surveys of consumers
UNIVERSITY OF MICHIGAN

Monitoring trends for over 60 years

Subject: Confidence in Financial Institutions.
From: Richard Curtin, Director

February 20, 2015

Trust and confidence in financial institutions has improved considerably since the financial crisis. Despite the substantial gains, overall confidence in financial institutions still remains at diminished levels. This situation is not surprising since it is well-known that while confidence can be lost in an instant, regaining confidence entails a long and slow process. Nonetheless, the still diminished levels are troublesome since a well-functioning economy depends on a widespread sense of trust and confidence in financial institutions. Many factors influence people's confidence in the broad array of financial institutions which consumers have a direct connection. The set of factors that affect people's confidence in the Federal Reserve are unique since the Fed shares a policy responsibility to insure low and stable inflation as well as full employment. As the Fed embarks on what is likely to be a long series of interest rate increases, confidence in the Fed's policy actions will be critical for maintaining the level of economic optimism that is necessary to sustain growth in consumer spending.

The data on confidence in financial institutions is grouped into three time periods. Confidence in financial institutions was first measured in 1987 following Black Monday (October 19, 1987) when the Dow Jones stock market index plunged 23%. The second period combined surveys that were conducted from 2008 to 2011 during and immediately following the financial crisis. Finally, the last period is based on surveys conducted in January and February 2015. It is unfortunate that no measure has been made in "normal" times, thus making it difficult to judge the true extent of the loss in confidence. The overall trends are clear. With the sole exception of credit unions, all financial institutions were more often cited for declines than increases in confidence. The financial institutions that regained the most confidence since the financial crisis were commercial banks, brokers and mutual funds, although consumers now have less confidence in commercial banks than just after the 1987 stock market crash. Although consumers expressed "more" confidence in every financial institution in 2015 than in either of the two prior periods, the size of the confidence gains were quite small, ranging from 15% to 17%, other than for credit unions.

Confidence in the Federal Reserve has modestly improved since the financial crisis, but it is still well below the 1987 levels. Indeed, consumer voice less confidence on balance in the Fed than any in other financial institution in the 2015 survey. When consumers were asked how their confidence in the Federal Reserve had changed over the past five years in the 2015 survey, 42% reported that they now had less confidence in the Federal Reserve. While this was significantly below the 54% recorded in 2008-11, it was more than twice the 19% recorded in 1987. Moreover, although greater confidence in the Fed was voice more frequently in 2015, it was still a trifling 15%. The recent assessment followed the most aggressive monetary policies undertaken in the history of the Fed, and just before the widely anticipated start of renewed increases in interest rates. The impact of consumers' views on the Federal Reserve have shown a strong association with economic prospects. In the 2015 surveys, the Index of Consumer Expectations was 40 Index-points lower among those who voiced less confidence in the Fed compared with those who had more confidence; this difference is equal to two-thirds of the time series peak-to-trough range.

The strong relationship between confidence in the Federal Reserve and the outlook for the economy is currently due more to concerns about joblessness than fears of inflation (or deflation). Among those that expect the national unemployment rate to rise during the year ahead, 64% expressed less confidence in the Federal Reserve, while among those that anticipated a falling unemployment rate, just 24% voiced less confidence in the Fed in 2015. Consumers have typically associated Fed rate hikes with a subsequent slowing of the pace of economic growth. To maintain the renewed sense of economic optimism among consumers the Fed must carefully communicate that their purpose is not to slow the pace of economic growth and job gains. Like most successful policies, actions, rather than words, are the best way to communicate the intended policy goals.

Change in Confidence in Financial Institutions Compared with Five Years Ago
(Cases: 1987= 1,008; 2008-11=4,030; 2015 = 927)

	1987						2008-11						2015						Net Chg. 2008-11 to 2015
	More	Same	Less	DK	Total	Net	More	Same	Less	DK	Total	Net	More	Same	Less	DK	Total	Net	
Federal Reserve System	9	67	19	5	100%	-10	8	36	54	2	100%	-46	15	42	42	1	100%	-27	+19
Commercial Banks	7	70	21	2	100%	-14	4	35	60	1	100%	-56	17	47	36	0	100%	-19	+37
Brokers/Mutual Funds	8	46	37	9	100%	-29	5	32	59	4	100%	-54	15	50	32	3	100%	-17	+37
Savings and Loans	11	58	27	4	100%	-16	7	46	44	3	100%	-37	13	60	24	3	100%	-11	+26
Credit Unions	18	61	11	10	100%	7	22	55	18	5	100%	4	33	54	11	2	100%	22	+18
Insurance	13	56	28	3	100%	-15	9	44	46	1	100%	-37	16	44	39	1	100%	-23	+14

The question was: The next few questions are about the trust and confidence people have in this country's financial institutions. . . . What about the—*financial institution* — compared with five years ago, do you have a lot more confidence now, a little more confidence now, a little less confidence now, a lot less confidence now, or has your confidence the—*financial institution* — remained about the same? Net = %More - %Less.