

Economic Indicator — July 15, 2022

Michigan Sentiment Completes Data Trifecta: Inflation Expectations Down

Summary

Consumer sentiment rose a scant 1.1 points from last month's all-time low, but the REAL takeaway is that inflation expectations cooled. That is welcome news for Fed policymakers and it makes the pressure to "go big" at the next meeting less intense after this week's scorching CPI report.

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Data Turn Down Some of the Heat on the Fed

The Michigan consumer sentiment report completes a trifecta of key economic data released today. [Retail sales](#) showed fading consumer resilience amid soaring prices, the [industrial production](#) report revealed an unexpectedly swift deterioration in manufacturing and the main takeaway from this release is that long-term inflation expectations *fell* to the lowest point in a year.

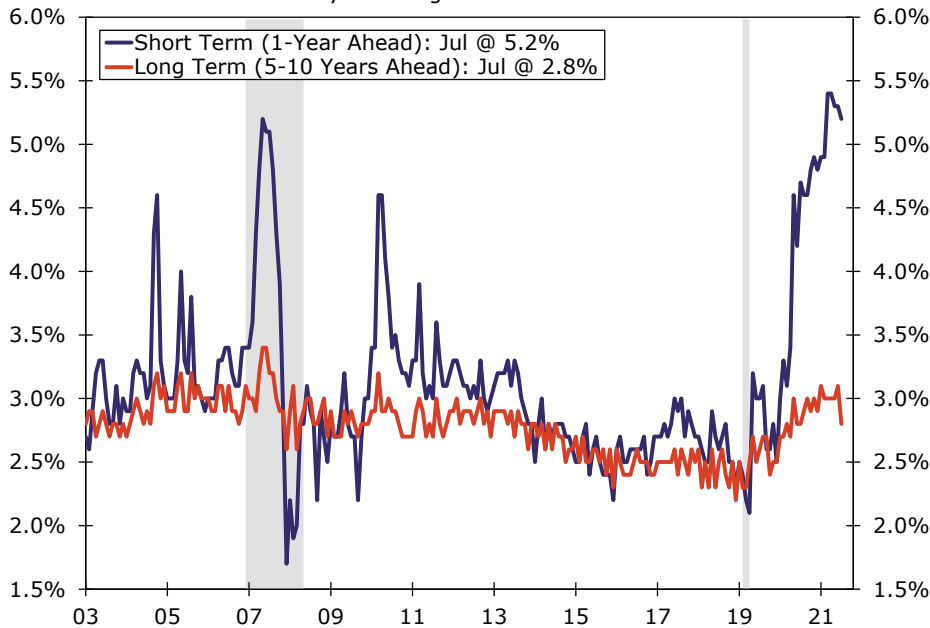
At 2.8%, consumer inflation expectations for the next 5-10 years are well within the past decades range, or what is considered well-anchored. This is welcome news after expectations rose to the top end of their recent range in the preliminary June release and raised concerns that expectations were becoming unhinged.

It also takes some of the heat off the fire for the Fed to hike rates a full 100 bps at its next policy meeting on July 27 and suggests the Fed may again opt instead for a still-large 75 bp hike. St. Louis Fed President James Bullard and Federal Reserve Governor Christopher Waller in separate public appearances on Thursday both backed raising rates by 75 basis points this month, and we expect this fresh data supports that view.

Falling gas prices to date in July were likely a large contributing factor in helping drive inflation expectations lower in this preliminary read. After all, we learned just last week that overall consumer prices continued to climb to new highs in June, notching a fresh 41-year high on its year-ago rate.

Anchored expectations are welcome news for the Fed, there's no doubt about it. But importantly, they have to remain anchored, and with prices set to decline only slowly, the Fed will continue to closely monitor expectations.

Consumer Inflation Expectations University of Michigan Consumer Sentiment



Source: University of Michigan and Wells Fargo Economics

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