



Outlook for Consumers in the Wake of the Election

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Summary

1. Overall, consumers' expectations for economic prospects have improved considerably over the last 2 years, but stalled in recent months
2. Differences in risk factors across the income distribution
 - Outlook for incomes, wealth, debt delinquency
3. Many consumers concerned about a resurgence of inflation
4. Differences in views by political party are well publicized, but obscure main takeaways (see above)
 - Consumers disagree on the implications of anticipated policies + uncertainty

The big picture for consumer sentiment

Sentiment reached an **all-time low in 2022**, as inflation grew

CHART 1A: THE INDEX OF CONSUMER SENTIMENT

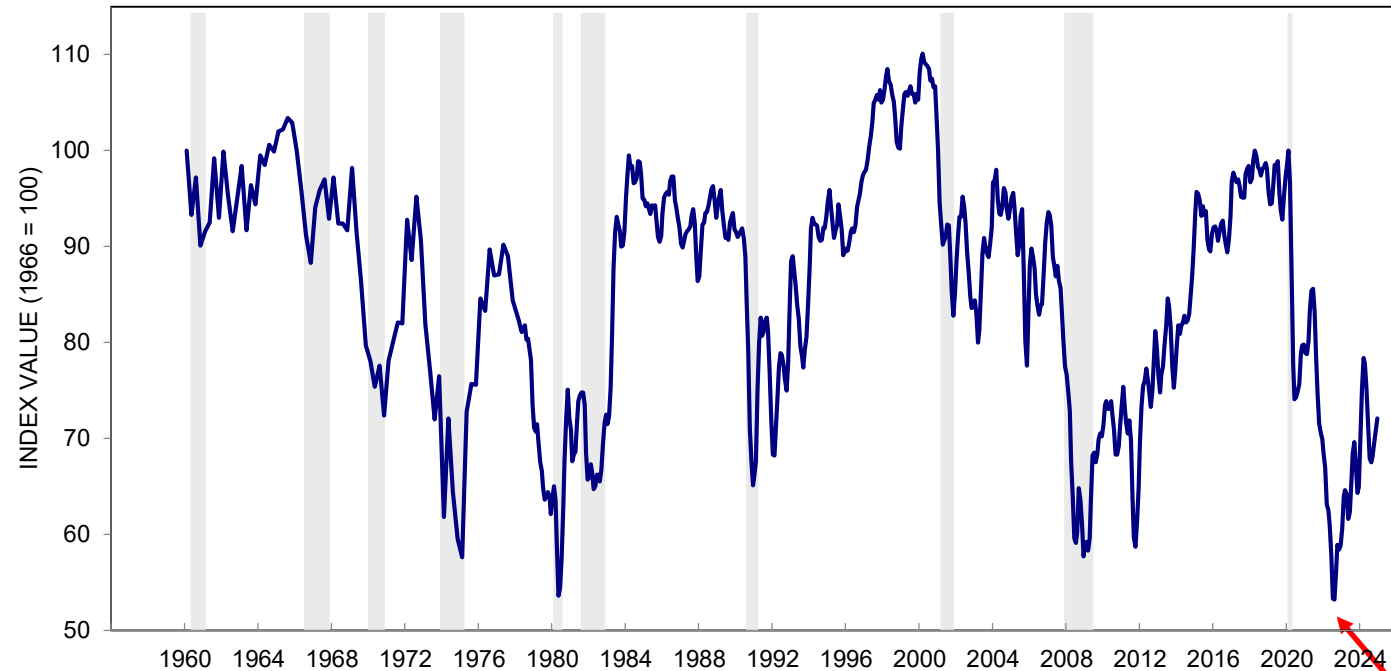
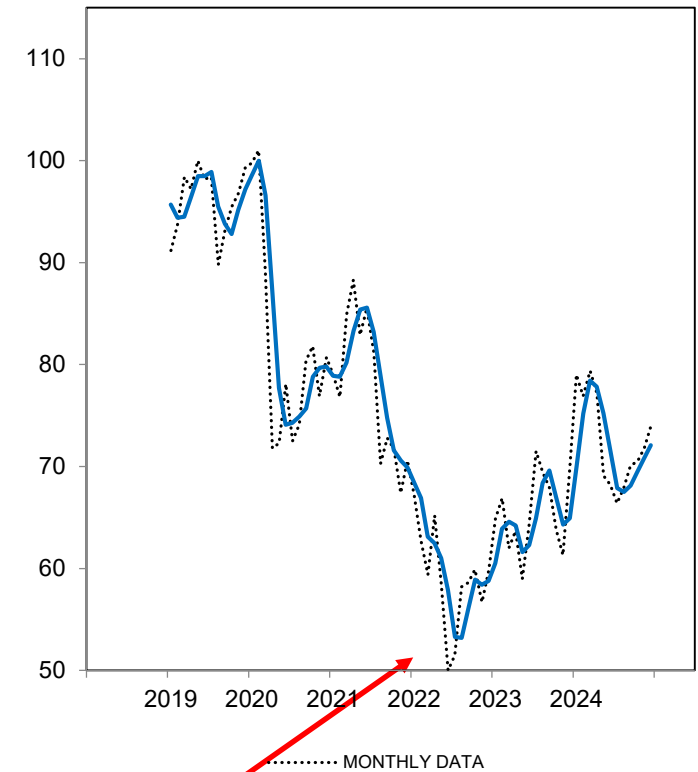


