

Economic Indicator — October 14, 2022

Consumer Inflation Expectations Move Higher in Early October

Summary

Consumer sentiment rose in early October as views of current conditions improved. Inflation expectations continue to be the key component of this release, and though both short- and long-term expectations rose, importantly long-term expectations remain at a level the Fed will still consider well-anchored. Views of inflation may, however, move even higher in the final sentiment release due to higher gasoline prices specifically and the upside surprise from the September CPI report more broadly.

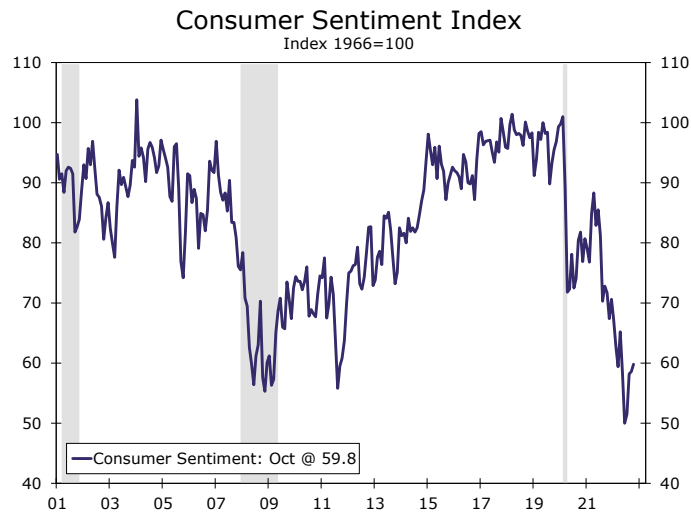
Economist(s)

Tim Quinlan

Senior Economist | Wells Fargo Economics
 Tim.Quinlan@wellsfargo.com | 704-410-3283

Shannon Seery

Economist | Wells Fargo Economics
 Shannon.Seery@wellsfargo.com | 332-204-0693

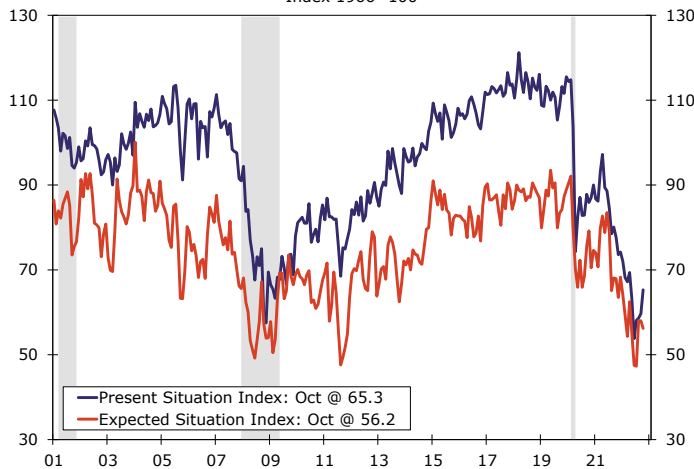


Source: University of Michigan and Wells Fargo Economics

Sentiment Off the Ropes, Expectations Tick Up

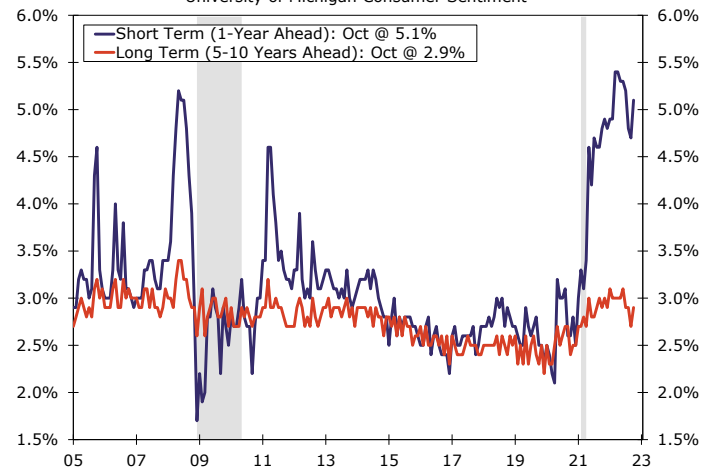
- The preliminary release of consumer sentiment from the University of Michigan for September revealed a modest increase in optimism. Overall sentiment rose to 59.8, a 1.2 point gain from 58.6 a month earlier ([chart](#)). Sentiment was lifted by consumer views of current conditions specifically, which jumped by the most in over a year and a half to a reading of 65.3 ([chart](#)). Views on coming conditions declined to 56.2. Still, levels of sentiment remain broadly depressed and near lows reached since the pandemic.
- The most important component of this release continues to be consumer inflation expectations. Both short-term (one-year ahead) and longer-term (five-ten years ahead) expectations rose in early October ([chart](#)). Short-term expectations remain more volatile and are still at an elevated level of 5.1%. More importantly, longer-term expectations remain well-within the past decades range. At 2.9%, the Fed will still view expectations as "well-anchored", a topic it puts great emphasis on when setting monetary policy.
- We have pointed to the fall in gasoline prices as the catalyst for the decline in expectations the prior two months. The recent increase in gasoline prices for October, was likely a factor in the pickup in expectations. 52% of consumers in October expect gas prices to rise over the next 12-months, the largest share in five months. The average price of a gallon of gasoline in the U.S. has so far averaged about \$0.15 higher in October than it did in September and is moving back up to around \$4/gallon. If prices continue to move higher in the second half of the year, expectations may finish the month a bit higher than in this preliminary estimate.
- The upside-surprise in the latest report on consumer prices may also provide some near-term boost to inflation expectations. We are unsure of when the cutoff date was for this preliminary read, but it was likely ahead of Wednesday's CPI [report](#). Even with expectations remaining well-anchored, we expect the Fed will continue with another super-charged 75 bps rate hike at its November 2 meeting.

Present vs. Expected Situation Index
Index 1966=100



Source: University of Michigan and Wells Fargo Economics

Consumer Inflation Expectations
University of Michigan Consumer Sentiment



Source: University of Michigan and Wells Fargo Economics

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Jessica Guo	Economic Analyst	212-214-1063	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation offer or solicitation with respect to the purchase or sale of any security or other financial product nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report. The views and opinions expressed in this report are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2022 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE