Carbon Arc

U.S. CONSUMERS AND THE FED · PART 1 OF 3

Consumer Views on Rates: Looking Back and Looking Ahead

Nearly four years of economic sentiment data show rates consistently feel higher to U.S. consumers, even after Fed cuts. Here’s what they expect next, ahead of the Dec 8-9 FOMC meeting.

Results describe survey respondents, not all U.S. consumers. Relationships shown are associations, not causes.

SOURCES: CARBON ARC ECONOMIC SENTIMENT - CA0105 · CARBON ARC MACROECONOMIC DATA - ST. LOUIS FED - CA0015

01 · DO CONSUMERS SAY RATES ARE HIGHER THAN A YEAR AGO?

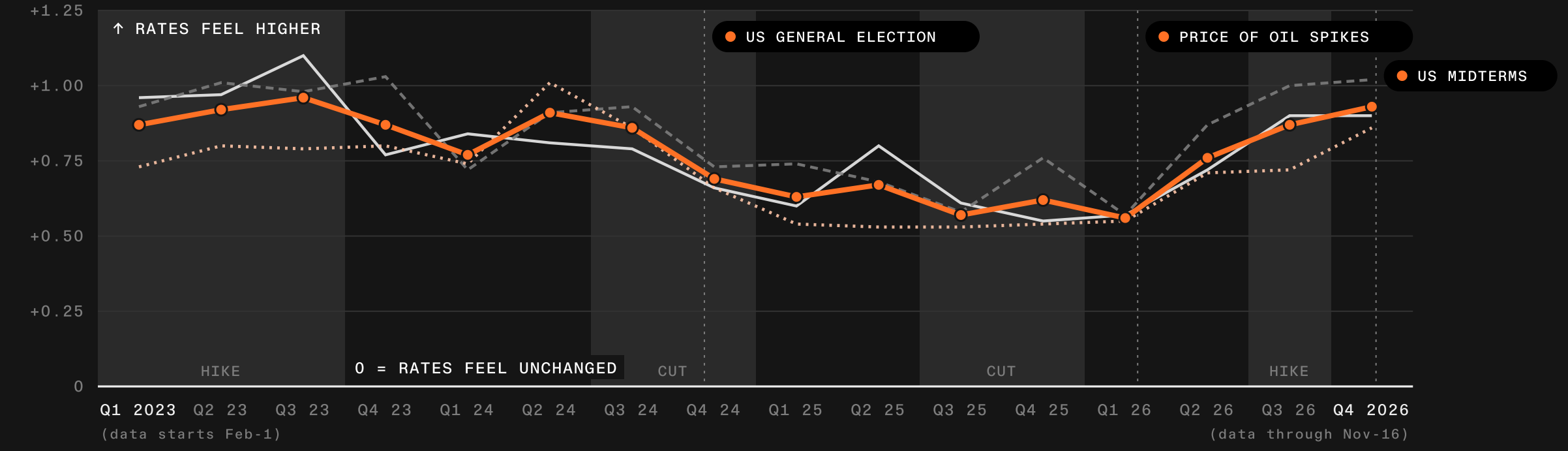
Consumers consistently say rates are higher, and expect them to be higher still a year out

Each month, U.S. survey respondents were asked to describe U.S. interest rates, mortgage rates, and credit card rates on a scale from much lower (–2) to much higher (+2) compared to a year ago, and where they expect them to be a year from now. Zero means respondents felt no change from a year ago, or expect no change in the year ahead. Averaged by quarter, the three answers move closely together and have stayed above zero throughout.

