

Slowdown in inflation buoys consumer sentiment

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Consumer sentiment rose by 13% in August, lifting off of the all-time

low reading for the survey reached in June but remaining 17% below a year ago, according to the University of Michigan Surveys of Consumers.

The gains in [sentiment](#) were seen across age, education, income, region and [political affiliation](#), and can be attributed to the recent deceleration in inflation. Most of this increase was concentrated in expectations, led by a 59% surge in the year-ahead outlook for the economy following two months at its lowest reading since the Great Recession, said U-M economist Joanne Hsu, director of the surveys.

The index of current conditions remained relatively unchanged, with a modest rise in [personal finances](#) offset by a similar decline in buying conditions for durables. Despite these recent developments, overall sentiment remains extremely low by historical standards.

"With gas prices waning and inflation slowing, consumers felt some welcome relief this month. But consumers continue to feel the negative impact of persistently high prices on their pocketbooks," Hsu said.

"Hopefully this recent improvement continues, as sentiment remains close to the all-time historic low reached in June. There is a long way to go before consumers feel truly confident about the state of their personal finances and their outlook for the economy."

Consumers note deceleration in inflation

The effect of the recent slowdown in inflation was visible throughout the survey. The strongest improvements in sentiment were exhibited by low-income consumers, who typically have fewer resources to buffer against inflation, Hsu said.

Overall, consumers' views on their personal finances improved about 7%, primarily due to a reduction in the share of consumers citing

inflation's harmful effects on their living standards, down from 49% last month to 44%. Likewise, fewer consumers spontaneously mentioned [gas prices](#) or [food prices](#) at any point in the survey this month. The share of consumers who mentioned hearing negative news about inflation fell from 37% last month to 29% in August. Still, all of these measures remained elevated relative to last year, reflecting the continued effects of inflation on consumer attitudes.

Outlook for labor markets improves

More than half of consumers expect their incomes to grow over the next year, with anticipated wage gains rising from 1.1% in July to 2.3% in August. These gains were particularly large for Republicans, who now expect a 2.4% increase in income, nearly closing their persistent gap with Democrats, who expect a gain of 2.7%. However, only 18% of consumers expect their income growth to exceed [inflation](#). The share of [consumers](#) expecting unemployment to rise in the year ahead fell from 38% last month to 34%, though up from 24% a year ago.

Consumer Sentiment Index

The Consumer Sentiment Index rose to 58.2 in the August 2022 survey, up from 51.5 in July and below last August's 70.3. The Current Conditions Index rose to 58.6, up from 58.1 in July and below last August's 78.5. The Expectations Index rose to 58, up from 47.3 in July and below last August's 65.1.

More information: Surveys of consumers: www.sca.isr.umich.edu/

Provided by University of Michigan

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