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Nearly Two-Thirds of Americans Are Bracing For Even Higher Prices

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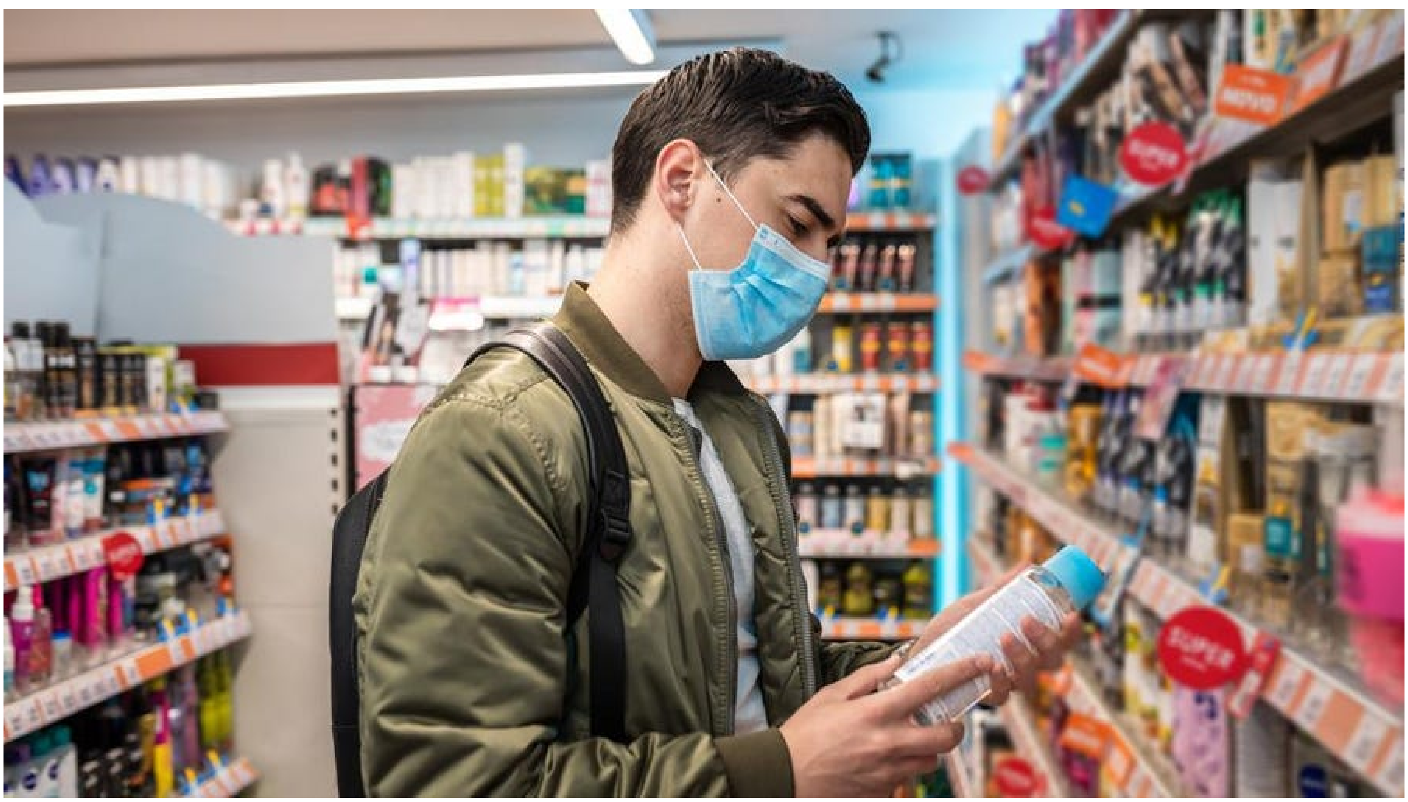

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Runaway inflation has become a gnawing problem for millions of consumers over the past year, and most Americans expect prices to climb higher in the year to come.

expect it to remain unchanged and just 8% who foresee a decline.

