

# Inflation uncertainty highest in four decades

October 29 2021

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Consumer sentiment has remained virtually unchanged in the past three months, at levels comparable to the pandemic low point in April 2020, according to the University of Michigan Surveys of Consumers.

The positive impact of higher income expectations and the receding coronavirus has been offset by higher rates of [inflation](#) and falling confidence in government [economic policies](#), said U-M economist Richard Curtin, director of the surveys.

Consumers not only anticipated the highest year-ahead inflation rate since 2008 in the October survey, but also expressed greater uncertainty about the year-ahead inflation rate than anytime in nearly 40 years. Declining living standards due to rising inflation were mentioned by 1 in every 5 households, concentrated among older and poorer households, Curtin said.

"The patterns of consumers' reactions to surging inflation represent the preconditions that can promote an escalating inflation rate in the year ahead," he said. "Consumers' recognition of rising prices is near universal, so too is their desire to reestablish spending for a more traditional holiday season.

"People understand that inflation has been due to upheavals in supply lines and labor markets. The lower resistance to higher prices due in part to incentive swollen savings, and is matched by less resistance among sellers to hiking prices to cover higher materials and labor costs. Combined with greater fiscal stimulus, these reactions will accelerate future rates of inflation."

## **Inflation drives widespread declines in living standards**

Expected increases in nominal incomes rose to 2.6% in October, up from 1.5% last month. The last time a higher income gain was expected across all households was in 2007.

Unfortunately, the year-ahead rate of inflation was expected to be 4.8%, the highest level since 2008, Curtin said. As a result, when asked about expected inflation-adjusted income gains during the year ahead, twice as many households anticipated real income declines as increases. Across age, income and education subgroups, only those under age 45 expected real income gains.

## **Price hikes dim spending outlook**

Although consumers anticipated that the economy will continue to improve, the pace of gains were expected to slow. When asked about what news they had heard about the economy, twice as many consumers reported unfavorable development than favorable, whereas six months ago they reported positive and negative news equally.

When asked whether the gains would usher in good economic times, the majority judged it would still constitute bad times for the year ahead (56%), and over the longer term, growth would be interrupted by renewed downturns (57%). As a result, unemployment was expected to fall by 37%, down from 52% three months ago.

## **Consumer Sentiment Index**

The Consumer Sentiment Index posted a small decline in October, retreating to 71.7 from last month's 72.8, and falling to just below the pandemic low of 71.8. The Expectations Index fell to 67.9 from last month's 68.1 and was well below last year's 79.2. The Current Conditions Index posted a larger loss in October, falling to 77.7 from last month's 80.1 and last year's 85.9. The decline reflects the negative impact of higher inflation on household budgets.

## **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% level in the Sentiment Index is 4.8 points; for the Current and Expectations Index, the minimum is 6 points.

**More information:** Survey details: [www.sca.isr.umich.edu/](http://www.sca.isr.umich.edu/)

Provided by University of Michigan

Citation: Inflation uncertainty highest in four decades (2021, October 29) retrieved 27 April 2024 from <https://phys.org/news/2021-10-inflation-uncertainty-highest-decades.html>

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