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Do Consumers Hold Divergent Views of their Personal Finances and the Economy? August 9, 2024
Joanne Hsu, PhD, Director

One common explanation for the persistence of below-average sentiment amid strong economic indicators in the post-Covid era is that consumers may now be feeling less favorable toward the economy than they do about their personal finances. Evidence for this hypothesis often draw on survey questions that address the two domains differently, use different response options that are not comparable to each other, and/or lack comparisons to previous business cycles, making it difficult to draw conclusions about whether consumer atittudes have been deviating from historical norms. Since 1978, the Surveys of Consumers have consistently asked a number of questions regarding personal finances and business conditions identically across both domains. Thus, the surveys can be used to directly compare differences in attitudes between individual financial situations and the national economy, and follow how those differences may have changed over time. Overall, views of personal finances relative to business conditions in recent years are in line with what the surveys have seen over the past few decades. Furthermore, differences in views of personal finances and the economy seen since 2022 are remarkably similar to trends seen in the two years pre-pandemic. As such, the fact that sentiment has remained persistently subdued in the last two years is not explained by an anomalous divergence in personal versus macroeconomic views.

Figure 1: Personal Finances versus Business Conditions: Year Ahead Expectations of Changes

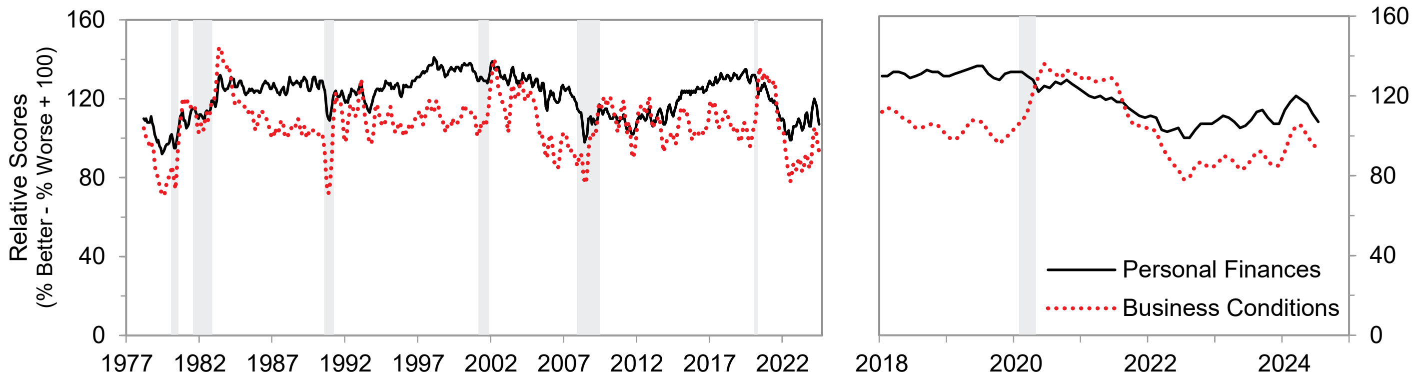
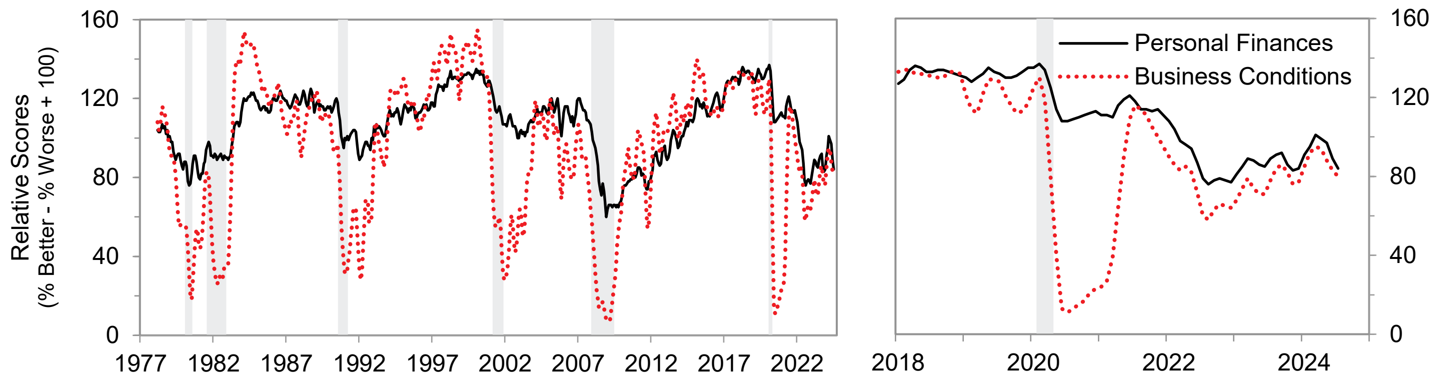


