



TEXAS TRENDS 2022

Inflation Expectations



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Executive Summary

In the lead-up to the 2022 midterm elections, the University of Houston's Hobby School of Public Affairs and the Texas Southern University's Barbara Jordan-Mickey Leland School of Public Affairs initiated the "Texas Trends" a series of survey analysis to understand Texans' attitudes, preferences, and expectation for the election and beyond. In the first survey of the series, which was fielded between December 22, 2021, and March 2, 2022, we asked about respondents' expectations on inflation, among many other topics. The survey included a representative sample of Texas residents. In total, 2,140 respondents aged 18 and older completed our survey. In this report, we analyze Texans' expectations towards inflation.

As a summary of the report, we would like to emphasize the following findings:

- On average, Texans expect an 8.6% of inflation for the next twelve months.
- 45.6% of Texans think that in the next 5 to 10 years inflation rate will increase. Only 22.8% think that it will decrease during the same period.
- Only 12.9% of Texans think that their income will grow faster than inflation in the following year. This result suggests that most Texans expect that their real income, in terms of purchasing power, will fall over the year.
- Lower-income households have higher inflation expectations than higher-income households, likely influenced by the recent evolution of food and energy prices.
- Respondents who favor Greg Abbott (incumbent and Republican party candidate) for the governor position expect a higher level of inflation in the next 12 months, whereas respondents favoring Beto O'Rourke (Democratic party candidate) are more optimistic about the future inflation.
- Irrespective of partisan alignment (Democratic or Republican) or preferences for the upcoming Texas gubernatorial election, respondents expect higher inflation in the energy and food sectors.

Introduction

Inflation is defined as a general increase in prices, which translates as a decline in purchasing power over time. Over the 12 months from June 2021 to June 2022, the Consumer Price Index (CPI) for All Urban Consumers increased by 9.1% – the most significant 12-month increase since 1981. While inflation affects everyone, an increase in the general price level typically leads to the decline of purchase power across groups varies depending on several economic factors. The impact of inflation on lower-income households, for instance, is stronger than for other groups in the population. Additionally, perceptions about government management of the economy are becoming increasingly polarized: political views and partisanship can also affect what level of inflation people expect.

This report analyzes the inflation expectations of Texans in the second half of 2022. The results are based on a survey conducted in the State of Texas by the Hobby School of Public Affairs from the University of Houston and the Barbara Jordan Mickey Leland School of Public Affairs from the Texas Southern University. The survey was fielded between August 11 and August 29, 2022. It documents Texans' inflation expectations for the next 12 months. The survey was conducted in English and Spanish, with 2,140 respondents 18 years of age and older; the margin of error of +/-2.1. The respondents were matched to a sampling frame on gender, age, race and ethnicity, and education, and are representative of the Texas adult population.

This report is divided into three sections. First, we describe the [expectations for the different types of inflation among Texans for the next 12 months](#). In the second section of the report, we look at [how those expectations vary by income level](#). Consistent with previous studies, we find that lower-income respondents expect higher inflation than wealthier respondents. The last section addresses the [differences in inflation expectation by party identification](#). Our data shows that Texans who identify as Republican have a more pessimistic view of future inflation compared to Democratic voters, and on average, expect a higher level of inflation in the next 12 months. Additionally, the respondents who favor Greg Abbott, incumbent and Republican party candidate for the governor position, expect a higher level of inflation in the next 12 months, whereas the respondents favoring Beto O'Rourke, the Democratic party candidate for the governorship, are more optimistic about the future inflation. Irrespective of partisan alignment or vote preferences respondents expect higher inflation in the energy and food sectors.

Inflation Expectations in Texas

What is going to be the level of inflation twelve months from now? Although we cannot give a definitive answer to that question, we can tell the reader what Texans think about it. We asked the previous question to 2,240 Texans. Specifically, respondents were asked about the expected level of four different types of inflation: *general*, *food*, *energy*, and *other items* inflation. Figure 1.1 shows the results. On average, respondents expect that the general inflation for the next 12 months will be 8.6%. When asked about their expectation of the specific types of inflation, respondents replied 9.0% for *food inflation*, 9.3% for *energy*, and for *other items inflation*, 8.6%.