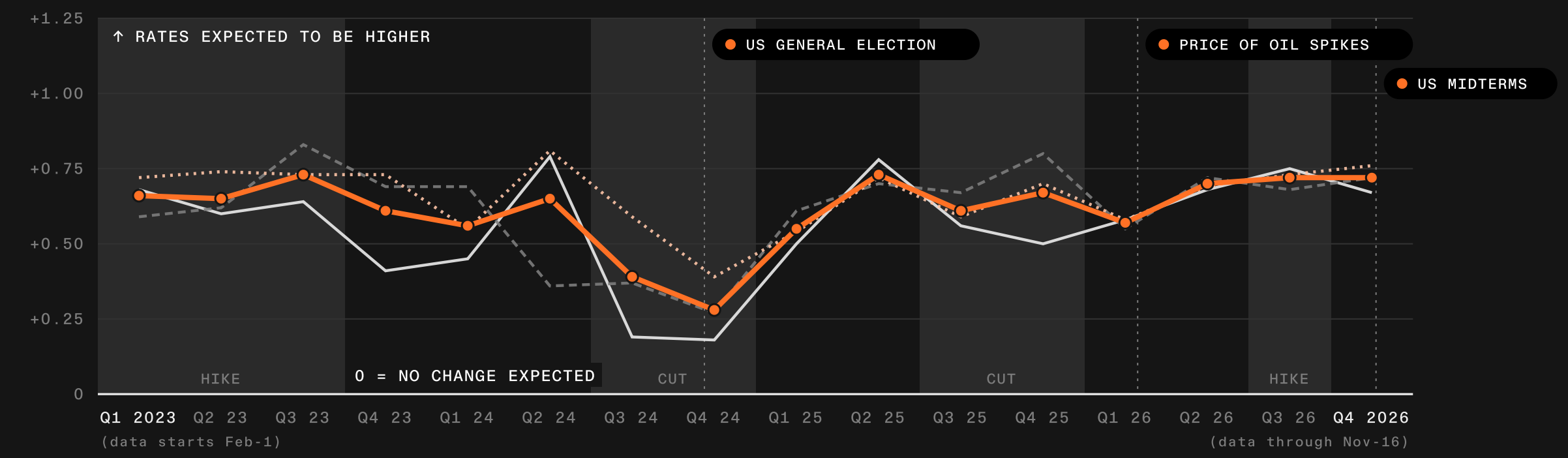
AVERAGE MONTHLY ANSWER BY QUARTER, –2 MUCH LOWER TO +2 MUCH HIGHER: EACH QUESTION AND THE RATE INDEX

RATE INDEX (THE 3 QUESTIONS POOLED) · INTEREST RATES QUESTION · MORTGAGE RATES QUESTION · CREDIT CARD RATES QUESTION · QUARTER WITH A HIKE OR CUT

QUESTION ASKED: “HOW WOULD YOU DESCRIBE [RATES] COMPARED TO A YEAR AGO?”



QUESTION ASKED: “WHAT DO YOU EXPECT [RATES] TO BE IN A YEAR FROM NOW?”



Question wording: “How would you describe [interest rates in this country / mortgage rates / credit card interest rates in this country] compared to a year ago?” and “What do you expect [the same] to be in a year from now?” Each question counts equally in the Rate Index. Each quarter averages its months equally; Q4 2026 is preliminary.