Figure 1 displays consumer expectations on the trajectory of personal finances and business conditions over the next year. The left panel shows the historical time series beginning in 1978, while the right panel begins in 2018 and shows trends leading into the onset of the pandemic in March 2020 and the years since; gray bars denote recessions. As seen on the left, throughout the last four decades, expectations of personal finances (black line) are typically more favorable than expectations over business conditions (red dotted line), aside from recovery periods directly following recessions. These historical patterns are visible when zooming in to the past six years. The data show that in the two years leading into the pandemic, personal finances expectations were higher than expectations for business conditions, and following the recovery from the pandemic recession, the pre-pandemic relationship between the two measures was restored. Taken together, the fact that post-Covid sentiment has been below its historical average despite strong economic indicators is not attributable to a newfound wedge between strong expectations for personal finances and weak macroeconomic expectations.

Similar patterns can be seen in current assessments of personal finances versus business conditions, shown in Figure 2 (next page). These two questions ask consumers to provide assessments of current conditions of the two domains relative to a year ago. As seen on the left panel, assessments of business conditions tend to decline steeply as recessions begin and climb sharply during recoveries, while assessments of personal finances exhibit less variation across the business cycle. This is consistent with the fact that during recessions, a majority of consumers do not lose their jobs. Of course, for those consumers who do lose their jobs during a recession, the personal consequences can be severe and painful, but the overall survey measurements reflect and average across households who experience layoffs and those who do not.

Figure 2: Personal Finances versus Business Conditions: Assessments Relative to a Year Ago

