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A Communication: Inflation and the Consumer

THE STUDY BY F. Thomas Juster and Paul Wachtel in an earlier issue of *Brookings Papers on Economic Activity*[1] provides a most useful confirmation of considerations about consumers' reactions to inflation presented by this writer over many years. Juster and Wachtel make extensive use of data collected by the Survey Research Center's quarterly surveys of changes in consumer attitudes and expectations. The appendix to the article presents two tables on data used, both of which contain adjusted data. The discussion of the paper indicates that the readers have received a misleading impression about survey findings during the last few years. Therefore, some of the original survey data are reproduced in this communication.

Table B-2 (page 112) presents the changes in the center's index of consumer sentiment as "filtered" by Juster, who introduced a considerable lag. The unadjusted index, as presented in Table 1 below and as used by the center for the purpose of predicting discretionary expenditures, shows different movements. This is the case regarding the time when the recession of 1970 was first predicted (May and August 1969, and not November 1969 as indicated in Table B-2) as well as for the winter of 1971–72.

In Table B-3 (page 113) Juster and Wachtel present an index of expected price change derived from the center's data on consumers' price expectations. They conclude from the table that "the current inflation is largely

1. "Inflation and the Consumer," *Brookings Papers on Economic Activity* (1:1972), pp. 71–114.

unanticipated"; in the discussion the data were called implausible. In Table 2 below I reproduce the data obtained from "informed consumers" by presenting the information received from that large part of the representative sample that was asked the question about the extent of expected price increases. The rate of anticipated price increases rose in 1969 and in 1970 (and, according to numerous indications, was much higher in those

Table 1. Changes in the Index of Consumer Sentiment, 1968–72
Percentage points

	Quarter			
Year	*First*	*Second*	*Third*	*Fourth*
1968	2.1	−2.6	0.5	−0.8
1969	3.0	−3.5	−5.2	−6.7
1970	−1.6	−2.7	1.7	−1.7
1971	2.8	3.4	0.8	−0.2
1972	5.3	3.8	4.7	n.a.

Sources: University of Michigan, Survey Research Center, ***Survey of Consumer Finances***, relevant issues. The sampling error of change in the index is 1.3 percentage points (one standard error). In the third quarter of 1971 consumers' evaluation of buying conditions for automobiles improved sharply; this improvement is not reflected in the index.
n.a. Not available.

Table 2. Mean Rate of Expected Price Changes, 1968–72
Percent

	Quarter			
Year	*First*	*Second*	*Third*	*Fourth*
1968	n.a.	3.87	4.07	3.77
1969	3.87	4.33	4.50	3.82
1970	4.67	5.01	4.29	4.64
1971	4.58	4.25	4.31	4.23
1972	4.25	4.10	4.14	n.a.

Sources: University of Michigan, Survey Research Center, ***Survey of Consumer Finances***, relevant issues. The question asked in the surveys was, "Talking about prices in general . . . how large a price increase do you expect? Of course nobody can know for sure, but would you say that a year from now prices would be about 1 or 2 percent higher, or 5 percent, or closer to 10 percent higher than now, or what?" Midpoints of brackets mentioned by respondents were used, while "10 percent or more" answers were taken to imply an average increase of 12½ percent. Answers such as, "I can't say how much prices will go up," were taken to denote average price increases. The tabulation is restricted to that large part of the representative sample that was asked the question, while Table B-3 of Juster and Wachtel is based on an extrapolation to the entire sample, including those who said that they did not know about price trends and were not asked the question about the extent of expected price increases.
In addition to the data collected on general price expectations, information was also obtained on respondents' complaints about auto prices. Respondents are asked in each survey whether or not it is a good or bad time to buy a car and also why they say whatever they do. The proportion mentioning high or rising prices in order to explain why it is a bad time to buy a car was, on the average, 16 percent in 1968 and the first half of 1969; 26 percent between July 1969 and June 1971; and 18 percent in the five quarters beginning with the third quarter of 1971.
n.a. Not available.

years than in the early and middle 1960s). In 1969–70 consumers did expect inflation, although on the average not to the full extent to which it actually occurred. Consumers' price expectations remained fairly conservative even in those years, although complaints about inflation increased greatly. The data presented in this communication cast doubt on conclusions about differences in the outcome of anticipated and unanticipated inflation but do not alter the major result of the study by Juster and Wachtel: In periods of accelerating inflation, consumers have reduced some forms of their expenditures and increased the amounts saved.