

Survey Says: Consumer Attitudes May Hold the Key to a Sustained Recovery

Data analysis by Margaret Jacobson, Research Analyst

Text by Doug Campbell, Editor



By almost any measure, American families are worse off today than they were before the recession. And they know it.

Back in the golden days of 2006, many U.S. households—43 percent—said they were better off than the year before, and 31 percent said they were worse off.

By 2010, a year after the Great Recession's official end, those sentiments were flipped: Just 25 percent said they felt better off and 41 percent said worse.

These figures come from the Ohio State University's (OSU) *Consumer Finance Monthly* survey. A team of surveyors, sponsored by the school's Center for Human Resource Research, collects thousands of observations each year using a nationally representative sample. The results provide one of the best sources of information available on Americans' attitudes about their financial situations.

Those attitudes are particularly relevant right now. If this really was a "balance sheet recession," as many have called it, then recovering from it will first and foremost require time, as consumers pay off their debts and build up their savings. But it may also require a shift in attitudes before consumer demand, not to mention expectations of future income growth, rebounds.

That's because spending behaviors are likely to depend on how quickly households can rebuild their balance sheets and then feel confident about their future income prospects. Households that describe themselves as worse off financially are more likely to need some time before stepping up their spending.

We know that U.S. families in general experienced pretty rough times during the recession, and even after. Some people saw the values of their homes plummet. Some lost their jobs. Others lost wealth in the stock market. A look at the OSU survey data helps put into perspective the pervasiveness of household discontent, shedding light on which groups suffered the most and which made it through relatively unscathed.

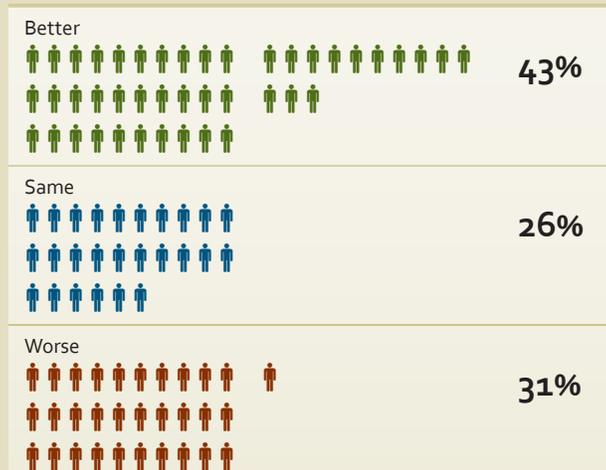
In summary, the survey tells us that household sentiments are tracking pretty closely with other economic data. For example, the decline in household attitudes recorded by the OSU survey seems to correlate strongly with the increase in the unemployment rate during the same period. That rate was 4.4 percent at the end of 2006; by the end of 2010, it was 9.4 percent.

These sentiments also help explain some of that same economic data, because depressed economic sentiments translate into depressed economic behavior.

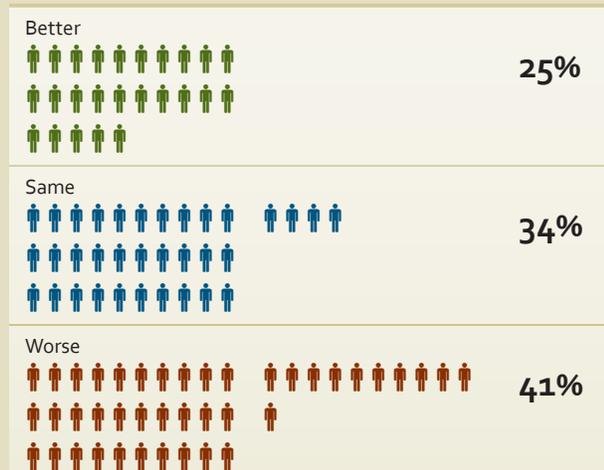
Let's take a closer look at our question—how are households doing compared with a year earlier—with a little more precision. Does the malaise extend to all households or just to some of them?

Would you say that you and your family are better or worse off financially than you were a year ago?

