

# Rising wages drive both optimism, pessimism on inflation

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Consumers voiced much more positive views in April, rising 9.8% above

March, according to the University of Michigan Surveys of Consumers.

Most of the surge was concentrated in expectations, with gains of 21.6% in the year-ahead outlook for the economy and an 18.3% jump in personal financial expectations, said U-M economist Richard Curtin, director of the surveys.

The cause was a sharp drop in gas price expectations, falling to just 0.4 cents from last month's 49.6. The declines in gas prices may be reversed by ongoing developments in Ukraine, he said. The overall impact on sentiment trends, however, was quite small: Other than the last two months, the Sentiment Index in April was still lower than in any prior month in the past decade.

Curtin said the 1st quarter decline in overall GDP came as no surprise to consumers. Consumers, however, continued to modestly advance their spending by 2.7% due to a strong labor market and rising wages.

"The pandemic created a sense of uncertainty, which has only increased due to rising inflation and the growing consequences of the war in Ukraine. Just when supportive government policies are needed, consumers have lost confidence in [economic policies](#)," he said. "Fiscal actions will increasingly be hampered by partisanship in the runup to the Congressional elections. Monetary policy aims at tempering the strong labor market and trimming wage gains are the only factors that support optimism.

"A [soft landing](#) will be difficult to achieve given the heightened uncertainties, raising prospects for a halt or a temporary reversal by the Fed. The probability of reaching a tipping point will depend on maintaining a strong labor market and robust wage gains. The cost of that renewed strength may be an accelerating wage-price spiral."

## **Strong labor market and rising wages**

Continuing strength in the labor market and rising wages remain the sole source of economic optimism. Consumers were more likely to anticipate additional small declines in the national unemployment rate despite its current low of 3.6%.

Anticipated wage gains remained strong, with expected gains across all households averaging 2.6%—the last time a larger increase was recorded was in March 2007. Moreover, an expected annual income gain of 5.3% was expected by those under 45, which was the highest expected [wage](#) gain since May 1990.

## **The growing domination of inflation**

Prospects for consumers' personal finances improved in April, reversing last month's expected negative trends. Importantly, the gains were widely shared across income and age groups largely due to the notion that gas prices had peaked, Curtin said.

Inflation was seen as the overwhelming problem facing the nation as well as causing eroding living standards among households. Inflation was cited as the main cause of falling living standards, mentioned by 36% of all households. Although the expected rate of inflation remained unchanged from last month, the high level of prices meant that [consumers](#) faced the difficult choice of which normally purchased items to eliminate, Curtin said.

## **Consumer Sentiment Index**

The Consumer Sentiment Index rose to 65.2 in April, up from 59.4 in March, but well below last April's 88.3—so far, President Biden's peak.

The Expectations Index rose to 62.5 in April, up from 54.3 in March, and the Current Conditions Index rose more modestly, to 69.4 in April from 67.2 in March. Compared with a year ago, both indices lost about 25% of their value.

## 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/](http://www.sca.isr.umich.edu/)

Provided by University of Michigan

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