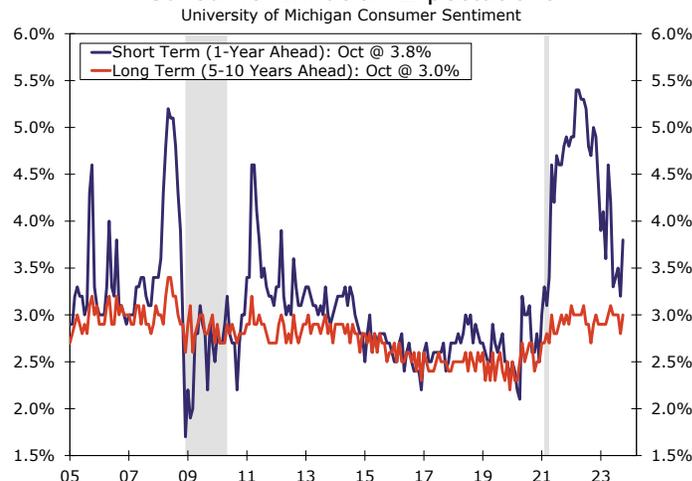
Yesterday's [report](#) on September consumer prices made clear that there remains further ground to cover in returning inflation to 2% on a sustained basis, yet we believe recent realized progress will be enough to keep the FOMC on hold at its upcoming November meeting. Today's report on consumer expectations does not change that view.

Present vs. Expected Situation Index



Source: University of Michigan and Wells Fargo Economics

Consumer Inflation Expectations



Source: University of Michigan and Wells Fargo Economics

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