2006



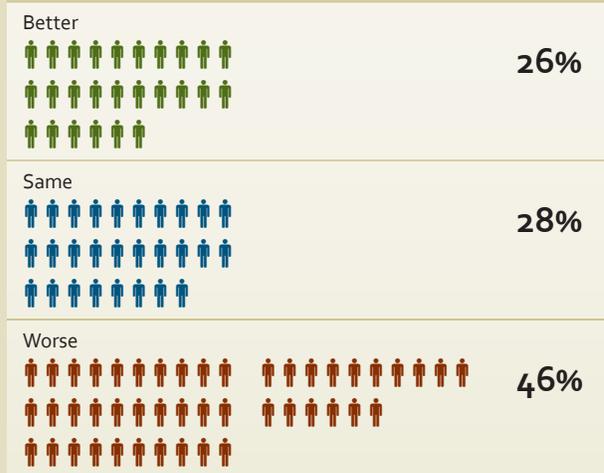
2010



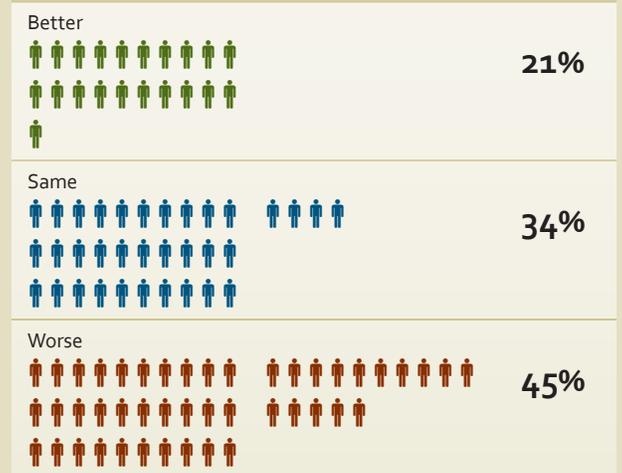
Sources: Center for Human Resource Research at the Ohio State University; Federal Reserve Bank of Cleveland.

Would you say that you and your family are better or worse off financially than you were a year ago?

2006: Incomes of Less than \$20,000



2010: Incomes of Less than \$20,000



In 2010, Americans across different income categories generally expressed more pessimism about their situations than they did before the recession.

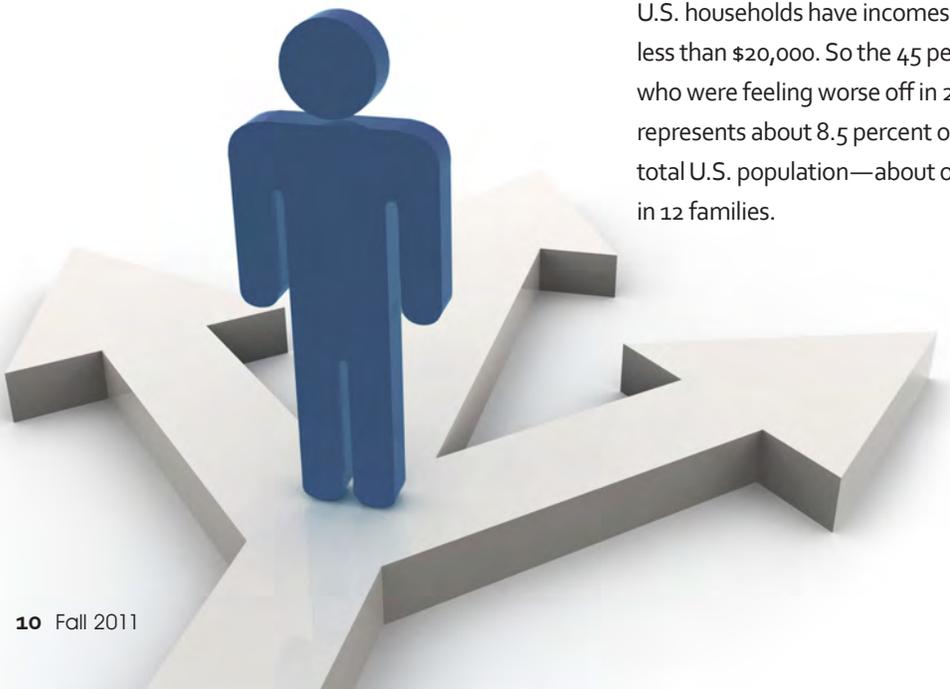
First consider the attitudes of those with very low incomes:

The percentage of those feeling better off fell by 5 percentage points; the percentage of those feeling worse off stayed about the same. For perspective, almost 20 percent of U.S. households have incomes of less than \$20,000. So the 45 percent who were feeling worse off in 2010 represents about 8.5 percent of the total U.S. population—about one in 12 families.