CHART 1A: THE INDEX OF CONSUMER SENTIMENT



Sentiment **lifted almost 50%** from its all-time low in 2022 as inflation softened

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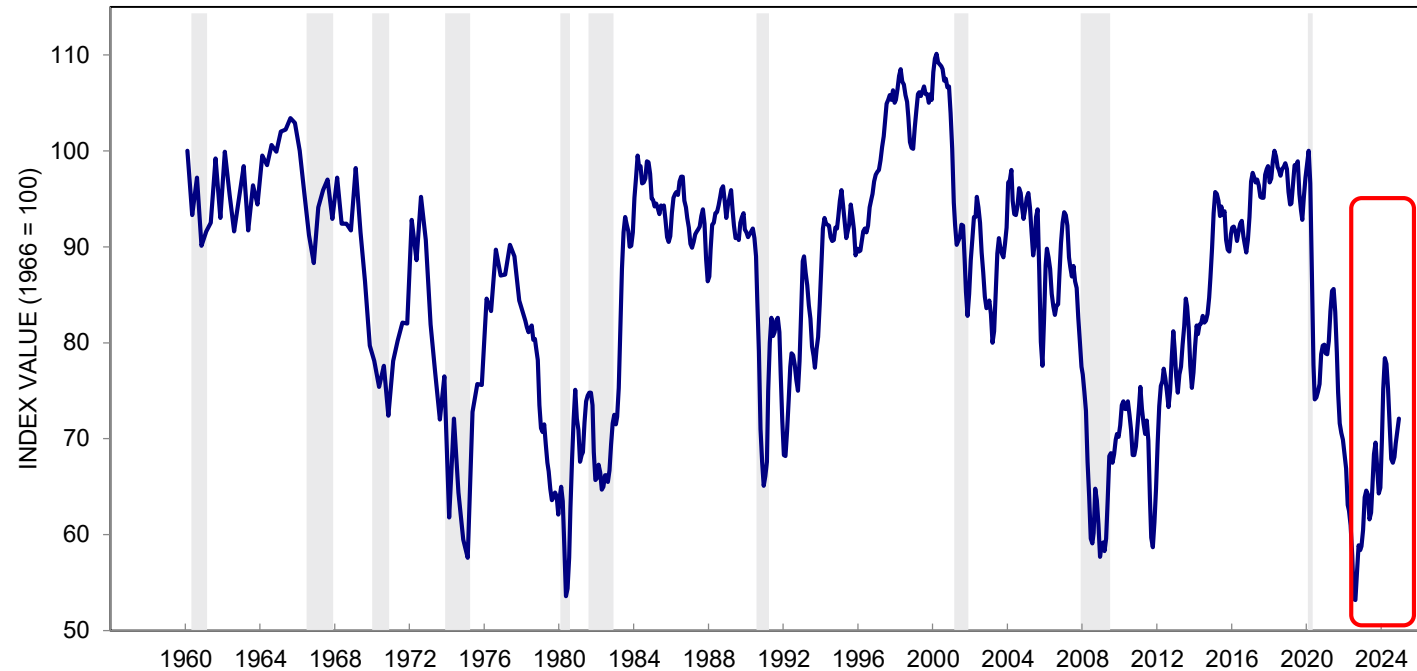
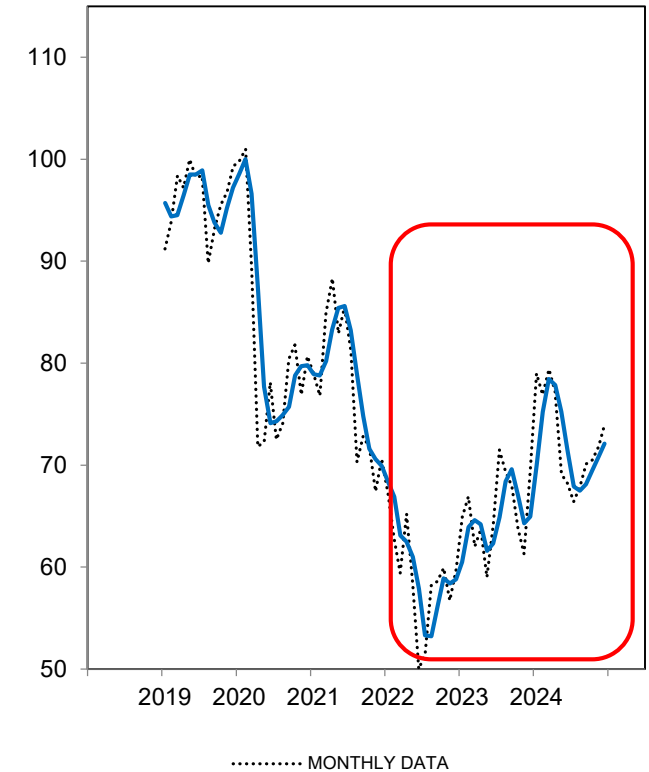
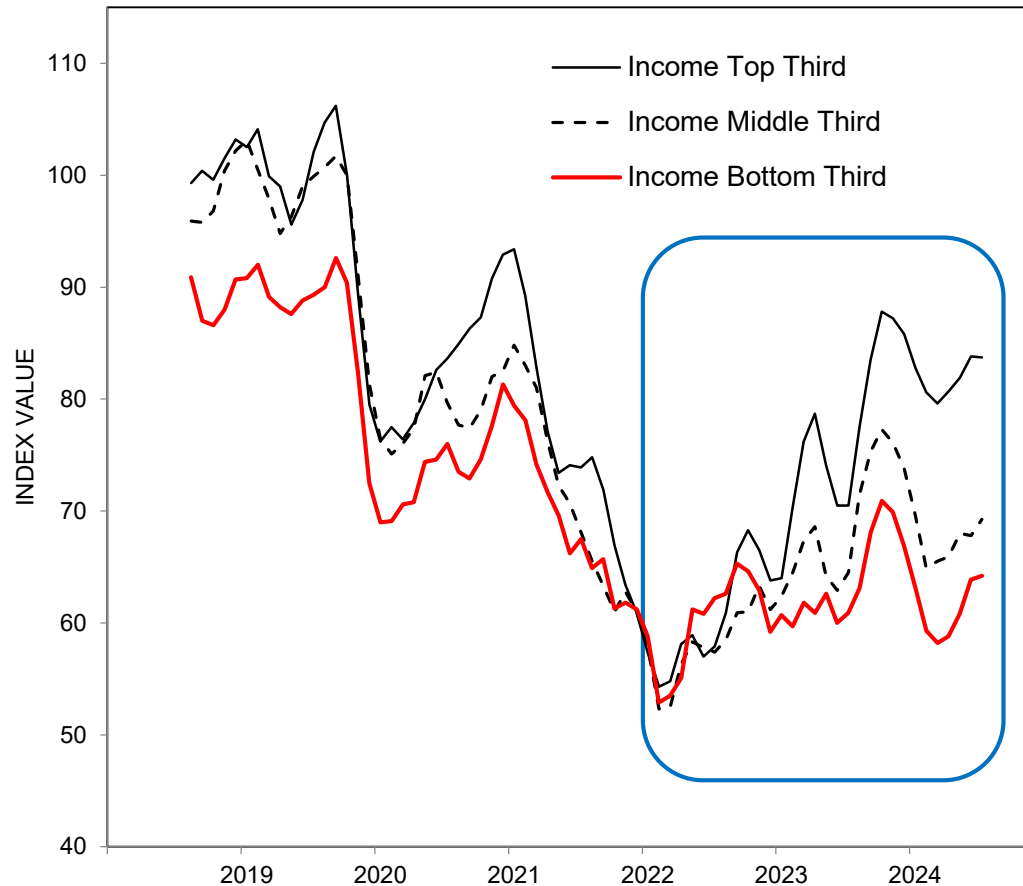


