

# ISR Research Update

UNIVERSITY OF MICHIGAN INSTITUTE FOR SOCIAL RESEARCH

## ISR Surveys of Consumers

Started in 1946, the U-M Surveys of Consumers focus on consumer attitudes and expectations about the U.S. economy. Over their long history, the Surveys have played a unique role in shaping public policies and business decisions. This influence is based on their demonstrated ability to provide an accurate gauge of consumer reactions to changes in the economic environment. One part of the Surveys—the index of consumer expectations—is an official component of the U.S. Index of Leading Economic Indicators. The project combines the traditional longer term goal of scholarly research and scientific advancement with the more immediate and practical goal of assessing potential changes in the macro economy. For more information, visit [www.umich.edu/~umsurvey](http://www.umich.edu/~umsurvey)

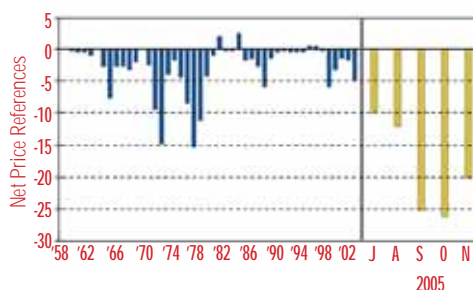


## INFLATION ANGST COLORS CONSUMER SPENDING OUTLOOK

A new form of inflation angst is driving how U.S. consumers view their future financial prospects, according to ISR economist Richard T. Curtin, who directs the monthly Surveys of Consumers. “When consumers were asked to describe in their own words what recent economic developments they had heard, more consumers mentioned rising prices in the fall of 2005 than ever before,” says Curtin. The proportion of consumers who cited inflation was greater than when the inflation rate was three times as high in the late 1970s.

This new anxiety about inflation isn't just a reflection of rising prices or

## News Heard About Net Increases in Prices



even of the inflation rate itself, Curtin maintains. “Consumers feel defenseless in an increasingly global economy that has exerted a growing influence on prices, wages, and employment in the domestic economy,” Curtin says.

Record indebtedness, a negative savings rate, rising interest rates and an emerging slowdown in real estate prices have limited the ability of consumers to respond to new economic challenges, and have contributed to the development of a new inflationary psychology.

“Consumers believe they have no choice but to adopt new coping behaviors, mainly by asserting their power to demand price discounts to avert declines in their living standards,” Curtin says. No longer able to pass along costs to consumers,

## Gasoline Expenditures as a Percent of Personal Disposable Income



firms have had to find new ways to lower costs or be forced to go out of business.

“These new strategies favor highly educated workers and favor companies that can quickly adapt to changing global economic conditions,” Curtin said. New and strengthened public policies are needed to promote a highly educated workforce and to reduce any inequities generated by the integration into the global economy.

For the complete text of Richard Curtin's address on the consumer outlook for 2006, delivered at the U-M Economic Outlook Conference, and published by the U-M Department of Economics, see [www.isr.umich.edu](http://www.isr.umich.edu).

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Number 1  
February 2006

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## Q&A with Richard T. Curtin

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**Q.** *What is the first question you ask people in the monthly survey, and why?*

**A.** The first question is designed to establish rapport with the survey participants and to communicate our interest in understanding their situation. The question is: "We're interested in how families are doing financially these days. Would you say that you are better off or worse off financially than a year ago? We then immediately ask the respondent to describe in their own words how their finances have changed. In this way we communicate our interest in their actual situation and not in fitting themselves in one of our answer boxes.

**Q.** *What makes the survey so accurate? How can ordinary people be right so often? Does it have something to do with the wisdom of the crowd?*

**A.** In a way. People have a self-interested motivation to hold accurate expectations about future changes in their personal finances. Of course there are a lot of variations in accuracy across people. As a group, however, the macro consumer is quite accurate in their forecasts of inflation and unemployment, for example. Consumers' forecasts of the year-ahead inflation rate have been shown to be as accurate as professional forecasters.

**Q.** *You've called the consumer "the elephant in the economy" because U.S. consumer spending accounts for three-quarters of total GDP spending. Is this true of consumer spending in other countries as well?*

**A.** Consumers account for the majority of spending in every developed economy around the world. The surveys are now replicated in more than 45 other countries, including nearly all European countries and the majority of the developed and developing Asian economies. In all these economies, consumer spending is the dominating force shaping trends in the economy.

**Q.** *Do you plan any changes in the way the indices are calculated to capture changes in the mood or circumstances of U.S. consumers?*

**A.** As the economy and people change so too does the content of the survey. The new global character of the economy as well as the aging of the population has been the focus of recent developments. These new sources of uncertainty about employment and the prospects for financial security in retirement are gradually changing the content of the surveys. People have also become more sophisticated and knowledgeable, so our questions have become more detailed and specific to their situation.

**Q.** *What drew you to this research program in the first place?*

**A.** I've always had an interest in economics and psychology, the elegance of macro theory and the need for psychological insights at the micro level. As an undergraduate I wrote a paper on the ideas of George Katona, the founder of the consumer surveys. One year later, when I arrived at Michigan for graduate school, I began working with Katona on the project. I became director of the project in 1976.