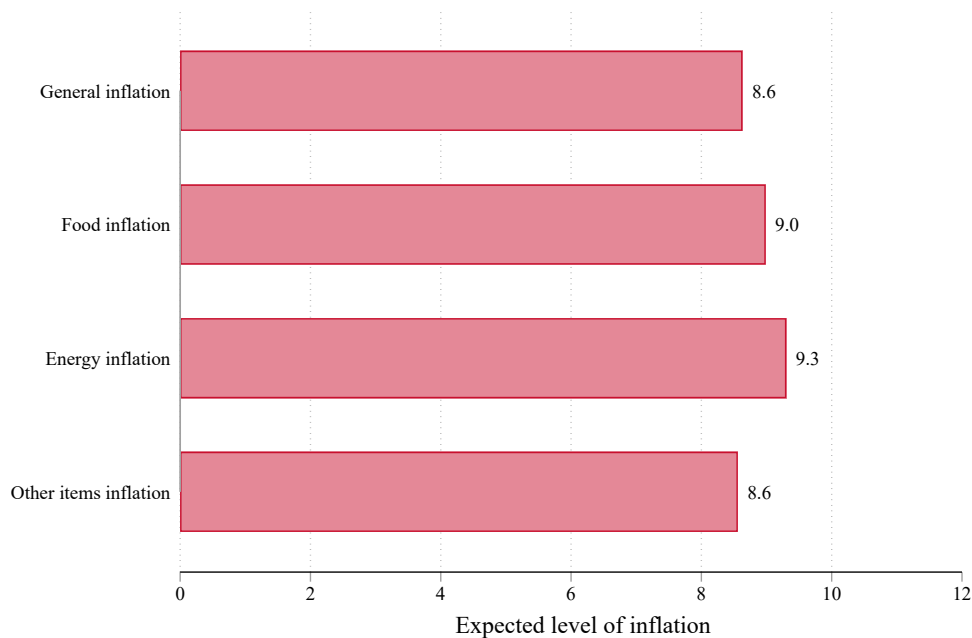


Figure 1.1: Expectations by type of inflation: What is your expected level of inflation 12 months from now?

Figure 1.2 shows the respondents' inflation outlook distribution. In particular, respondents were asked *What about the outlook for the inflation rate in the next 5 to 10 years from now? Given the inflation rate in June was 9.1%, do you think it will be higher than the current level, about the same as the current level, or lower than the current level?* . The percentage of respondents who think that inflation will

increase doubles that of those who think it will decrease. Only 22.8% of respondents consider that inflation will decrease, while 45.6% think it will increase in the next 5 to 12 years. Also, 17.5% of of the sample think that inflation will not increase or decrease, and only 14.1% do not know or are unsure about future of inflation.

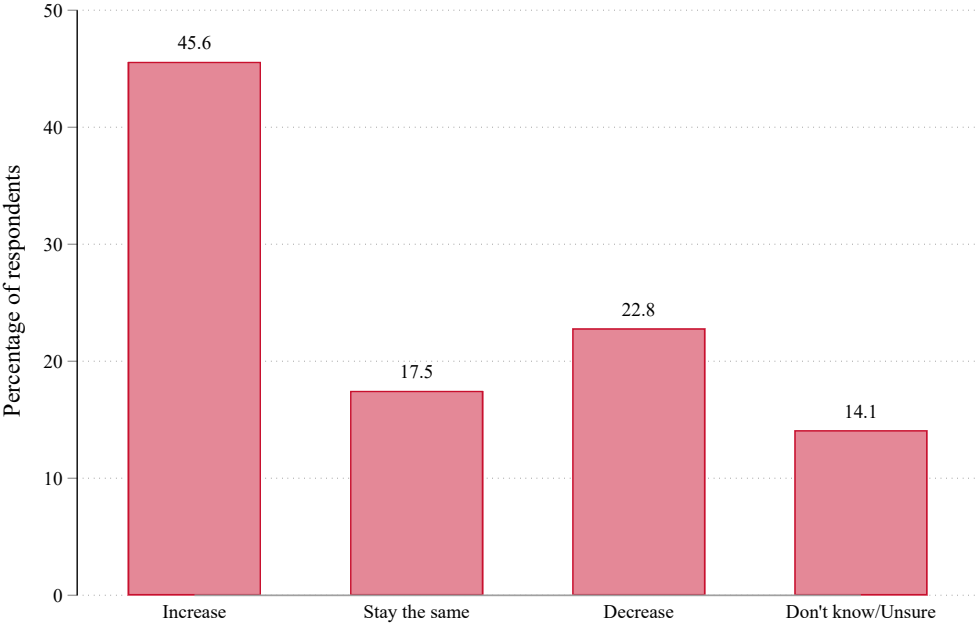


Figure 1.2: Outlook for Inflation rate for next 5 to 10 years:What about the outlook for the inflation rate in the next 5 to 10 years?