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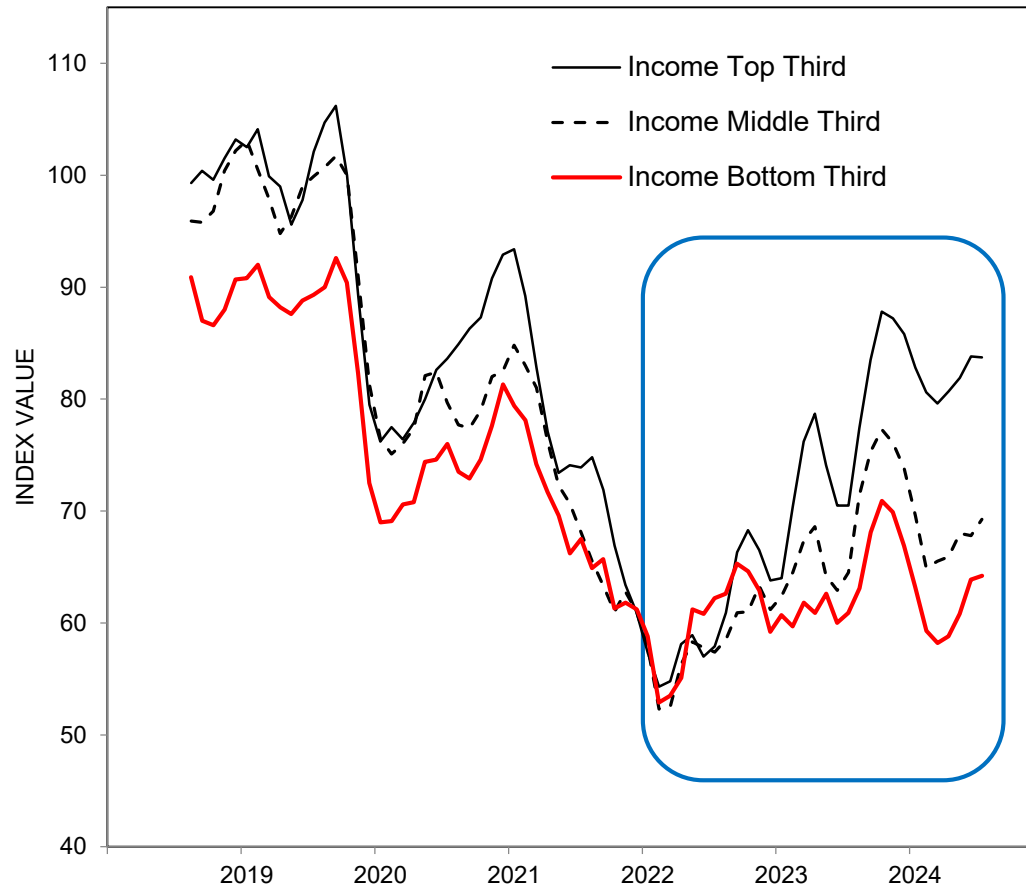
But this recovery has been uneven across the income distribution



