Strong economy prompts higher inflation concerns

September 3 2018

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Consumer sentiment has remained virtually unchanged despite more positive news about growth in the U.S. economy, according to the University of Michigan Surveys of Consumers.

Rather than more favorable assessments, consumers held slightly more negative views about the current state of the economy, said U-M economist Richard Curtin, director of the surveys. Indeed, the Current Conditions Index fell to its lowest level since November 2016.

"Less favorable perceptions of market prices and interest rates were behind the loss," he said. "As is typical in the later parts of expansions, consumers base their buying plans on rising incomes and job security."

Curtin said that inflation expectations have increased, but have so far been offset by rising wages. The loss of the positive impact of income and job security precedes recessions. Perhaps the most important aspect of the recent rise in inflation expectations is that consumers expect it to be temporary, he said.

"Nominal wage expectations and job gains have remained strong, and the expected inflation rate has increased to its highest level in four years," Curtin said. "Although a higher inflation rate is partly due to the potential for increased tariffs, the main cause has been the expectation of robust economic growth during the year ahead.

"Luckily, consumers have not judged the current level of inflation as a significant source of erosion in their living standards or as a cause to reduce their buying plans. Just as important, they anticipate the recent rise in inflation to be temporary. Achieving a soft-landing is always difficult, and especially so when monetary policy must lean against expansionary fiscal policies."

Buying Plans Decline

Consumers' views of buying conditions have fallen to multiyear lows. Home-buying conditions were viewed less favorably than anytime since December 2008; vehicle buying conditions were viewed less favorably than anytime since late 2013; and buying conditions for household durables were viewed less favorably than anytime since late 2015.

For each market, favorable perceptions of prices fell to near decade lows, and more surprisingly, interest rates on homes and vehicles slipped to near decade lows despite the fact that rates remained much lower than in the runup to the Great Recession, demonstrating greater sensitivity to relatively low rates, Curtin said.

Personal Finances Remain Strong

Personal finances remained very favorable as 55 percent of all households cited recent financial gains, just below the all-time record of 57 percent recorded in only two surveys in more than a half-century—in March 2018 and February 1998.

Gains in household wealth were also cited by near-record numbers, primarily due to increases in stock holdings and home values. Consumers anticipated income increases in the year-ahead of 2.4 percent in August, between the July's 2.2 percent and June's 2.5 percent, recording the best three month average in the past decade.

Consumer Sentiment Index

The Consumer Sentiment Index was 96.2 in August 2018, just below July's 97.9 and last August's 96.8, and the lowest level since January 2018. The Expectations Index fell to 87.1, just below last month's 87.3 and last year's 87.7. The Current Conditions Index fell to 110.3 in August, down from 114.4 in July, and just below last year's 110.9.

About the Surveys

The Surveys of Consumers is a rotating panel survey based on a nationally representative sample that gives each household in the coterminous U.S. an equal probability of being selected. Interviews are conducted throughout the month by telephone. The minimum monthly change required for significance at the 95-percent level in the Sentiment Index is 4.8 points; for Current and Expectations Index the minimum is 6 points.

More information: umich.edu/~umsurvey

Provided by University of Michigan

Citation: Strong economy prompts higher inflation concerns (2018, September 3) retrieved 4 August 2024 from https://phys.org/news/2018-09-strong-economy-prompts-higher-inflation.html

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