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People carry scars that can long influence how they spend and save.



Marilyn Huang and her partner, Andy Huber, do yardwork themselves instead of hiring someone at their home in Doylestown, Pa. HANNAH YOON FOR WSJ

Inflation Has Cooled, but Americans Are Still Seething Over Prices

Psychological toll remains, despite wage increases that helped people keep pace

By Jon Kamp, Joe Pinsker and Aaron Zitner

The economy is humming. Inflation has cooled off. Americans are well-employed, getting raises and spending freely.

But—with an election in days—people still haven't gotten over how much higher prices are today than in 2020.

People find it unsettling that price tags don't look like they did before inflation took off during the pandemic, surging to the highest level in four decades. Even though the growth in prices has eased significantly, prices themselves aren't getting lower. *

“It's hard to adjust,” said Marilyn Huang, a 54-year-old engineer in Doylestown, Pa.

As with many Americans, Huang's pay has increased since 2020, and she and her partner continue to spend on travel and even dine out more than in the past. But the higher prices are aggravating. “You lived with these stable prices for all your life,” she said. “Mentally, it's hard.”

The couple took to trimming shrubs themselves because they couldn't stomach forking over \$1,000 to landscapers.

Huang said she paid less for yardwork on a significantly larger property before she moved in 2022, and the cost now feels unreasonably high.

Americans are grappling with dramatic price hikes that, for most, are unprecedented. In the latest surge, inflation peaked in mid-2022, with prices up more than 9% from a year earlier. In the years prior to the pandemic, inflation was unusually cool, and the last time it was a real problem was the 1970s and early '80s. That means most Americans weren't yet born or were children when worries

over prices were last omnipresent— along with disco balls and bell bottoms.

Inflation has slowed dramatically in the past two years, and it was down to 2.4% in September, according to the Labor Department. At the same time, employment and consumer spending have stayed strong, and wages have on average grown faster than prices.

Many economists and Federal Reserve policymakers consider the current economy to be in excellent shape. Cooling inflation has enabled the Fed to start lowering interest rates after raising them in 2022 and '23 to try to bring price increases under control.

Even so, people continue to face painfully high and sometimes rising prices for big-ticket items, including housing, cars, child care and insurance, which contributes to their sense of unease. Many are also struggling to keep pace with price hikes or have been forced to make painful adjustments to keep up. In a fresh sign of strain, a Fed report Wednesday noted some signs of Americans shifting toward cheaper purchases.

Others are simply irritated by having to pay much more for groceries, a deli sandwich or their morning coffee—even if their own pay hikes have made such items even more affordable than they were before the pandemic. Some in this camp feel the higher prices have devalued raises they worked hard to get.

Deep unease

Polling has reflected deep unease for months, despite the inflation figure's sharp improvement. The latest Wall Street Journal national survey, released Wednesday, shows about three-quarters of respondents believe costs for everyday goods and services outpaced household income in the past year.

In the Journal's survey in late August, 38% of voters said the cost of living was still rising and creating major financial strains for their families. It was the highest level since the Journal started asking the question in November 2021, when inflation was much higher.

The numbers present a challenge for Vice President Kamala Harris, as polls steadily show voters give former President Donald Trump higher economic marks. Even though many economists say Trump's policies would mean more inflation and higher deficits, periods of higher prices typically cast long shadows on incumbent parties.

Both campaigns understand the need to appeal to voters' continued sense of anger over prices. Trump has said he would push to end taxes on Social Security benefits and overtime pay, as well as to make car-loan interest tax-deductible. Harris has proposed offering \$25,000 in down-payment assistance for many first-time home buyers, a new Medicare benefit for inhome elderly care and measures against price gouging.

The mid-2022 inflation peak came after Covid-19 badly disrupted supply chains, and Americans, flush with savings from government stimulus programs, kept on spending. Russia's invasion of Ukraine also drove up oil and gas prices.

The Labor Department figures measure year-over-year change in consumer prices. The Federal Reserve's preferred measure, from the Commerce Department, tends to run cooler. It shows prices up 2.2% from a year earlier as of August.

Still, if there were five stages of inflation grief, Americans have yet to reach acceptance. *

For Jeannie Ricketts, the reminder comes when she shops for organic raspberries. She has a price stuck in her head from a few years ago: \$3.99 for a small package. Now, she sees them going for \$4.99 or more in her Austin, Texas, supermarket. She's opting instead for frozen berries when the fresh ones aren't on sale.

The 56-year-old, a state government attorney, said her pay raises have outpaced average price increases since 2020.

"It's really irrational to say you wouldn't just pay an extra dollar for raspberries," Ricketts said. "But when I get raspberries for \$3.99, I'm happier."

* The University of Michigan's Surveys of Consumers from late September and early October show Americans have significantly lowered their expectations for continued inflation. At the same time, 44% of those surveyed said high

prices were worsening their personal finances. This is near the 47% who said the same thing just after the 2022 inflation peak.

“Consumers know that inflation has slowed,” said Joanne Hsu, the Surveys director. “Their views of the economy are very much colored by the fact that they remain frustrated by high prices.”

