

Opinion: More aid to consumers urgently needed

April 6 2020, by Richard Curtin



Credit: CC0 Public Domain

A significant pillar that has prevented more drastic declines in consumer sentiment has been the widespread belief that the coronavirus crisis will be temporary. Consumers provided dismal assessments of current

economic conditions in the latest consumer sentiment survey, but anticipated improved prospects in a year across a wide range of expected changes in personal finances as well as overall economic conditions.

Year-ahead expected conditions in the national economy rose gently in the past two months, while current economic conditions posted extraordinary declines. The expectation that the pandemic will fade has been supported by the experience of other countries as well as by prior public health crises. Protecting their health is now the top priority of consumers, even if homebound isolation exacts a heavy economic toll on their lives. Those heavy losses in jobs and incomes were judged tolerable since they were anticipated to be temporary losses due to the coronavirus.

Economic theory emphasizes the crucial difference between transitory and permanent changes in [economic conditions](#). Once the crisis is over, many observers hold that normal consumer behavior will promptly reassert itself, with pent-up demand producing a burst in spending. This view dominated many early economic forecasts, the so-called "V" decline in economic activity and subsequent sharp snap back in consumer spending.

At the other extreme, perhaps the worst potential outcome for consumer spending is if prior expectations about the [economic impact](#) of the pandemic prove to be false. Initial false expectations not only cause larger than warranted negative shifts in expectations, but also make those revised expectations more resistant to subsequent improvement even when warranted by actual conditions. In that case, the negative impact on economic growth would be much deeper and more long lasting. The "temporary" assumption now widely held by consumers will be tested in April and May as the infection and [death rates](#) reach new peaks, and revisions will crucially depend on how soon rates begin to fall.

The public has been recently made aware of the potential horrific toll of the pandemic; they should not be misled about the subsequent prospects for the speed and extent of the economic recovery. Although neither an immediate and rapid economic recovery nor a prolonged and deep recession is likely to dominate the entire economy, both extremes will be present to some degree across different parts of the country and across different industries.

Proactive economic policies must be put in place now to limit the escalating hardships that can be expected in the coming months. The recent \$2 trillion aid package must be supplemented by a more focused and targeted plan to reduce the hardships that will continue to decimate the finances of consumers into the summer months. Quick policy action is required to limit the expected economic damage to the health and finances of American households.

The key transition for the national economy will occur when consumers become less concerned about threats to their health and more concerned about the economic damage done by the coronavirus. Presumably, the infection rate will be in steep decline in the months ahead, but it will not reach zero.

Consumers can be expected to differ on how low an infection rate would need to be for them to return to their normal routines. There will be a range of responses, some consumers moving quickly to their old spending patterns, and some much more slowly. It will take some time for the majority of consumers to again become comfortable enough to resume their normal spending patterns. Some discretionary purchases will quickly return to prior levels, and others may not return for a year or more, if ever.

Moreover, consumers are likely to reassess their savings priorities, adding to their emergency funds, making missed debt payments,

lowering their overall credit use, as well as other precautionary measures. This implies that different economic incentives will be needed to stimulate a full recovery in consumer spending. While pent-up demand may provide an immediate spending boost, its impact on the economy will be short-lived and quickly disappear.

Additional stimulative policies are needed to transform that initial burst in spending into more sustainable growth. Pent-up demand is a catchphrase that represents two distinct aspects of [consumer spending](#). The first, the one that is most often cited, results, for example, when homes, vehicles, or household appliances need to be repaired or replaced due to damage, breakdowns, normal wear-and-tear and so forth.

The majority of pent-up demand, however, is due to consumers' desires for upgrades and changing product preferences. This form of pent-up demand is discretionary, depending on both [consumers'](#) willingness and ability to buy; both of which can be expected to be lessened in the aftermath of the coronavirus. The post-coronavirus economy will not immediately return to the discretionary spending patterns that prevailed just a few months ago at the end of the longest expansion on record.

Provided by University of Michigan

Citation: Opinion: More aid to consumers urgently needed (2020, April 6) retrieved 2 May 2024 from <https://phys.org/news/2020-04-opinion-aid-consumers-urgently.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.