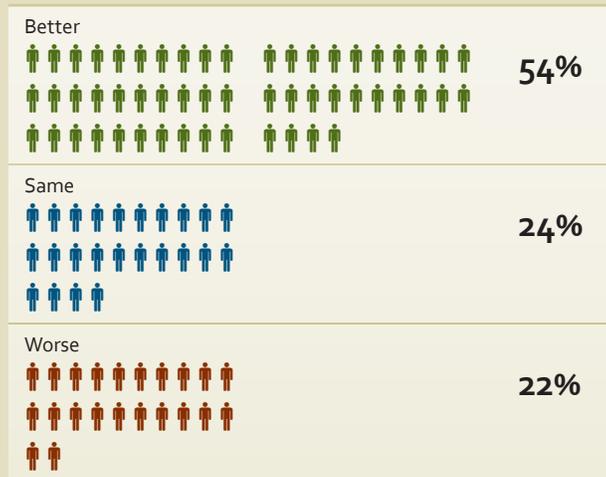
The shift is even more evident among those with higher incomes:

The portion of those with incomes higher than \$60,000 (representing about 40 percent of the U.S. population) feeling better off fell by almost half, and the fraction of those feeling worse off increased by a third.

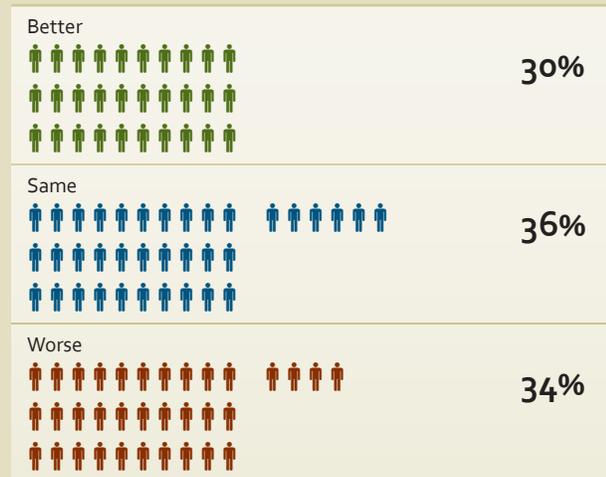
What this may be telling us is the relatively wealthy felt their losses more keenly than the less wealthy. People in the higher-income categories were more likely to be homeowners and felt the plummet in property values more acutely. Or it may be saying that people with low-to-moderate incomes have it tough all around—the recession hurt, but did not markedly change their already bleak outlook. Overall, the impact on household outlook would certainly be enough to blunt spending, which in turn serves as a damper to the recovery.



2006: Incomes of More than \$60,000



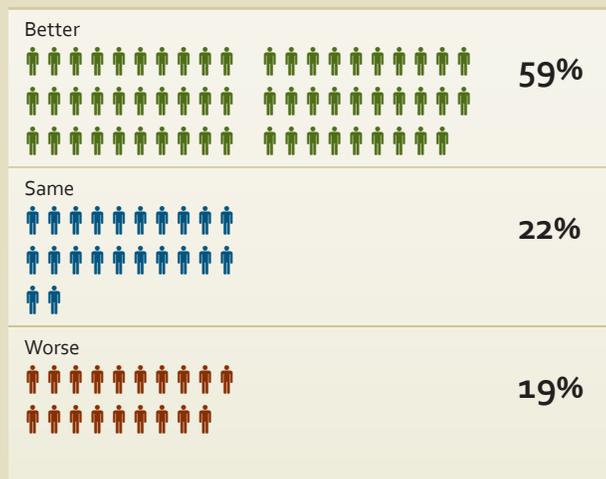
2010: Incomes of More than \$60,000



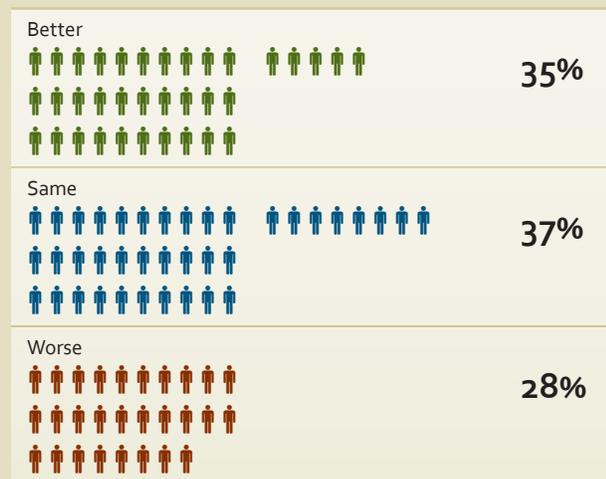
The attitudes of the top 20 percent of the income distribution (those earning more than \$100,000 a year) show that the pain of the recession was widespread. The fraction of top earners who said they were better off in 2010 fell by 24 percentage points compared with 2006, and

the portion of those who said they were worse off grew by 9 percentage points. While those were dramatic changes, it's worth noting that they still leave the highest-earning households feeling better than their lower-earning counterparts who make less than \$20,000 a year.