Relative to June 2022, sentiment is up about:

- 70% for top tercile of income
- 40% for middle tercile
- **Only 20% for bottom tercile**
 - Despite gains in real wages, not lifted by surges in asset values enjoyed by wealthier consumers
 - Vulnerabilities emerging (debt delinquency)

But this recovery has been uneven across the income distribution



- Higher-income families generate the lion's share of aggregate consumer spending
- Vulnerabilities down the income distribution matter for many reasons, but lower impact on overall spending
- Strong labor markets have supported spending over last 2 years, despite pain of inflation

Even though inflation has cooled,
sentiment is still below average

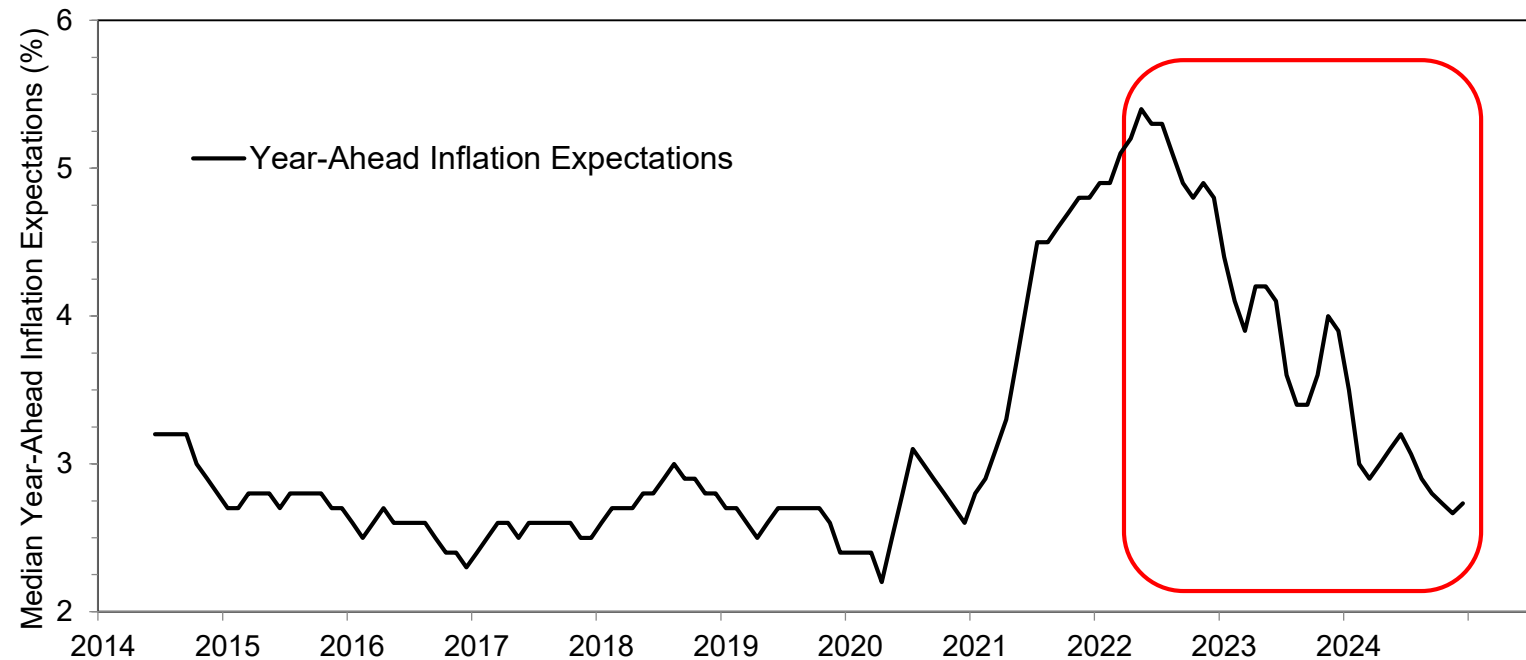
Have consumers lost touch with reality?

