surveys of consumers
UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: Preliminary results from the July 2021 survey — July 16, 2021

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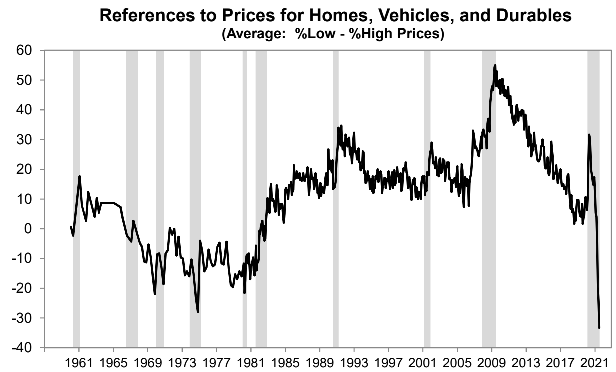
Consumer sentiment posted a monthly decline of 5.5% in early July, largely due to less favorable prospects for the national economy. This decline was caused by a misjudgement by consumers in the pace that the economy would recover as the pandemic eased. This involved both underestimating the economy's ability to reactivate supply lines and restore jobs, and the resulting impact on inflation. Rather than job creation, halting and reversing an accelerating inflation rate has now become a top concern. Inflation has put added pressure on living standards, especially on lower and middle income households, and caused postponement of large discretionary purchases, especially among upper income households. Consumers' complaints about rising prices on homes, vehicles, and household durables has reached an all-time record (see the chart). Purchase rates, however, have benefitted from record increases in accumulated savings and reserve funds. A critical issue is whether consumers will find greater value in keeping a significant portion of their savings as a precautionary hedge, or spending a significant portion in an effort to avoid their inflationary erosion and to benefit from buying-in-advance of increasing market prices. The precautionary impulse will quickly fade if the "transitory" spike in inflation extended into 2022. Resurgent consumer spending propelled by fiscal stimulus is likely to increase inflation. Small policy steps could now have a large impact on ending inflationary psychology. A slight increase in interest rates would be no surprise to consumers as 70% expected an increase in early July, a significant shift from the start of 2021 (44%) or from last July's survey (31%).



The expected year-ahead inflation rate was 4.8% in early July, up from last month's 4.2% and May's 4.6%. The long-term expected inflation rate provided a solid anchor, at 2.9% in July, between last month's 2.8% and May's 3.0%. Every instance of a comparable rise in near-term inflation expectations since 1990 was eventually countered by the maintenance of a much lower expected long-term inflation rate. While this suggests a well-anchored inflation rate, the factors that now underlie the recent surge in inflation are quite unique. A rising inflation in the months ahead may convince consumers that they underestimated its eventual rise, causing them to revise how high it will climb and how long the inflation runup will last.

Spontaneous references to high prices for homes, vehicles, and household durables rose to its highest level in more than a half century. These unfavorable perceptions of market prices reduced overall buying attitudes for vehicles and homes to their lowest point since 1982. Just 30% of all consumers cited favorable home buying conditions, the lowest level since September 1982; when asked to explain their bleak assessment, 71% mentioned high home price, the highest percentage ever recorded.

Inflation's impact on family budgets spread significantly in early July. Its negative impact spread from households with incomes in the lowest third (13%) to the middle third (17%), and from those over age 65 (16%) to those 45 to 64 (18%). The highest nominal income gains were expected by those under 45 (3.3%, down from 4.1% in June) and those with incomes in the top third (2.3%, down from 2.7%). As a result, just 20% expected inflation adjusted income gains in the year ahead.

The year-ahead outlook as well as the longer term prospects for the economy were both less positive in early July. For the year ahead, the proportion that anticipated good times in the economy as a whole fell to 49% from last month's 55%. Over the longer term, half of all consumers anticipated the reoccurrence of a downturn, between last month's 46% and last year's 54%. Just 39% of all consumers expected continuous good times in the economic as a whole over the next five years, between last month's 43% and last year's 34%. The national unemployment rate was expected to post additional declines by 51% of all consumers in early July; the decline from June's 56% largely moved into expecting an unchanged unemployment rate.

	July 2020	Aug 2020	Sept 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	April 2021	May 2021	June 2021	July Prelim
Index of Consumer Sentiment	72.5	74.1	80.4	81.8	76.9	80.7	79.0	76.8	84.9	88.3	82.9	85.5	80.8
Current Economic Conditions	82.8	82.9	87.8	85.9	87.0	90.0	86.7	86.2	93.0	97.2	89.4	88.6	84.5
Index of Consumer Expectations	65.9	68.5	75.6	79.2	70.5	74.6	74.0	70.7	79.7	82.7	78.8	83.5	78.4
Index Components													
Personal Finances—Current	108	108	113	113	111	114	109	110	112	126	120	117	117
Personal Finances—Expected	123	127	127	129	122	122	121	118	118	124	113	119	117
Economic Outlook—12 Months	60	65	83	88	75	76	87	83	108	115	110	119	109
Economic Outlook—5 Years	80	81	92	100	85	100	88	82	94	93	93	97	89
Buying Conditions—Durables	106	106	114	109	114	119	115	113	128	126	111	112	101