surveys of consumers
UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: July 2021 survey results July 30, 2021
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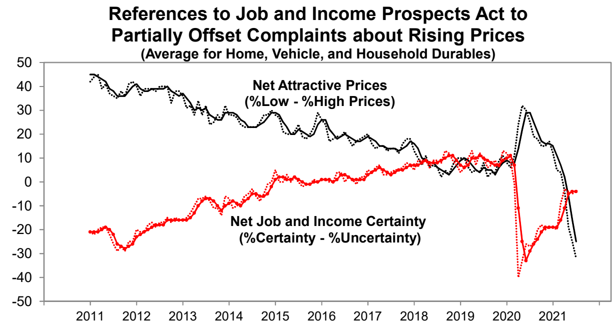
Consumer sentiment edged upward at the end of July, although it still posted a monthly decline of 5.0%. The largest monthly declines remained concentrated in the outlook for the national economy and complaints about high prices for homes, vehicles, and household durables. While most consumers still expect inflation to be transitory, there is growing evidence that an inflation storm is likely to develop on the not too distant horizon. The improved finances of consumers have greatly reduced consumers' resistance to price increases. While firms have reacted to their own supply and labor shortages with a greater readiness to increase prices as well as wages. Consumers and firms currently justify their actions as temporary adjustments due to the pandemic. However justified, such changes act to generate an upward spiral in prices and wages. Moreover, the fiscal and monetary policies already in place, and the likely increases and continued accommodation now contemplated, will only increase the willingness of consumers and firms to act in ways that accelerate the upward spiral in prices and wages. This reaction by consumers is unique, and quite different from the inflationary psychology of the 1970s. In that earlier era, the booms were driven by the willingness of consumers to advance their purchases in an attempt to avoid future price hikes, now the coming boom will be due to income and job gains that make price increases easier to manage, with the gains generated by federal transfers and physical and human infrastructure programs. The beneficial reduction in income inequality will shift more money to those who have higher propensities to spend, and thus energize demand. The booms will end in the same way as usual: rising prices will eventually outdistance wage gains, lowering living standards, and cause an economy-wide retrenchment in spending.



The expected year-ahead inflation rate was 4.7% in July, up from last month's 4.2% and May's 4.6%. The long-term expected inflation rate remains a solid anchor, at 2.8% in July, unchanged from June, and below May's 3.0%. Since 1990, every comparable rise in the year-ahead expected inflation rate was eventually reduced to align with the persistently lower expected long-term inflation rate. The pattern of spikes and retreats has been the lifelong experience of most consumers under age 50, so it is not surprising that they now anticipate the same well-anchored pattern to persist. There are policy risks based on the assumed threshold inflation needs to cross before it becomes unanchored by the past, and a new higher anchor emerges.

The most significant evidence against the development of an old-style inflationary psychology involves consumers' reactions to the stunning price gains of homes. Just 7% mentioned the advantage of buying a home before prices went any higher in the July survey: in the early era, this rationale for home buying rose to 46% at its peak in 1977. In contrast, 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 to their lowest point since 1982.

Inflation's impact on family budgets continued to grow in July, spreading from households with incomes in the lowest third (13%, up from last year's 9%) to the middle third (17%, up from 4%) and now to the highest third (10%, up from 4%), and from those over age 65 (17%, up from 11%) to those 45 to 64 (16%, up from 4%). The highest nominal income gains were expected by those under age 45 (4.4%, up last year's 2.9%) and those with incomes in the top third (2.8%, up from 1.9%).

Although twice as many consumers in July expected the economy to improve as worsen in the year ahead (45% versus 21%), the balance of opinion was much closer about whether they anticipated this would mean good or bad times in the overall economy (50% versus 41%). Moreover, when consumers were asked about the longer term prospects for the economy, the balance of opinion was negative, as a continuous expansion was judged less likely than another downturn (38% versus 50%).

	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 2021
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	81.2
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	79.0
Index Components													
Personal Finances—Current	108	108	113	113	111	114	109	110	112	126	120	117	116
Personal Finances—Expected	123	127	127	129	122	122	121	118	118	124	113	119	120
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	88
Buying Conditions—Durables	106	106	114	109	114	119	115	113	128	126	111	112	102