Consumers noticed the **slowdown in inflation** since mid-2022

Consumers broadly expect inflation to continue stabilizing

Inflation Expectations Soften Since 2022

(Three month moving averages)



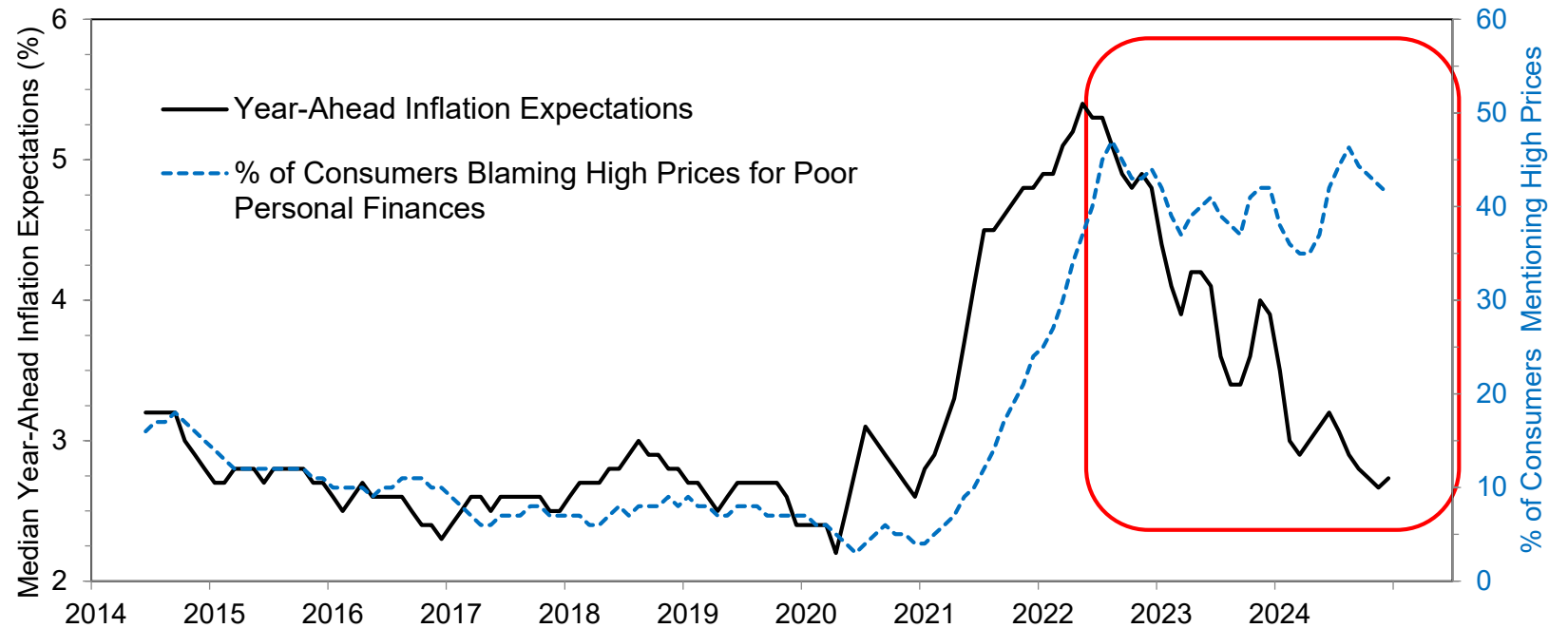
University of Michigan 2024

But consumers remain frustrated by prices that remain higher than pre-pandemic

Not a contradiction:

- noticed slowing inflation, but high prices still painful

Inflation Expectations Soften Since 2022 While High Price Concerns Persist
(Three month moving averages)



