surveys of consumers UNIVERSITY OF MICHIGAN

Monitoring trends for over 70 years

Subject: September 2021 survey results October 1, 2021

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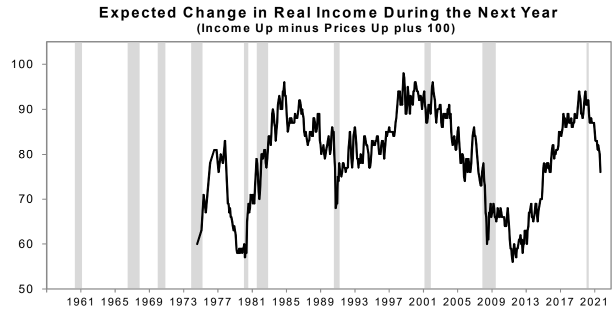
Consumer sentiment edged upward in late September, although the overall gain still meant the continuation of depressed optimism, initially sparked by the Delta variant and supported by a surge in inflation and unfavorable long-term prospects for the national economy. Consumers do not view economic conditions as conducive to establishing an inflationary psychology, a self-fulfilling prophecy. Instead, consumers have favored postponement due to what they still consider a transient spike in prices. While this reaction may well fade in the months ahead, the shift toward postponement of purchases has been so significant that it could not be quickly reversed. Indeed, favorable buying attitudes posted some small further declines due to complaints about prices for homes, vehicles, and durables, all of which were already near all-time lows. Even if transient, higher inflation has already decreased living standards, and further damage is anticipated as just 18% of all households anticipated income gains would be larger than the expected inflation rate (see the chart). While the decline in real income expectations has been tempered by more generous pandemic relief, the partisan wrangling over a debt extension of a few months is likely to only lengthen the period of uncertainty about federal policies.



The expected year-ahead inflation rate was 4.6% in September, unchanged from August, and well above last September's 2.6%. Inflation expectations have undergone distinct phases since the shutdown of the economy in April 2020. In the twelve months from May 2020 to April 2021, the year-ahead expected inflation rate ranged from 2.5% to 3.4%, with an average of 3.0%, indicating modest expected increases. Over the past five months, however, the expected year-ahead inflation has been significantly elevated, ranging from 4.2% to 4.7%, with an average of 4.5%. The recent spike in inflation expectations is still considered transitory given that consumers anticipate a much lower inflation rate over the next five years. In the September 2021 survey, consumers expected an annual inflation rate over the next five years of 3.0%, up from 2.9% last month and 2.7% one year ago. Indeed, the anchor has recently weighed more heavily given the wider gap between the average near and long term inflation rates from May to September (4.5% vs. 2.9%). Needless to say, another alternative for closing this gap is for significant future increases in the long-term expected inflation rate rather than transitory declines in the year-ahead rate.

Two characteristics that facilitated the rise in inflationary psychology a half century ago was the widespread belief in personal financial progress as well as the expectation of escalating inflation rates over the longer term. Neither of those conditions are now true. The proportion of households who expected to be better off financially in a year fell to 30% in September, the lowest level since August 2016, and favorable financial expectations over the next five years fell to 44% in September, the lowest level in seven years. Expected annual gains in household incomes were just 1.5% in September, well below the expected 4.6% inflation rate; even for those under 45, expected income gains (3.3%) were below the anticipated inflation rate. Real income gains were expected by just 18% of all households in September, the lowest reading since February 2015.

Given these developments, it should be no surprise that consumers viewed price increases on purchases of homes and vehicles as a reason for postponement. Positive views of buying conditions have plunged to half their level in the past year: favorable buying conditions for homes fell to just 32% in September, down from last year's 65%, with the most negative references ever recorded to net home prices in the current quarter. Favorable vehicle buying conditions fell to 30% from last year's 61%, with the number citing net prices the most negative since the original oil embargo in 1974. It should be noted that the record increases in negative price references for homes, vehicles, and durables started in May as did the step-up in inflation expectations. Market interest rates have recently risen and those increases are likely to add additional buying restraints.

	Sept 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	April 2021	May 2021	June 2021	July 2021	Aug 2021	Sept 2021
Index of Consumer Sentiment	80.4	81.8	76.9	80.7	79.0	76.8	84.9	88.3	82.9	85.5	81.2	70.3	72.8
Current Economic Conditions	87.8	85.9	87.0	90.0	86.7	86.2	93.0	97.2	89.4	88.6	84.5	78.5	80.1
Index of Consumer Expectations	75.6	79.2	70.5	74.6	74.0	70.7	79.7	82.7	78.8	83.5	79.0	65.1	68.1
Index Components													
Personal Finances—Current	113	113	111	114	109	110	112	126	120	117	116	109	116
Personal Finances—Expected	127	129	122	122	121	118	118	124	113	119	120	111	112
Economic Outlook—12 Months	83	88	75	76	87	83	108	115	110	119	109	74	84
Economic Outlook—5 Years	92	100	85	100	88	82	94	93	93	97	88	75	76
Buying Conditions—Durables	114	109	114	119	115	113	128	126	111	112	102	94	90