

Consumer sentiment sinks to decade low

January 28 2022



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Consumer sentiment fell throughout January, posting a cumulative loss of 4.8%, sinking to its lowest level since November 2011, according to the University of Michigan Surveys of Consumers.

The Delta and Omicron variants were largely responsible, but other factors, some of which were initially triggered by COVID-19, have

become independent forces shaping [sentiment](#), said U-M economist Richard Curtin, director of the surveys.

While supply chains and essential workers have sparked the initial increases in prices and wages, a wage-price spiral that has subsequently developed is no longer tied to those precipitating conditions, he said. Household spending has been supported by an extraordinary pace of rising home and stock prices that is likely to turn negative in the year ahead.

Overall confidence in government economic policies is at its lowest level since 2014, and the major geopolitical risks may add to the pandemic active confrontations with other countries. Although their primary concern is rising inflation and falling real incomes, consumers may misinterpret the Fed's policy moves to slow the economy as part of the problem rather than part of the solution, Curtin said.

"The Fed is about to raise interest rates to tame inflation. Their actions will slow job and wage growth and trim gains in stocks and home values," he said. "By slowly hiking rates, one of the Fed's goals is to prevent any noticeable impact on all other aspects of the economy except inflation. Such a soft landing has a reasonable chance of success if accompanied by a positive economic environment, not one where the majority of consumers view the economy as already in a weakened state.

"The danger is that consumers may overreact to these tiny nudges, especially given the uncertainties about the coronavirus and other heightened geopolitical risks. Clear policy communication is insufficient if it does not also advance consumers' understanding of the economic tradeoffs involved and their plans to actively alleviate any undue harm."

Inflation top concern

Among all consumers, 75% reported inflation rather than unemployment as the more serious problem facing the nation. These heightened concerns were reflected in half-century record numbers of consumers who negatively judge current market prices for homes, vehicles and durables. While these concerns were higher than in the late 1970s, when inflation was about twice as high, those high rates were not personally experienced by most of today's consumers.

Weakened economy anticipated

Consumers think the national economy started 2022 in a weakened state. Half of all households reported that the economy had worsened, and just one-third think it will improve during the year ahead. When asked about the longer-run prospects for the national economy, uninterrupted growth was expected by just 33% in January 2022, while 58% anticipated a renewed recession, a weakened outlook from last month and last January's survey.

Consumer Sentiment Index

The Consumer Sentiment Index fell to 67.2 in the January 2022 survey, down from 70.6 in December and well below last January's 79.0. The Expectations Index fell to 64.1 in January, down slightly from last month's 68.3 and well below last year's 74.0. The Current Conditions Index fell to 72.0, down from last month's 74.2, and well below last year's 86.7.

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: www.sca.isr.umich.edu/

Provided by University of Michigan

Citation: Consumer sentiment sinks to decade low (2022, January 28) retrieved 26 June 2024 from <https://phys.org/news/2022-01-consumer-sentiment-decade.html>

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