Differences by income

High inflation undermines households' purchasing power unless their income grows faster. Do Texans believe that their income will grow faster than the inflation rate? Figure 2.1a shows responses to this question: Only 12.9% believe that their income will grow faster than the inflation rate. This result implies that a majority of Texans believe that their real income, in terms of purchasing power, will fall over the next 12 months.

We also observe there are stark differences in responses about expected income growth across respondents' income brackets. Figure 2.1b shows that only 12.2% of the households earning less than \$39,999 expect that their income will grow faster than inflation, whereas 22.4% of households earning more than \$200,000 predict an increase in their purchasing power.

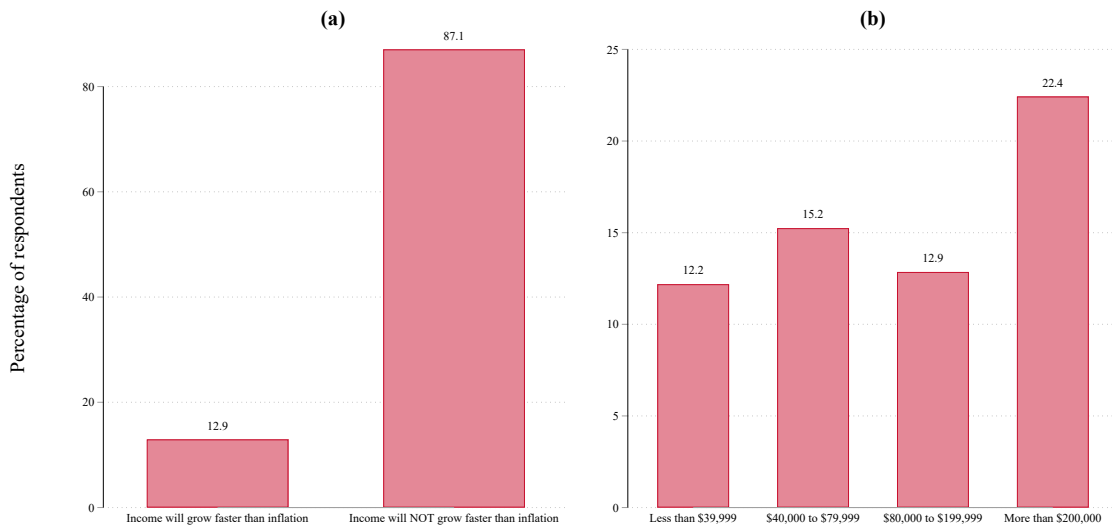


Figure 2.1: Household income will grow faster than inflation rate: During the next year or two, do you expect that your (household) income will increase, grow at the same rate, or decrease compared to the inflation rate?

Behind this difference between income brackets lies higher inflation expectations in lower-income households, especially for food and energy. Figure 2.2 shows that households earning less than

\$39,999 expect inflation to be 1.8% higher than households earning more than \$200,000.

More importantly, inflation expectations in lower-income households are higher for food and energy. These categories, which represent a large share of the consumption basket in lower-income households, experiencing the highest price increases between January and July of this year. Consequently, the inflation expectations of lower-income households' are associated more with prices in the food and energy sectors, compared with the higher-income households.