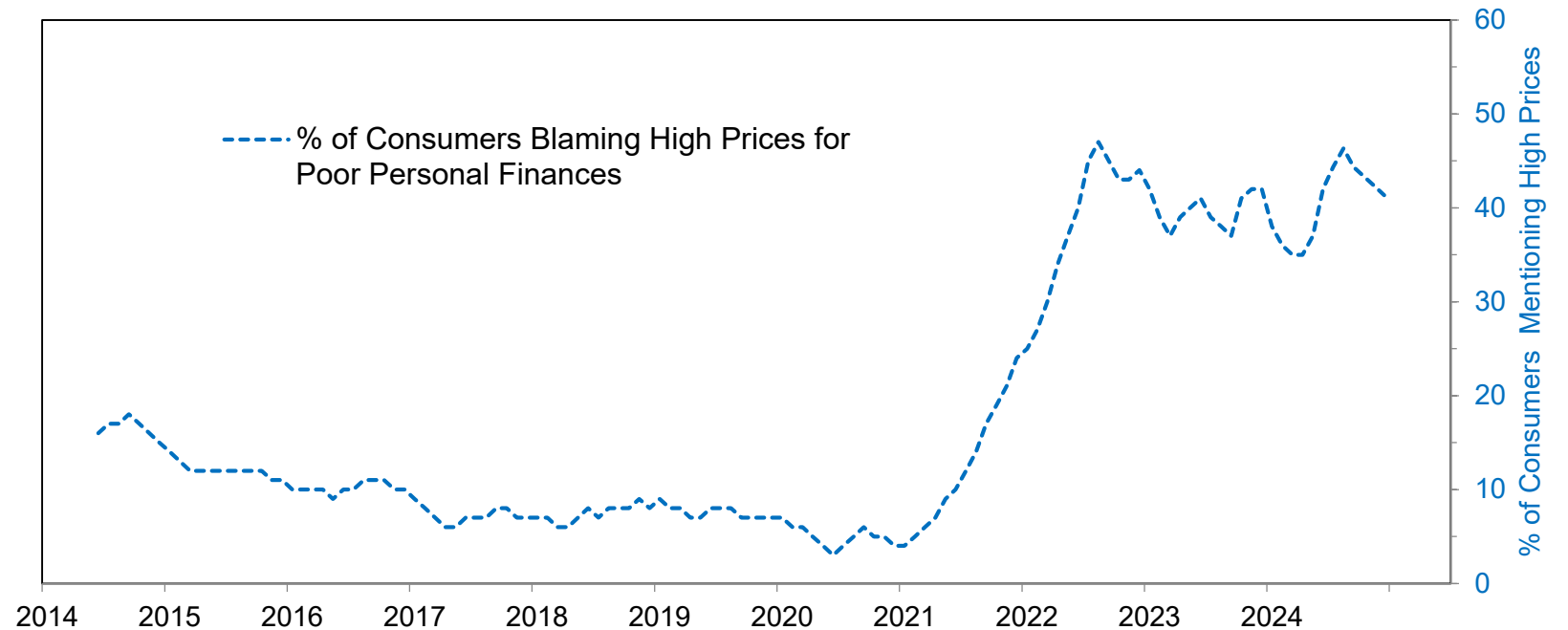
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Frustration over high prices weighing down personal finances cuts across income groups

Share of consumers blaming high prices for poor personal finances in Dec:

- 26% of higher-income consumers
- 41% of middle-income consumers
- 38% of lower-income consumers

Inflation Expectations Soften Since 2022 While High Price Concerns Persist
(Three month moving averages)



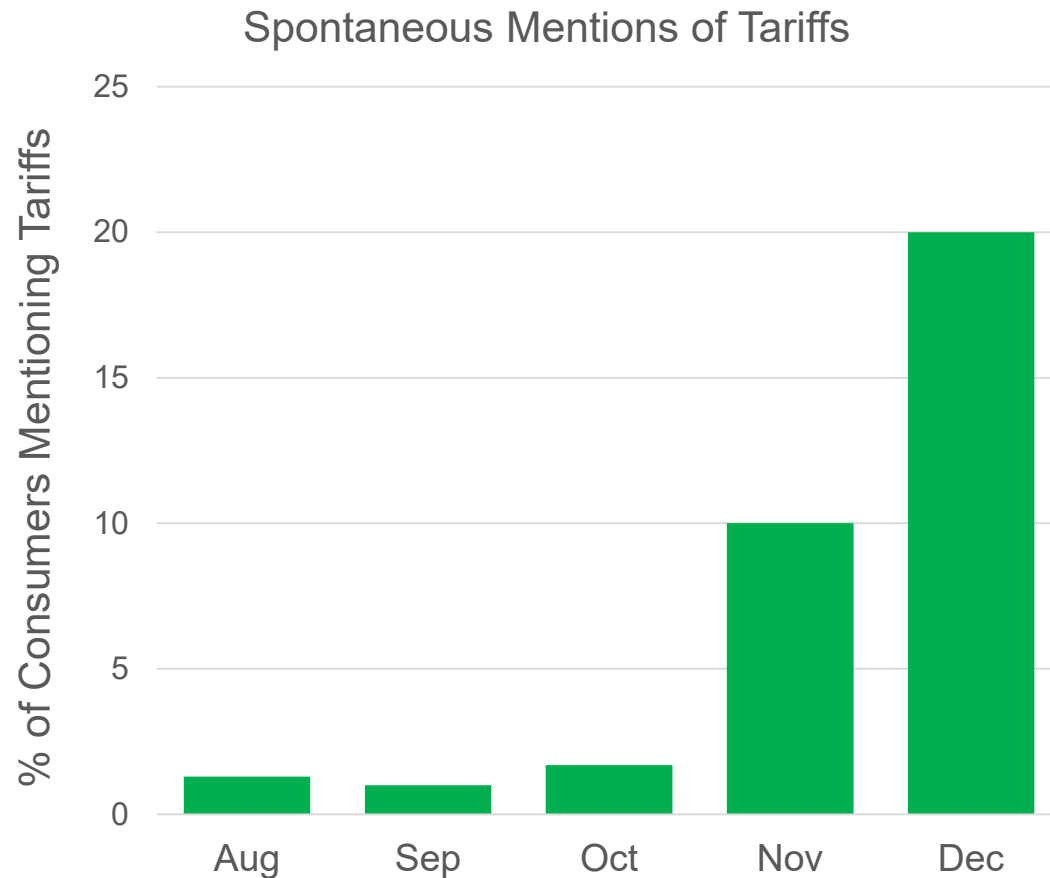
University of Michigan 2024

What upside and downside risks are faced by consumers?