2006: Incomes of More than \$100,000



2010: Incomes of More than \$100,000



Sources: Center for Human Resource Research at the Ohio State University; Federal Reserve Bank of Cleveland.

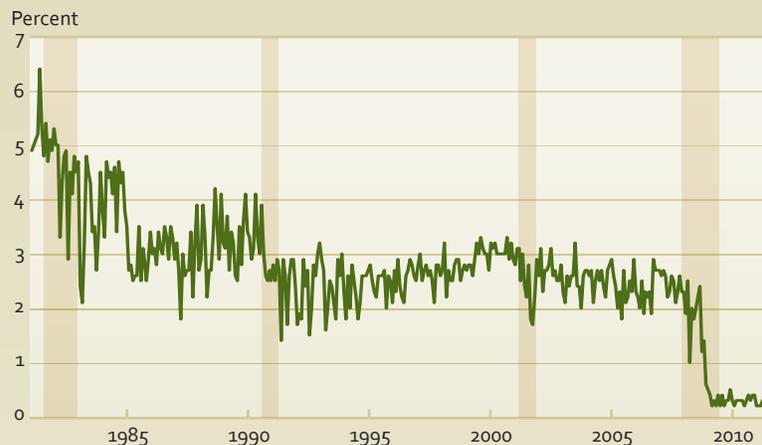
To Most, the Future Also Looks Bleak



It's probably safe to say that people's attitudes about the current situation — as reflected in the *Consumer Finance Monthly* survey—feed into attitudes about the future. Consider the University of Michigan's venerable *Survey of Consumers*. When Americans are asked how much they expect their incomes to grow over the next year, lately they are answering “not much.” It's clear that people continue to have very low expectations of future income growth. A quick look at the responses across income distributions shows pretty much the same results—a wide cross section of Americans are pessimistic about their future incomes. The chart below summarizes the responses of all those surveyed.



Expected Change in Family Income



Note: Shaded bars indicate periods of recession.

Source: University of Michigan, *Survey of Consumers*.

Finally, we can break down household outlook by age group:

The most pronounced shifts are clearest among younger households—those who probably didn't have much in the way of assets to begin with, but might have been given expanded access to credit during the prior few years.

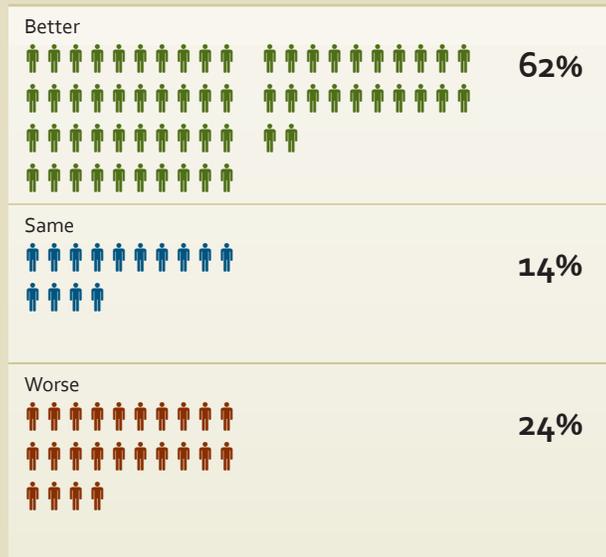
Younger people have really lowered their sights: The percentage of those feeling better off is almost a third lower than it was before the recession, and the ranks of “worse off” are up almost 50 percent. What's really remarkable here is how many 18- to 34-year-olds used to be full of youthful optimism; the recession really took the wind out of their sails. Job prospects continue to be dim for this cohort, college education or not (though it's certainly better to have a college degree). The consequences of debt buildup might now be more evident.

The middle-aged, meanwhile, weren't as optimistic as young Americans to begin with. But by 2010, their pessimism actually exceeded the younger group's.

