

# Sentiment rises with debt ceiling resolution and slowing inflation, find surveys

June 30 2023, by Morgan Sherburne

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Consumer sentiment lifted 9% in June, reaching its highest level in four months, a sign of greater optimism as inflation eased and policymakers

resolved the debt ceiling crisis.

The upswing was observed for all [demographic groups](#); the consensus view among [consumers](#) is that macroeconomic prospects improved this month, according U-M economist Joanne Hsu, director of [the surveys](#). Sentiment is now 29% above the historic trough reached a year ago but remains low overall, as most consumers still expect difficult times in the economy over the next year.

"Inflation continues to be the top economic factor influencing [consumer attitudes](#), and the slowdown in [inflation](#) is welcome news. However, consumers still expect challenging times ahead, particularly since they expect any income growth will be outpaced by future price increases," Hsu said. "The fight against inflation has far to go before consumers feel more settled about the economy."

## **Economic outlook surges after debt ceiling crisis ends**

The year-ahead economic outlook soared 28% over the last month, and long-run expectations rose 11% as well. These improvements were supported both by easing inflation as well as the lifting of the debt ceiling, which curbed consumers' sense of unease that pervaded the last several months.

Confidence in government [economic policy](#) rose for the first time in five months, with Independents registering the strongest increase, consistent with relief over the resolution of the standoff between Democrats and Republicans.

These trends in [sentiment](#) mirror historical patterns; during the 2011 debt ceiling crisis, sentiment also slid sharply, reaching levels that typically indicate a recession to come. Subsequently, consumer views also recovered quickly when the ceiling was lifted and a recession

averted.

## **Inflation worries ease as income concerns emerge**

Consumers have taken notice of the continued slowdown in overall inflation. Buying conditions for durables, cars and homes improved this month, as consumers see that prices for all three have become relatively more affordable.

However, high interest rates have continued to keep these purchases costly. Furthermore, the prices consumers face day-to-day remain painfully high. About 41% of consumers blamed [high prices](#) for eroding their [personal finances](#), little changed from the previous two months.

In addition, consumers expressed concerns about a weakening labor market and expect slower income growth over the year ahead. Only 14% of consumers expect any income gains to outstrip inflation, the lowest share in a year.

## **Consumer Sentiment Index**

The Consumer Sentiment Index rose to 64.4 in the June 2023 survey, up from 59.2 in May and above last June's 50.0. The Current Index rose to 69.0, up from 64.9 in May and above last June's 53.8. The Expectations Index rose to 61.5, up from 55.4 in May and above last June's 47.5.

Provided by University of Michigan

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