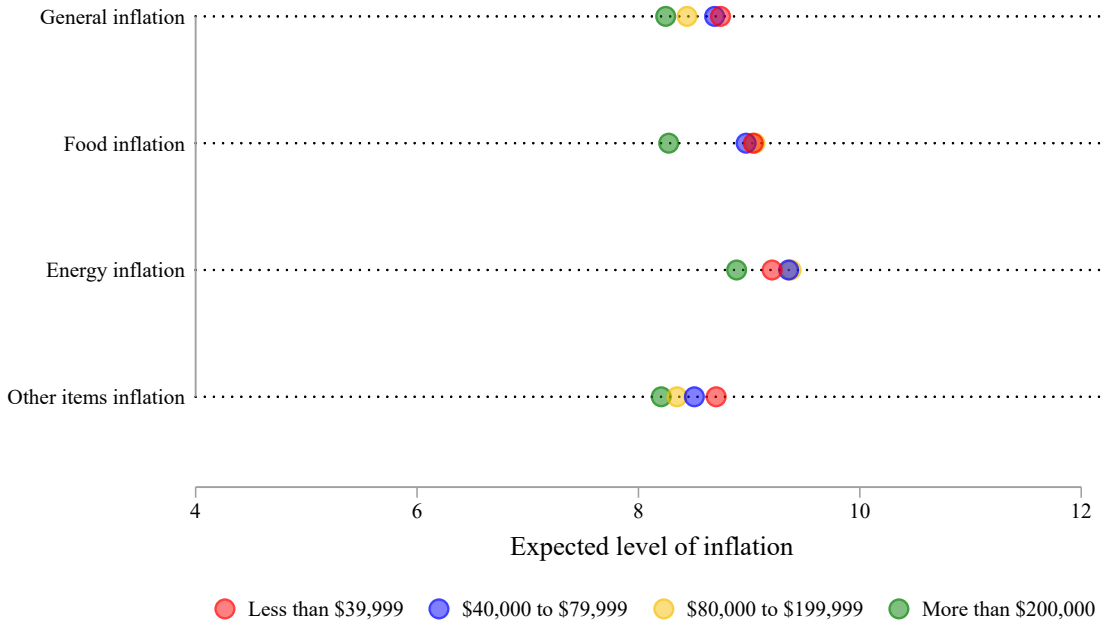


Figure 2.2: Inflation expectation by type of inflation and income: What is your expected level of inflation 12 months from now?

Partisan differences

Economic expectations can vary substantially based on which political party respondents gravitate towards; this partisan bias could be the source behind the heterogeneity in responses across respondents ascertained in Figure 1.2. In this section, we investigate the link between inflation expectations and the partisan alignment of respondents.

Figure 3.1 shows that on average, respondents who identify as Republican have a more pessimistic view of future inflation compared to Democratic voters, and expect a higher level of inflation in the next 12 months (9.5 and 7.8, respectively). Given that the current U.S. president, Joe Biden, is from the Democratic Party, our finding is consistent with recent results in the academic literature (Bachmann, O. et al., 2021): inflation expectations were higher in the Republican-dominated states compared to Democratic-dominated states when Barack Obama was the U.S. president, and declined when Donald Trump became president.

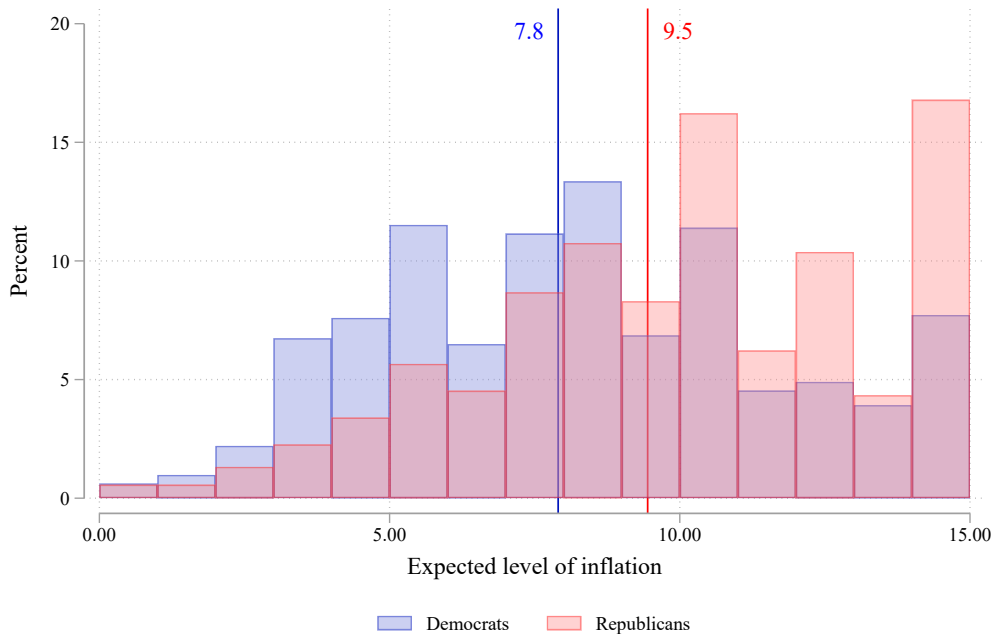


Figure 3.1: Inflation expectation by Party Identification: What is your expected level of inflation 12 months from now?

