

# Inflationary concerns outweigh expected income growth

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Consumer sentiment continued its downward trend, falling 14.4% in June, according to the University of Michigan Surveys of Consumers.

All components of the [index](#) fell this month, with the steepest declines in the year-ahead outlook for the economy, down 24% from May, and

[consumers](#)' assessments of their personal financial situation, which worsened about 20%, said U-M economist Joanne Hsu, director of the surveys.

The June consumer [sentiment](#) index reading was an all-time low for the survey, comparable to the trough reached during the 1980 recession.

"While consumers still appear relatively optimistic about the stability of their incomes, their perceptions of the economy are much more strongly influenced by concerns over inflation," Hsu said. "As higher prices become harder to avoid, consumers may feel they have no choice but to adjust their spending patterns, whether through substitution of goods or foregoing purchases altogether. The speed and intensity at which these adjustments occur will be critical for the trajectory of the economy."

## **Labor market strength supports incomes**

In spite of these bleak views overall, over half of consumers expect their incomes to grow over the next year, consistent with continued low unemployment and labor market strength. These anticipated wage gains edged down slightly from 1.8% in May to an average of 1.1% in June.

Consumers under the age of 45 continue to be more upbeat than older consumers, expecting a one-year gain in [income](#) of 4.7%. That said, all [age groups](#)—including this youngest group—expressed declines in June in how they expect to fare financially in the year ahead, Hsu said. In particular, about 53% of consumers expected their incomes to be outpaced by prices over the next year.

## **Inflation casts shadow on personal finances**

Consumers' personal outlook was darkened by widespread concerns over

inflation, Hsu said. Rising prices were cited as the main factor for declining living standards over the past year by 47% of all households, a share that has only been exceeded once since 1981 during the Great Recession.

Consumers continued to trace their worries to global factors: A majority of consumers spontaneously mentioned supply shortages for the ninth consecutive month (51% in June), though a falling share mentioned Ukraine or Russia. Half of all consumers mentioned gas prices during their interviews, compared with 30% in May and only 13% a year ago. Consumers expected [gas prices](#) to continue to rise a median of 25 cents over the next year, more than double the May reading and the second highest since 2015.

## **Consumer Sentiment Index**

The Consumer Sentiment Index fell to 50.0 in the June 2022 survey, down from 58.4 in May and below last June's 85.5. The Expectations Index fell to 53.8, down from 63.3 in May and below last June's 88.6. The Current Conditions Index fell to 47.5, down from 55.2 in May and below last June's 83.5.

## **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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