“Inflation is on the rise, and several factors, such as rental costs, auto purchases, food prices, wages, consumer goods and commodities were contributors,” says Tom Stringfellow, the chief investment strategist for Argent Trust.

Broad-based price increases were getting entrenched even before Russia invaded Ukraine one month ago, which put even more pressure on oil markets and pushed the average price of a gallon of gasoline to the highest nominal level in history (unadjusted for inflation).

In mid-March the Federal Reserve hiked interest rates for the first time since 2008, shifting to a more hawkish policy to get inflation under control. Fed officials say the rate increases should continue throughout 2022 and possibly into 2023.

Consumers are not particularly sanguine about inflation. While pay has been increasing in the U.S., it has not kept up with price increases, and supply shortages continue to bedevil shoppers and businesses alike.

Survey Finds Rapid Changes in Americans' Money Worries

Other results from the Forbes Advisor-Ipsos survey further illustrated the money worries plaguing the American consumer.

For instance, 58% of respondents believe their monthly bills and regular expenses will go up, which is 8 percentage points higher than the prior survey of Jan. 13. Meanwhile, just 18% think their household income will rise over the next year, a decline of five percentage points over the prior survey.

The Fed's moves to tighten monetary policy are driving mortgage rates higher, and that's starting to show up in the survey data.

earlier. Homeowners took advantage and refinanced their mortgages at record levels.

Those days are gone. With the 30-year rate now near 4.5%, Americans' expectations on the real estate market are shifting rapidly. Almost 60% of respondents thought mortgage rates would go up over the next year, a sizable increase of 13 points over the prior period.

Risks and Opportunities Abound

Mortgage rates are tied to 10-year Treasury yields, which are on the rise as investors leave the safety of government bonds for high-yielding investments.

Trouble is, higher mortgage rates and a lack of housing supply pose risks to U.S. economic growth, which has become a bigger worry now that the Fed is raising rates.

Another risk threatening the U.S. economic recovery and consumer confidence is the war in Ukraine, which has driven the price of oil higher and sparked real worries among economists about other European economies, which heavily depend on Russian energy. A European economic slowdown would be just one more unwelcome risk for American companies.

Some Fed observers believe that the Federal Reserve would have been more aggressive with its March interest rate hike had it not been for the uncertainty caused by Russia's invasion.

While these are only some of the risks floating around out there right now, you shouldn't get too pessimistic.

"Rising oil prices are unlikely to cause a recession as U.S. consumers have strong employment prospects, solid balance sheets and record levels of net worth," said Richard Saperstein, chief investment officer at New York City-based Treasury Partners.

The unemployment rate is currently at a very healthy 3.8% and there are about four million more job openings now than before the pandemic. Initial jobless claims are at its lowest levels since 1969.

Perhaps most importantly, Covid-19 cases have declined dramatically over the past two months, and states have removed almost all of the masking and social distancing requirements put in place to slow the spread of the pandemic.

Worries about another Covid variant aside, this means more Americans could begin returning to more normal spending patterns. Among other things, that means more spending on vacations, Though high inflation could put pressure on potential travelers, thereby causing them to trim their sails.

Consumer Confidence Somewhat Unchanged

Consumers' estimations of their financial lot haven't changed much over the past two weeks. The overall consumer confidence level seen in the most recent Forbes Advisor-Ipsos Consumer Confidence survey rose by one point to 53.5, which is roughly in line with where it's been during the pandemic. It's still 6.6 points below early March 2020 levels.

Two subcategories in the survey likewise revealed little change.

The current index, which gauges how people feel about their finances in the here–and–now, rests at 44.2, just 0.2 point higher than the last reading. Meanwhile, the jobs index held steady at 66.2.

More positive movement was found in the expectations and investment metrics, which dovetails with a rising stock market in recent weeks after a miserable start to the year.

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