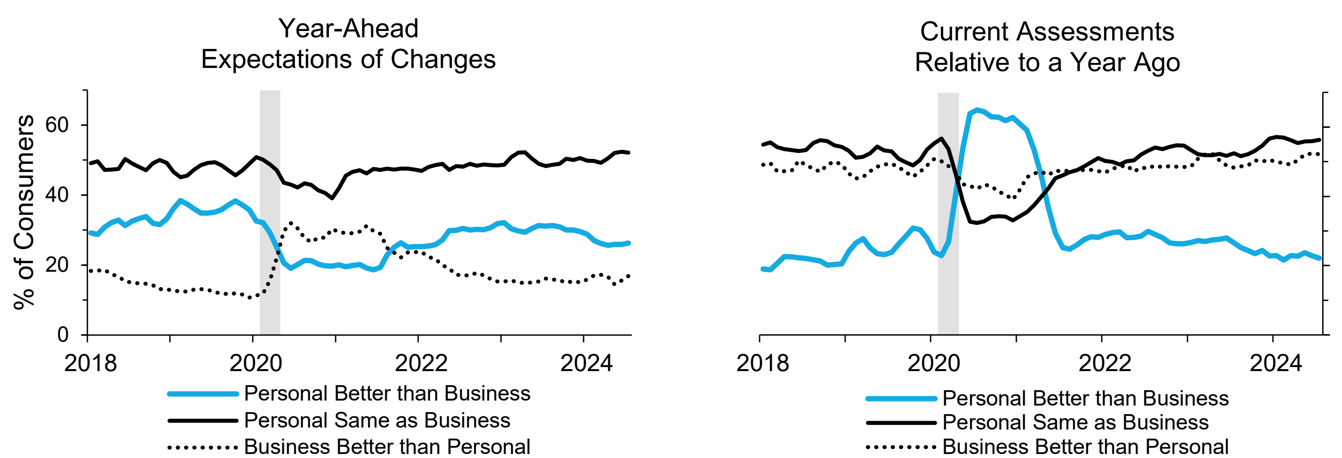


In non-recessionary periods, personal finances over the past year are sometimes seen more favorably than business conditions, and sometimes seen less favorably. As seen on the right panel of Figure 2, in the two years leading into the pandemic, assessments of personal finances were slightly more favorable than business conditions. Between 2022 and 2024, current assessments of personal finances have been modestly higher than business conditions. Again, differences between the two domains are not unique to the post-Covid era.

Figures 1 and 2 display relative scores that summarize overall responses to each question, but these scores do not reveal whether there have been recent changes in the share of consumers who respond positively to questions about personal finances but negatively to questions about the macroeconomy (see the appendix for details on how responses are classified). In Figure 3, the thick blue line displays the share of consumers who reported more favorable responses on personal finances than for business conditions. This group includes consumers who report that they will be personally better off in the year-ahead, but that business conditions will be worse than they are at present (or about the same).

For both future expectations and current assessments, the share of consumers who view their finances more favorably than business conditions has been flat since 2022 and remains at levels comparable to 2018-2020. Both before and after the pandemic, this group tends to have higher incomes than other consumers. This result is consistent with the notion that higher-income consumers tend to have more resources to weather any declines in the macroeconomy. Overall, these patterns provide further evidence that the relatively slow recovery in sentiment since the height of inflation in June 2022 is not being depressed by any growth in the share of consumers who feel more positively about their finances than they do about the economy.

Figure 3: Share of Consumers Expressing More Positive Views of Personal Finances than Business Conditions 2022-2024 No Higher than Pre-Pandemic



Appendix

Text of Questions

Year-ahead expectations of changes in personal finances: Now looking ahead - do you think that a year from now you (and your family living there) will be better off financially, or worse off, or just about the same as now? Relative score computed as the percent of consumers reporting “better” less “worse” plus 100.

Year-ahead expectations of changes in business conditions: And how about a year from now, do you expect that in the country as a whole business conditions will be better or worse than they are at present, or just about the same?" Relative score computed as the percent of consumers reporting “better” less “worse” plus 100.

Current assessments of personal finances: "We are interested in how people are getting along financially these days. Would you say that you (and your family living there) are better off or worse off financially than you were a year ago? Relative score computed as the percent of consumers reporting “better” less “worse” plus 100.

Current assessments of business conditions: Would you say that at the present time business conditions are better or worse than they were a year ago?" Relative score computed as the percent of consumers reporting “better” less “worse” plus 100.

Classification of Responses for Figure 3

		Business Conditions		
		Better	Same	Worse
Personal Finances	Better	**Personal same as business**	Personal better than business	Personal better than business
	Same	Business better than personal	**Personal same as business**	Personal better than business
	Worse	Business better than personal	Business better than personal	**Personal same as business**

Note: The two personal finance questions above are included in the Index of Consumer Sentiment, but the two questions above on expected changes business conditions discussed in this report are not. The Index instead includes the two other questions on the expected *level* (not the change) of future business conditions, which are not analyzed here because their answer choices are different than the personal finance questions as follows:

Economic outlook – 12 months: Now turning to business conditions in the country as a whole -- do you think that during the next 12 months we'll have good times financially, or bad times or what?

Economic outlook – 5 years: Looking ahead, which would you say is more likely -- that in the country as a whole we'll have continuous good times during the next 5 years or so, or that we will have periods of widespread unemployment or depression, or what?