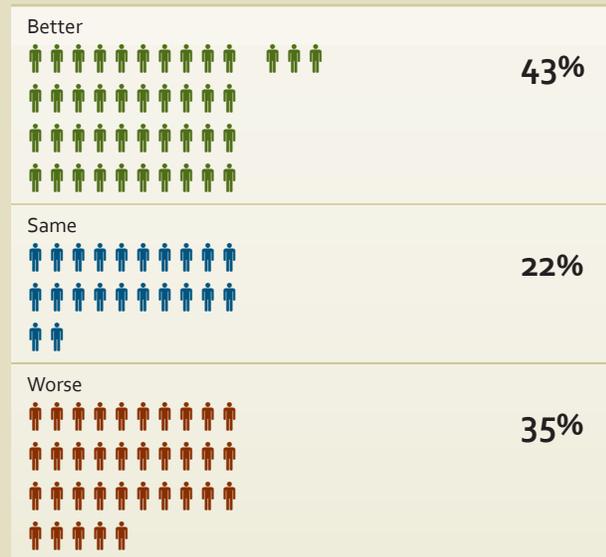
Those older than 60 didn't alter their assessments quite as much as their younger cohorts, though more did say they were worse off and fewer said they were better. Given that the stock market had mostly rebounded by the end of 2010, retirees as a group probably were feeling about the same as they did before the recession.

Would you say that you and your family are better or worse off financially than you were a year ago?

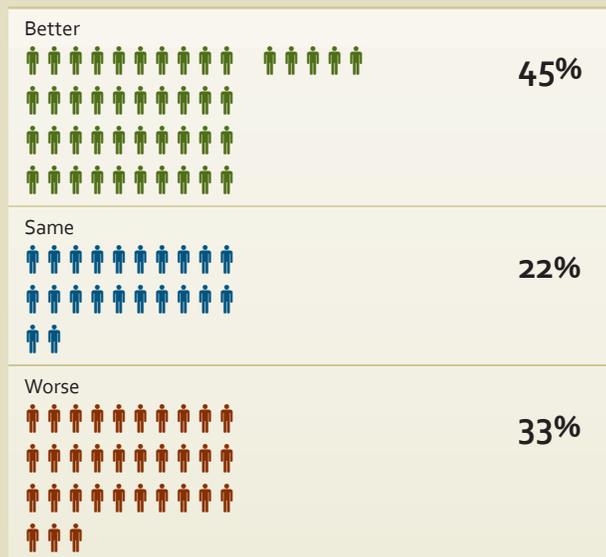
2006: 18- to 34-year-olds



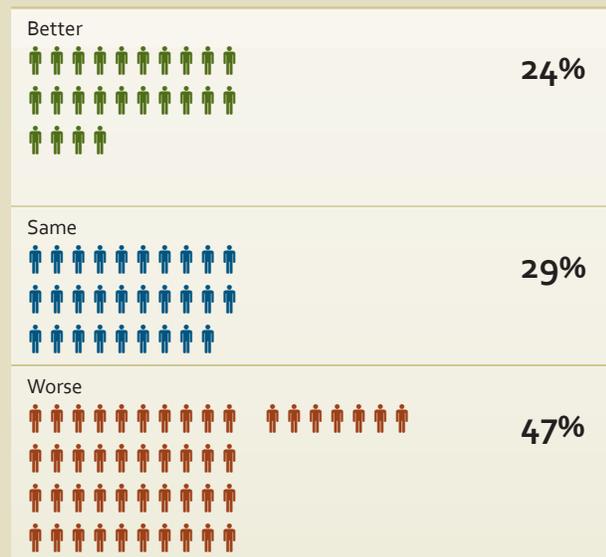
2010: 18- to 34-year-olds



2006: 35- to 59-year-olds



2010: 35- to 59-year-olds



Sources: Center for Human Resource Research at the Ohio State University; Federal Reserve Bank of Cleveland.

By the end of 2010, the recession had already been officially over for 18 months. After any other recession, you would've expected that to be reflected in surveys like OSU's *Consumer Finance Monthly*.

But maybe the surveys tell us everything we need to know: This was no ordinary recession. ■



Related Link

For more on the Ohio State University's *Consumer Finance Monthly* survey, visit www.chrr.ohio-state.edu/content/surveys/cfm/cfm.html



Presentation

Watch a presentation based on the survey at www.clevelandfed.org/forefront/surveysays