Prices and inflation are top of mind for consumers

- Concerns about high prices waned in 2024, but what about 2025?
- Recent trends in inflation expectations (today's data)

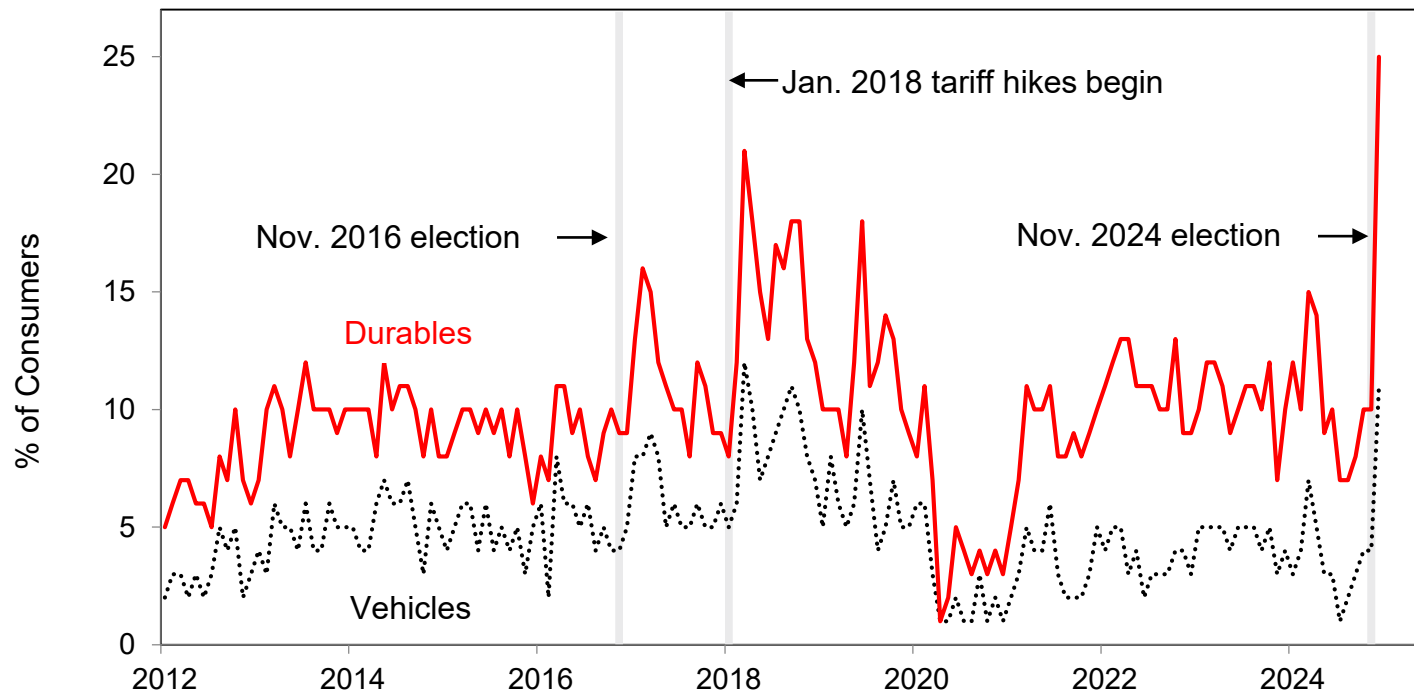
Policy changes under next president: consumers disagree on the implications for the economy



- Spontaneous mentions about tariffs surged after election
- Democrats: generally believe tariff hikes will lead to a resurgence in inflation
- Republicans: new policies will lead to slowdown in inflation
- Independents: split views

Substantial share of consumers concerned that prices of major purchases will rise: Risk of becoming self-fulfilling prophecy