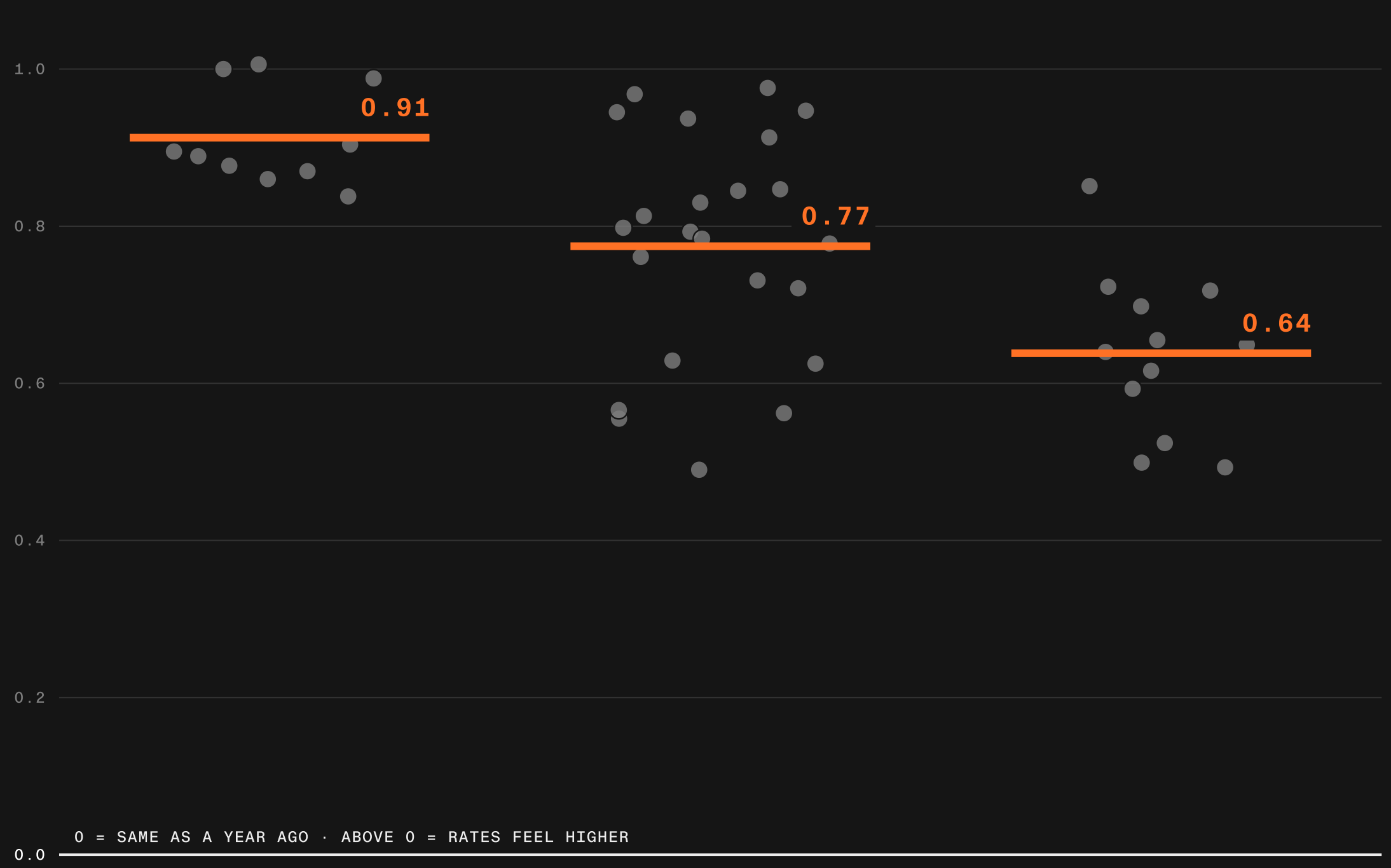
Source: Carbon Arc Economic Sentiment - CA0105 · Requires Block access

02 · HOW DOES RATE SENTIMENT CHANGE WITH FED POLICY?

When the Fed cuts, rates feel less high, but never lower

We grouped each month by the Fed’s most recent decision: a hike, a hold, or a cut within the past three months. The three questions on interest, mortgage, and credit card rates are pooled into an averaged “Rate Index.” The aggregate result: respondents rated rates higher than a year ago in every group, at 0.91 on average after hikes, 0.77 during holds, and 0.64 after cuts. Even when the fed funds rate was lower than a year earlier, rates felt less high, never lower. One possible reason: the Fed held rates near zero from Mar-2020 to Mar-2022, then raised them more than 5 percentage points by Jul-2023, a recent memory that may still set the baseline.

“A YEAR AGO” RATE INDEX ANSWER BY MONTH, GROUPED BY THE FED’S LATEST DECISION; EACH DOT IS A MONTH, BARS SHOW GROUP AVERAGES



Each month counts equally. Grouping months by the Fed’s decisions accounts for about 40% of the month-to-month variation in this answer. The pattern holds with other time windows, including the Fed’s net moves over the full past year (45%). Recent changes in the US Treasury 10-year yield, mortgage rates, or credit card rates explain less (9% to 25%). Associations, not causes.

Sources: Carbon Arc Economic Sentiment - CA0105 · Requires Block access · Carbon Arc Macroeconomic Data - St. Louis Fed - CA0015

03 · DO CONSUMERS EXPECT RATES TO KEEP RISING?

Consumers expect rates to rise more slowly over the next year

Subtracting the “now vs. a year ago” answer from the “a year from now” answer removes survey respondents’ constant lean toward “higher” rates and isolates what respondents expect next. A gap below zero does not mean they expect lower rates: their forecast stays above zero in every quarter, so they expect rates to keep rising, just more slowly than over the past year. That expectation was strongest around the 2024 cuts, faded through 2025, and began to return in mid-2026, deepening after the Sep-2026 hike. Futures markets expect the climb to speed up: at one point in the week ending Nov-20, a December hike was fully priced, with more expected in 2027, though those odds eased after a sharp, tech-led stock selloff.

