

U.S. consumers expect inflation and their finances to worsen



The one-year expected change in the cost of petrol rebounded to 9.4 percent in October from 5.9 percent the month before, the New York Fed's monthly survey of consumer expectations found [File: David Zalubowski/AP]

New York, November 9 (RHC)-- When prices go up, it can feed expectations that they'll continue to climb and lead to a more dour outlook about the health of personal finances.

That cycle was on display on Monday in the Federal Reserve Bank of New York's latest monthly Survey of Consumer Expectations that showed Americans' median inflation expectations for the coming year

have hit an all-time high, while their perceptions about current and near-term households finances are worsening.

Shortages of raw materials and supply bottlenecks have fed inflation this year as economies around the world rebound from last year's pandemic blow. In the United States, consumers are shelling out more for most items, including essentials like food, rent, and gasoline, as well as for big-ticket items like cars.

The New York Fed survey found that median inflation expectations at the one-year horizon increased to 5.7 percent in October – marking a 0.4 percentage point jump from the previous month and a series high for records dating back to June 2013.

The October bump was also the 12th consecutive monthly increase and was most pronounced among respondents who have at least a college degree and for people between the ages of 40 and 60.

Expectations for higher prices in the year ahead covered all of the commodities considered in the survey, with the exception of medical care. Americans are bracing for steeper rents, with the median expected change in the cost of rent increasing by 0.4 percentage points to 10.1 percent in October- a new series high.

Pain at the pumps is also anticipated, with the one-year expected change in the cost of petrol rebounding to 9.4 percent in October from 5.9 percent the month before. Higher college and food costs are seen in the year ahead, with the median expectation for prices there jumping by 1.5 and 2.1 percentage points respectively to 7.4 percent and 9.1 percent in October.

Overall, median household spending growth expectations increased by 0.4 percentage points to a series high of 5.4 percent in October. But Americans also see households earning more, with the one-year-ahead expectations for household income growth increasing 0.3 percentage points to 3.3 percent in October – also a new series high. Americans also anticipate a stronger labour market and greater job security in the year ahead.

Still, when it comes to the health of household finances, more Americans say they are worse off now than compared to a year ago. And despite expectations for a stronger jobs market and fatter paycheques, they are still less optimistic about their household finances in the year ahead.

For its part, the Federal Reserve continues to insist that inflation will prove to be transitory, and eventually price pressures will ease. Last week, Fed Chairman Jerome Powell said he also sees no signs of a “wage-price” spiral taking hold, in which workers keep demanding raises in order to keep up with higher prices – setting off a vicious cycle.

The latest snapshot of the U.S. labor market showed that average hourly wages jumped 4.9 percent in October from the same period a year ago. Consumer prices meanwhile increased 5.4 percent in September from the year before. On Wednesday, the U.S. Department of Labor is due to release October's read on consumer price inflation.

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