Survey data show consumer sentiment has improved from its mid-2022 trough, but it remains well under where it was before the pandemic took off.

Cristian Cook in Leland, N.C., still feels frustration when grocery shopping. “When you get to the cash register, it’s like, wow, I didn’t really get a whole lot here and it’s still over \$100,” the 33-year-old phone and internet field technician said.

For Cook and many others, the reaction is about more than just sticker shock. His pay has increased about 8% in the past four years, less than average prices have. He and his wife used to take their 5-year-old daughter out each weekend for a restaurant meal and fun activity, like a trampoline park. Those outings are now monthly.

They live in one of the seven swing states likely to decide the November election. After voting for President Biden in 2020, Cook said he is undecided this year but was recently leaning toward Trump. At the same time, he said he is intrigued by Harris’s proposal to crack down on price gouging.

Surging prices were a mainstay of the 1970s and early ’80s, when inflation sometimes reached double digits. Paul Volcker, then a new Fed chairman, remarked in late 1979 that “an entire generation of young adults has grown up since the mid-1960s knowing only inflation, indeed an inflation that has seemed to accelerate inexorably.” That long-running surge meant an item that cost \$25 in December 1965 cost more than \$60 in December 1979.

Ulrike Malmendier, an economics and finance professor at the University of California, Berkeley’s Haas School of Business, has studied the way living through inflation and other economic turbulence affects people long afterward. This is even true for members of the Federal Reserve, whose views on inflation often appear linked to the times they lived through. Most models say that once problems like high inflation subside, people are expected to resume their prior behavior, Malmendier said. But her research shows people actually carry scars that can long influence how they spend and save.

“We are not robots,” she said.

A key question is how long those scars last, and there are limited examples to draw on for answers. During the 1970s and early ’80s bout, as Volcker described, people became somewhat conditioned to high inflation because it went on for so many years. The phase also ended with the U.S. plunging into a recession that led to high unemployment. *

This time, high inflation was intense but relatively brief, and came under control much faster than many people expected, Malmendier said. But the calm that preceded it meant the sudden surge upended peoples’ expectations.

“There was this long period of stability before, people were totally anchored on that,” she said. “Their world was shaken.”

‘Just do something’

Polling shows that voters are eager for ideas they think might reduce the cost of living. In the Journal’s August survey, more than 80% of voters supported Trump’s call for ending taxes on Social Security benefits and Harris’s plan to cap insulin prices. More than 70% backed her plans to cap out-of-pocket drug costs and to penalize price-gougers, as well as both candidates’ idea of ending taxes on tips for service workers.

Still, what many voters seem to want is prices to go back to where they were. That is deflation, the opposite of inflation, and economists say it generally only happens when the economy is deeply depressed.

“The electorate desires an objectively bad economic outcome, which is deflation,” said Evan Roth Smith, lead pollster at Blueprint, a Democratic--aligned polling and strategy firm. *

Smith said the candidates know they have to make a strong appeal on prices, regardless of whether those appeals make economic sense. “The message from voters is: ‘Just do something. Show me that you’re going to do something,’” he said. “There is such a strong bias among voters toward action, so long as the action doesn’t sound on its face deranged.”

Peoples’ sour views of inflation are fed in part by a belief that their wages aren’t keeping pace, according to Stefanie Stantcheva, an economics professor at Harvard University. She surveyed people early this year to explore the public’s inflation views.

She also found that even when people receive wage increases during times of inflation, they tend to peg increases to their job performance or career advancement, and not a cost-of-living increase. “This contributes to the dislike of inflation and the feeling that it erodes your living standards,” Stantcheva said.

Jose Koenig, a 57-year-old software engineer in Milwaukee, said he is frustrated that price hikes have eaten away at a 16% pay increase he worked for through a year-long certificate program. “I’m losing the battle here,” he said.

Inflation also raises feelings of inequity, Stantcheva has found, due to a perception that high-income people see faster wage increases to offset the high prices. Since the start of the pandemic, wages for lower-income earners have actually tended to grow faster, and are outpacing inflation by more than wages for higher-income earners, economic analyses of Labor Department employment data have found.

Stantcheva emphasized these findings don’t mean people’s feelings are off base, and she said inflation is measured in a broad way that can miss many subtleties. Different people buy different things, exposing them to different price changes. Her survey work shows news reports of inflation are especially likely to set off despair, stress or fear among low-income people.

Her surveys also found people estimated inflation in the prior 12 months to be higher than it actually was, while also finding people predicted higher inflation than the U.S. has seen this year.

“I do think this experience can leave a lasting mark for a while,” Stantcheva said. “How long? That’s very tough to say.”

Americans are at the same time grappling with intense political divisions. This partisan bias affects views, but unevenly, according to Ryan Cummings, a visiting Ph.D. student, and Neale Mahoney, an economics professor, at Stanford University.

Analyzing the University of Michigan consumer sentiment data, they found last year that Republican views in particular will swing based on who is in charge. They estimated this effect—in this case, Republicans “boo louder” because Democrats are in control—accounted for about 30% of the gap they saw between actual consumer sentiment and where economic fundamentals predicted it should be.

—Justin Lahart contributed to this article.

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