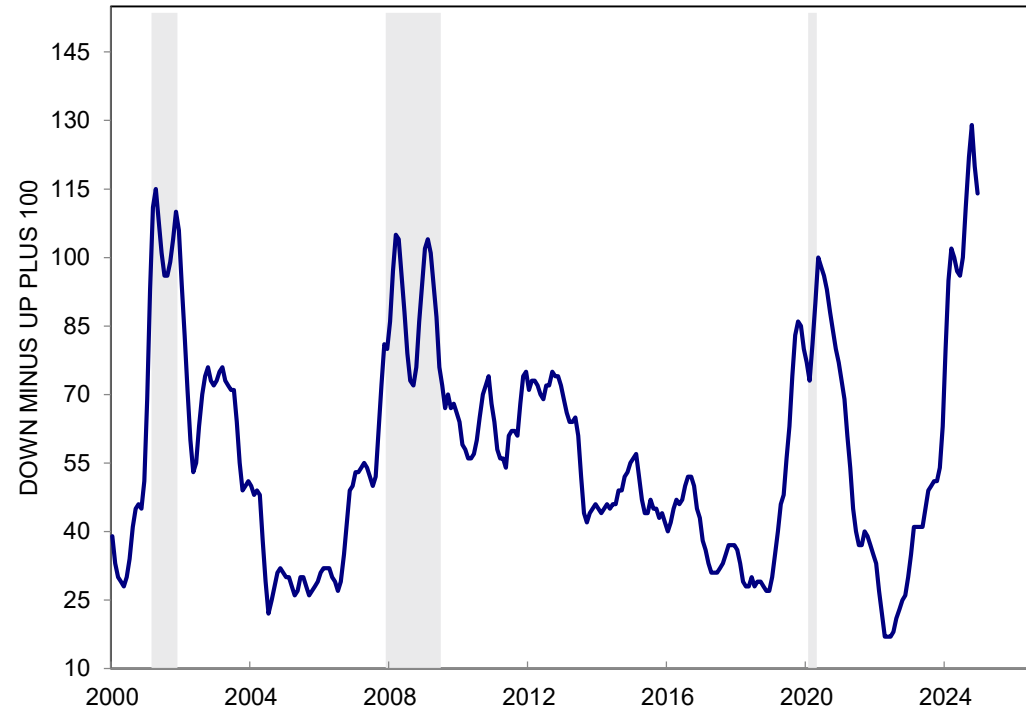
% Reporting Good Time to Buy Durables or Cars Because Prices Will Rise or Prices Won't Fall



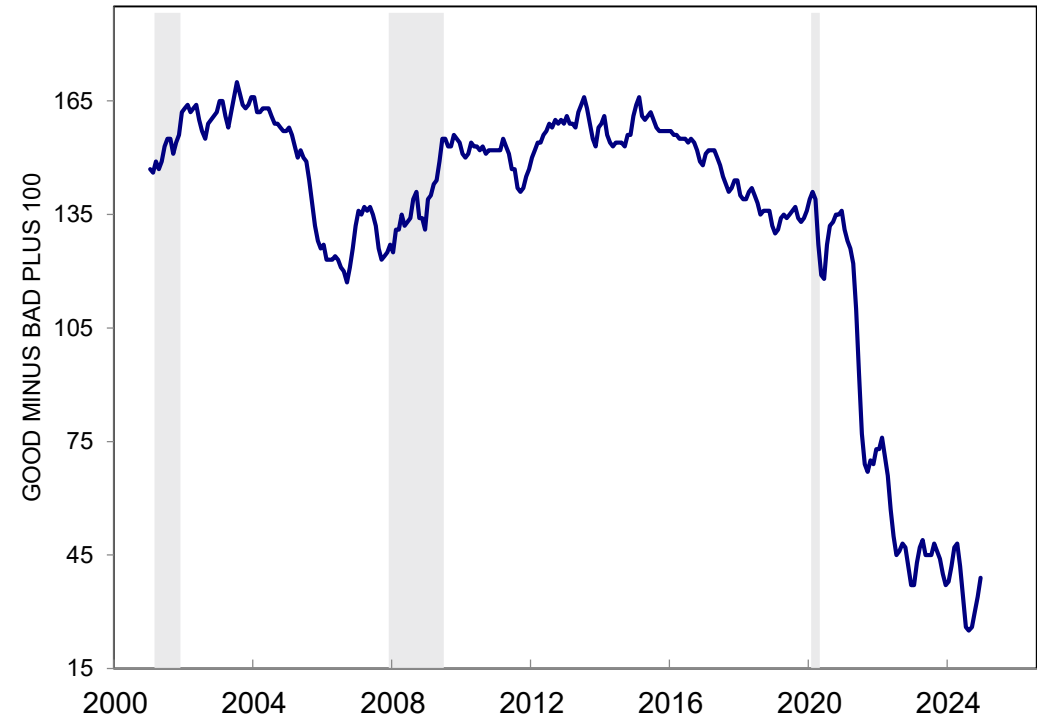
- Concerns about future prices of large purchases primarily Democrats and Independents
- Republicans generally believe now is a bad time to buy because of high *current* prices
- 2016 and 2020: Republicans also worried about durables inflation

Dec 2024: Fed signaled slower pace of interest rate cuts, prolonging pain to borrowers

Year-Ahead Expected Change in Interest Rates
(Higher index value indicates lower expected interest rates)



Home Buying Conditions Near Historic Lows Amid High Prices and Interest Rates



Robust consumer spending has been supported by strong labor markets

- Higher-income families further supported by wealth gains
 - Some sectors weakening; is this spreading?
- Lower-income families continue to be burdened by high prices
 - Income prospects perceived to be weaker
 - Signs of financial vulnerability
- Recent trends in labor market expectations (unemployment and income)
- Inflation vs unemployment

Where to find the Survey

- Most up to date headline data posted <http://www.sca.isr.umich.edu>
 - Links to data archive and analytical tools
 - Links to special reports, including
 - [Partisan Perceptions and Expectations](#)
 - [Presidential Election Expectations](#)
 - [Impact of Proposed Policies on Economy](#)
 - [Sources of Economic News and Information for Consumers](#)
- For questions or data inquiries, email umsurvey@umich.edu