

Inflation Has Cooled, but Americans Are Still Seething Over Prices

Many people—though not all—saw wage increases that kept pace with the pandemic's rapid price hikes, but the psychological toll remains

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

But—with an election in less than two weeks—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."



Huang and her partner, Andy Huber, did yardwork at their home. PHOTO: HANNAH YOON FOR WSJ

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



Existing homes and those under construction in Tucson, Ariz., last month. PHOTO: REBECCA NOBLE/BLOOMBERG NEWS

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.

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. An additional 26% in the August survey said inflation was causing minor strains.

The numbers present a challenge for Vice President Kamala Harris, as polls, including the Journal's latest, also 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.



A Giant grocery store in Warrington, Pa. PHOTO: HANNAH YOON FOR WSJ

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 in-home elderly care and said she would investigate and punish grocery and food companies that engage in price gouging.

Reminders at the grocery store

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 the year-over-year change in consumer prices. The Federal Reserve's preferred inflation measure, from the Commerce Department, tends to run cooler. This shows prices up 2.2% from a year earlier as of August, and economists expect figures due later this month will show further moderation in September.

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



Jeannie Ricketts, of Austin, Texas, has noticed higher prices for raspberries in grocery stores. PHOTO: JEANNIE RICKETTS

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 talks with his family after a pancake breakfast at their home in Leland, N.C. PHOTO: MADELINE GRAY FOR WSJ

Cristian Cook in Leland, N.C., still feels frustration during every grocery shopping trip. "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.



Cook said his pay hasn't kept up with price increases and that the family has cut back on some expenditures. PHOTO: MADELINE GRAY FOR WSJ

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.

'Just do something'

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.

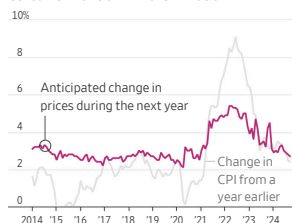
"There was this long period of stability before, people were totally anchored on that," she said. "Their world was shaken."

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.

Consumer views of 12-month inflation



High prices' impact on economic views



Sources: University of Michigan (consumer expectations and sentiment) and Labor Department (change in CPI)

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.

Feelings of inequity

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.

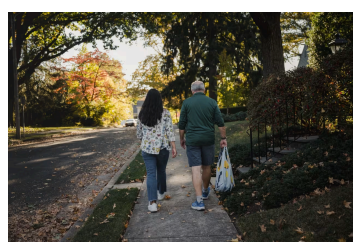
"I do think this experience can leave a lasting mark for a while," Stantcheva said. "How long? That's very tough to say."

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.

Cummings and Ernie Tedeschi, a former Biden administration economist who is now at Yale University's Budget Lab, argue in a new research note that a methodology change this spring has depressed the Michigan consumer sentiment readings. Hsu, the director, acknowledged the transition had some effect but said it hasn't made the results less accurate, and said sentiment readings either way would show still-dour views.

In the Journal's new national survey, which was conducted Oct. 19-22, Trump led Harris by 12 points on the question of who could best steer the economy and by 8 points on handling inflation. Yet the survey found only a 2-point lead for Trump when voters were asked their choice for president—well within the poll's margin of error.



Huang and Huber walked in their Doylestown neighborhood. PHOTO: HANNAH YOON FOR WSJ

The poll suggested that one reason Trump isn't benefiting more from his image as the better economic manager is that voters have a multifaceted view of economic leadership.

For example, Trump held a narrow lead when voters were asked which candidate could best stand up for American workers, but Harris had a narrow advantage when they were asked who would best stand up for the middle class. When it came to Social Security and Medicare, voters saw Harris as the better manager.

Another reason the candidates are deadlocked is that while voters feel the economy is important, for some, other issues take higher priority.

Huang, the engineer in Pennsylvania, said she already cast her ballot for Trump, and that her top concerns as a voter include foreign policy and rising partisanship. Koenig, the Milwaukee software engineer, said abortion access, affordable housing and threats to democracy motivated his early vote for Harris.

Inflation is a top political concern for Karen and Jeff Harvey in Erie, Pa. They voted early for Trump, believing he will better manage the economy and even wrestle down prices a bit.

Jeff, 55, lost his job at a boat-supply store in September, and Karen, 62, took a pay cut when the car-service store she manages dialed back some operations. But even before then, they were fed up with rising food, power and auto-insurance costs.

"It's extremely painful, because I know what things used to be," Karen said.

—Justin Lahart contributed to this article.

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