−0.21

CONSUMER RATE INDEX EXPECTATION GAP, Q4 2026 (PRELIMINARY)

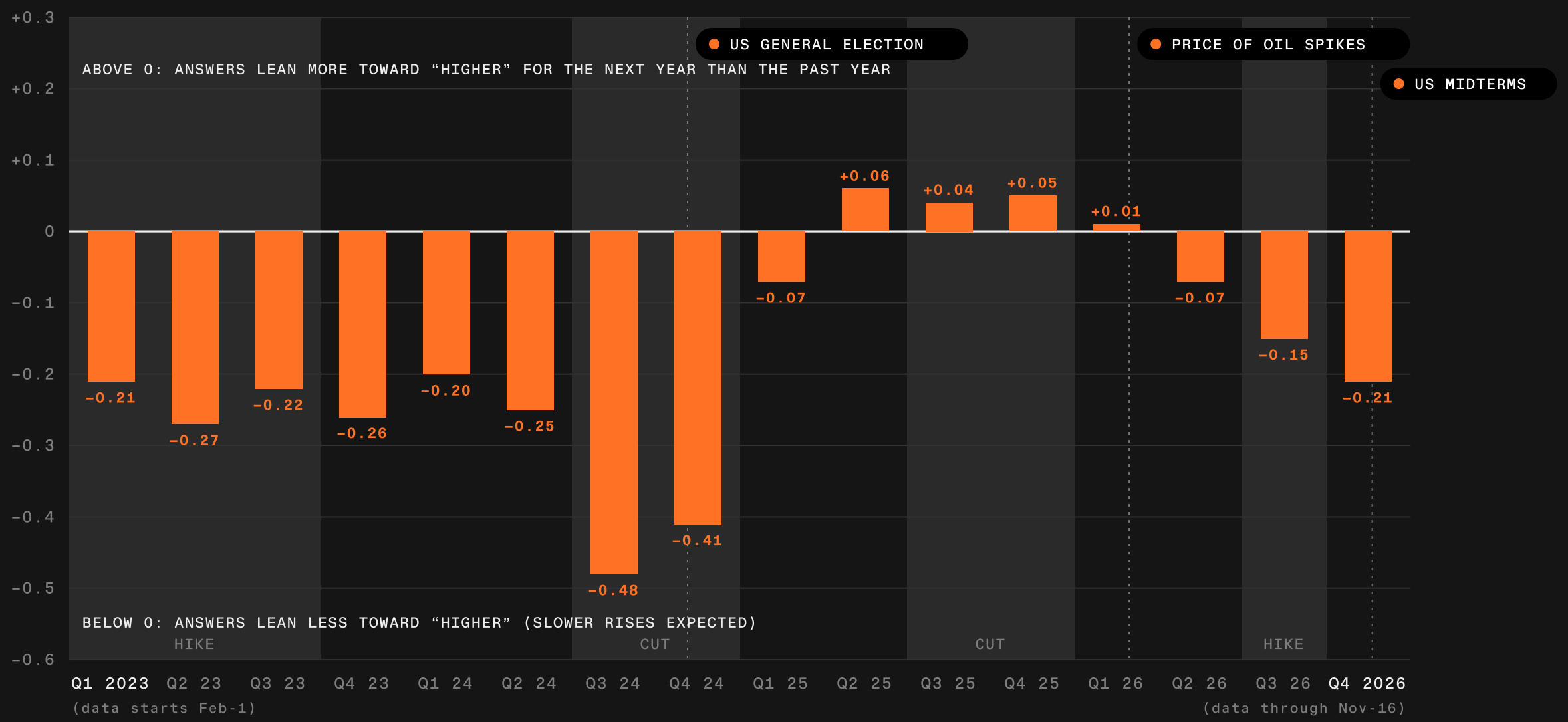
AS OF NOV-23

94.5%

FUTURES ODDS OF A DECEMBER HIKE, CME FEDWATCH

RATE INDEX EXPECTATION GAP BY QUARTER (FORECAST ANSWER MINUS CURRENT ANSWER)

EXPECTATION GAP QUARTER WITH A HIKE OR CUT



NEXT WEEK IN THE SERIES · PART 2 OF 3

Rates feel higher than a year ago, and consumers expect them to rise more slowly. But their views on inflation, job opportunities, and the Fed reaching its 2% target have all worsened. Next week: consumer views on the Fed’s mandate.

Gap = average forecast answer minus average current answer across the three rate questions.

Sources: Carbon Arc Economic Sentiment - CA0105 · Requires Block access · CME Group FedWatch