Subject: Confidence in Financial Institutions January 12, 2018
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Confidence in financial institutions is critical for maintaining economic stability. The Michigan surveys have monitored confidence in financial institutions over the past thirty years. The first measure was taken in 1987, just one month after the Dow Jones stock index plunged 23% on Black Monday, and a few months after Greenspan was first appointed Fed Chair. The financial crisis that accompanied the Great Recession prompted the four measurements between 2008 and 2011, when Bernanke was Chair. The last two measures, in 2015 and 2017, occurred when Yellen was Chair, as she took initial steps to normalize interest rates, although the real Fed Funds rate was still slightly negative at the end of 2017. Overall, more consumers reported that their confidence in the Federal Reserve had declined rather than increased in all eight surveys (see the table). The largest losses were recorded from 2008 to 2011, when between 49% and 59% reported that they had less confidence in the Fed than five years earlier. Importantly, the proportion reporting less confidence in the Fed fell slightly in the last two surveys, falling to 38% by the end of 2017. This was still much higher than in 1987 when less confidence in the Fed was reported by just 19% of all consumers. When Powell takes over as the next Fed Chair, he will face the challenge of maintaining confidence in the Fed while repeatedly raising interest rates. He will benefit from the recent gains made by Yellen, but not enjoy the higher confidence that faced Greenspan when he first took office. Moreover, Powell must deal with the impact of the tax cuts on the economy as well as a potential increase in federal spending on infrastructure.

While the usual assumption about the direction of causation would indicate that changes in confidence in the Fed's monetary policy would cause consumers to shift their expectations for the national economy, this analysis is limited to the association without claiming causation. The Index of Consumer Expectations always exceeded the corresponding sample means when consumers expressed more confidence in the Fed, and was always below the sample means when consumers expressed less confidence in the Fed (see the table). The size of the differences varied greatly: from10.7 to 26.5 among those with greater confidence in the Fed, and from -5.7 to -20.0 for those with less confidence in the Fed. For every survey, differences in confidence in the Federal Reserve were significantly associated with differences in the Index of Economic Expectations.

The financial crisis was due to many factors involving new financial products, how financial institutions were regulated, and how the firms were managed. Indeed, the loss of confidence extended to all financial institutions with the sole exception of Credit Unions. The net change (%more - %less) in confidence for each financial institution was broadly comparable in each survey (see the table). Over the past ten years, net confidence in brokerages and mutual fund companies rose by 46 points, from -63 in 2008 to -17 in 2017, followed by a net gain of 35 points by commercial banks, and a net gain of 29 points by credit unions. Only insurance companies improved by less than the Federal Reserve since 2008 (12 versus 24).

Change in Confidence in the Federal Reserve

Confidence Compared with Five Years Ago	**Nov/Dec 1987**	**Apr 1991**	**Oct/Nov 2008**	**Sep/Oct 2009**	**Oct/Nov 2010**	**Oct/Nov 2011**	**Jan/Feb 2015**	**Nov/Dec 2017**
More confident now	9%	7%	7%	12%	9%	6%	15%	12%
Same	67	63	33	38	40	33	42	47
Less confident now	19	25	57	49	49	59	41	38
DK/NA	5	5	3	1	2	2	2	3
Total	100%	100%	100%	100%	100%	100%	100%	100%
Cases	1,001	501	1,008	1,001	1,017	1,004	1,011	1,210
Addenda	**Index of Consumer Expectations: Differences from corresponding sample means**							
More Confident in Fed	18.6	10.7	22.1	26.5	14.7	10.9	20.1	17.1
Less Confident in Fed	-15.1	-14.0	-5.7	-12.9	-10.5	-6.2	-20.0	-10.0

Change in Confidence in Financial Institutions: Balance Scores (%More - %Less)

Federal Reserve	-10	-18	-50	-37	-40	-53	-26	-26
Commercial Banks	-13	-29	-59	-59	-49	-57	-19	-24
Credit Unions	8	2	-7	1	6	15	22	22
Brokerage & Mutual Funds	-29	-21	-63	-55	-50	-49	-16	-17
Insurance Co.	-15	-33	-45	-40	-34	-29	-22	-33

The next few questions are about the trust and confidence people have in this country's financial institutions. What about—*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 in—*financial institution* — remained about the same?