

Consumers Still Spending Amid Inflation - Consumer Behavior

Consumer sentiment and spending have remained fairly consistent in recent months. Despite a dip in summer 2022, current consumer sentiment is at a similar level to its values before elevated inflation levels evolved. Inflation has steadily decreased for the past 11 months and reached 4% in May 2023, its lowest level since March 2021. Consumers' inflation expectations have mellowed accordingly, dropping to a year-ahead expectation of 3.3% inflation as of June 2023. Consumers have not seen year-ahead prices rising this slowly since March 2021.

Despite a slowing economy, consumer spending and outlooks have remained resilient. Business investment and pullbacks in inventories have slowed growth, with investor sentiment remaining quite fragile. This has resulted in two consecutive quarterly decreases in GDP following the previous two-quarters of negative GDP growth.

Data such as this is extremely important to the Fed, which monitors spending and how it affects inflation. However, with aggressive monetary policies in place, deflationary pressures may also continue to grow, potentially negatively impacting asset prices.

Sources: University of Michigan, Bureau of Economic Analysis, Federal Reserve Bank of the U.S.

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