In Figure 3.2, we examine the general, food, energy, and other inflation expectation of the Texans based on the voting preferences of respondents for the 2022 Texas gubernatorial election. Overall, the inflation expectations across the spectrum of sectors are congruous with what we discussed in the previous paragraph. Respondents who favor Greg Abbott, incumbent and Republican party gubernatorial candidate for the governor position, expect higher inflation in the next 12 months ¹, whereas those who favor Beto O'Rourke, the Democratic party candidate, are much more optimistic about the future inflation². Inflation expectations of respondents favoring Mark Tippetts, the Libertarian Party candidate, or Delilah Barrios, Green party candidate, lie primarily in between that of Democratic and Republican voters. Compared to other sectors, respondents favoring either the Democratic or Republican party expect higher inflation in the energy and food sector.

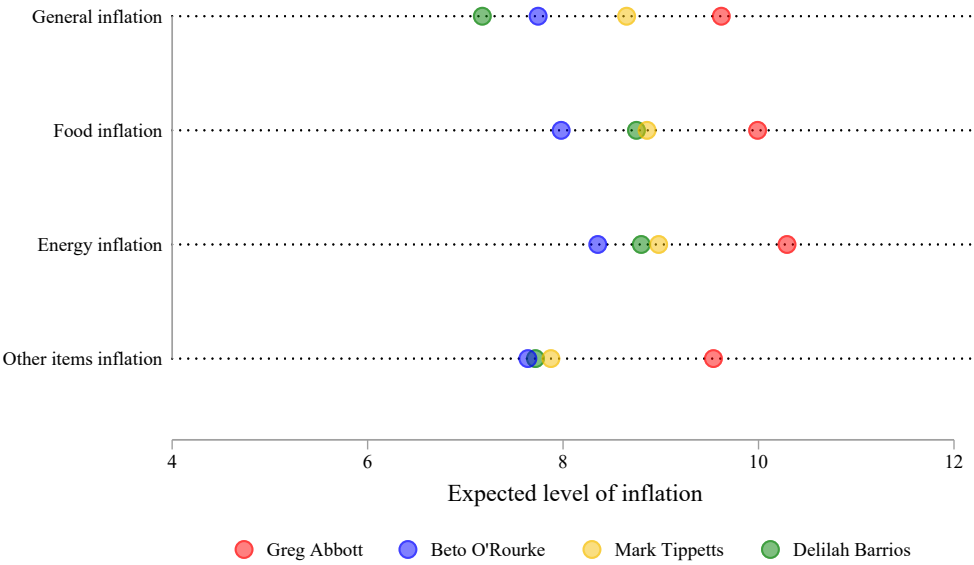


Figure 3.2: Inflation expectation by Vote: What is your expected level of inflation 12 months from now?

¹Greg Abbott supporters' inflation expectations are: 9.6 for general inflation, 10.0 for food inflation. 10.3 for energy inflation, and 9.5 for other items inflation

²Beto O'Rourke supporters' inflation expectations are: 7.7 for general inflation, 8.0 for food inflation. 8.4 for energy inflation, and 7.6 for other items inflation

Conclusion

In this report, we present a study that analyses the outcomes of a survey conducted in the Texas state between August 11 and August 29, 2022. Our results that inflation expectations for the next twelve months differed according to wealth levels and party identifications of the respondents, among others.

Generally speaking, people with lower incomes are more likely to expect higher inflation than wealthier people. To be more specific, we document a general inflation expectation of 8.6% for the whole sample. When we analyze the data in light of the respondent's income, we find that Approximately 45.6% of Texans believe that the inflation rate is likely to increase over the course of the next five to ten years. The poll also shows that only 12.9% of Texans think their incomes will grow faster over the next year than the inflation rate. This result indicates that most Texans expect their real income to shrink in the coming year, indicating a decline in their purchasing power. It has also been found that households with lower incomes have higher inflation expectations than households with higher incomes, which is likely influenced by the recent rise in food and energy prices.

When we sub-sample the data by party identification and vote expectation, we find that Texans who identify as Republican have a more pessimistic view of future inflation compared to Democratic voters, and on average, expect a higher level of inflation in the next 12 months. Additionally, the respondents who favor Greg Abbott (incumbent and Republican party candidate) for the governor position expect a higher level of inflation in the next 12 months, whereas, the respondents favoring Beto O'Rourke (Democratic party candidate) are much more optimistic about the future inflation. Irrespective of partisan preference (Democratic or Republican) for the upcoming Texas gubernatorial election, respondents expect higher inflation in the energy and food sectors.