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What U.S. Consumers Know About Economic Conditions

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Chart 2: Demand for Data on Official Statistics

- ❖ **Standard Model---costs are very low, benefits are very high**
 - Full information, updated upon release of new official data
 - Costs of data acquisition, processing, interpretation are ignored as are potential benefits for economic decisions
 - Homogeneous expectations; observed differences imply non-rationality

- ❖ **Modern Model---costs are constant, potential benefits vary**
 - Staggered updating or rational "inattention" to new data justified by costs or benefits of new information
 - Staggered updating also due to model uncertainty, to asymmetric responses to information, and to tone and volume of information
 - Heterogeneity of expectations is the typical result

 - Relevance of official statistics depends on its usefulness for decisions made by consumers with diverse characteristics and under varied circumstances
 - Theory indicates importance of concepts not specific measures.
 - Prices, employment and growth vary by individuals and regions

Chart 3: Research Design

- ❖ **Knowledge assessment:**
 - Survey of 1,000 U.S. adults conducted in April and May 2007
 - Questions about knowledge of official growth rates in GDP, the CPI, and unemployment rate based on most recent release
 - Imbedded question wording experiment to test the presence of high cognitive burden of economic “knowledge” questions
 - Staggered updating tested by knowledge of official data but not the latest release of statistic

- ❖ **Information sources:**
 - What sources of economic information are commonly used by people
 - Tested for the presence of information on official rates in mass media

- ❖ **Knowledge of concept rather than official measure:**
 - Independent measure of inflation expectations that made no reference to official rate or statistical agency
 - Compared informal knowledge of inflation with knowledge of latest release of official CPI

Chart 4: The Basic Questions

- ❖ First, the Bureau of Labor Statistics counts people as unemployed if they are not currently working but have been actively looking for work during the prior four weeks. What was the most recent rate of unemployment published by this government agency?

- ❖ Another economic indicator published by the Bureau of Labor Statistics is the Consumer Price Index, or the CPI. Compared with a year ago, what was the percentage change in overall prices as measured by the Consumer Price Index, or CPI, published by this government agency?

- ❖ The Bureau of Economic Analysis regularly publishes data on the total amount of goods and services produced in the U.S. This figure is called the Gross Domestic Product and is often abbreviated as GDP. Compared to a year ago, what was the percentage change in the Gross Domestic Product, or GDP, published by this government agency?

- ❖ *Have you ever heard an announcement of the . . .*
 - ... unemployment rate by the Bureau of Labor Statistics?*
 - ... the Consumer Price Index, or CPI, by the Bureau of Labor Statistics?*
 - ... the Gross Domestic Product, or GDP, by the Bureau of Economic Analysis?*

Chart 5: People's Knowledge of Official Measures of Economic Performance

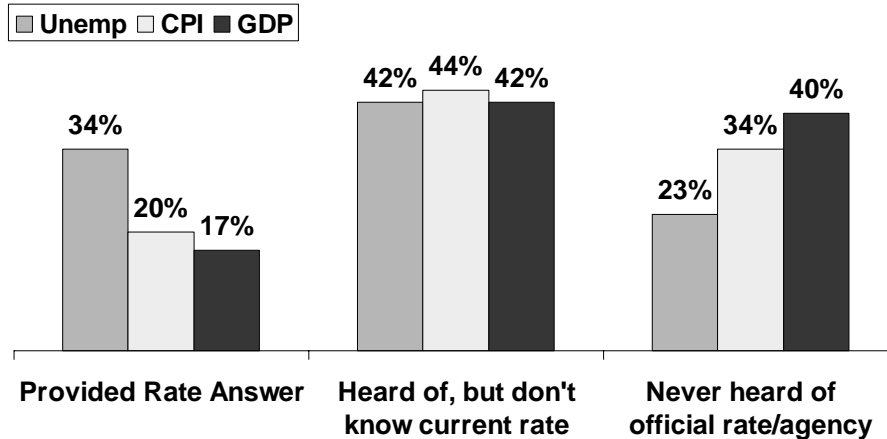


Chart 6: Avoiding High Cognitive Burden or Embarrassment of Incorrect Responses

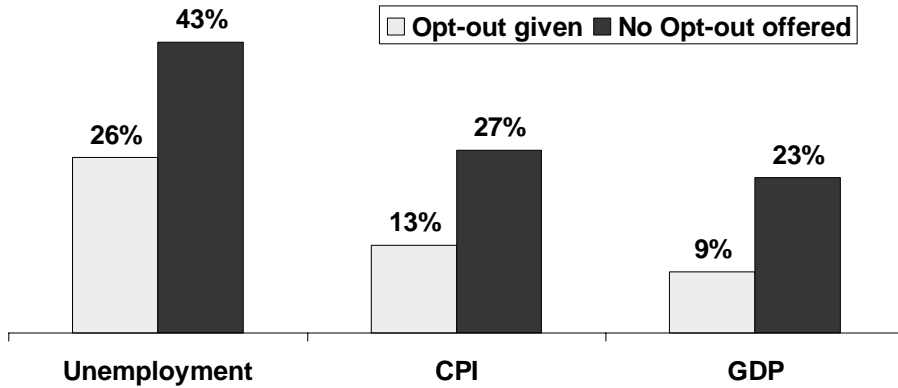
❖ Opt-out option given

The next several questions are about the effectiveness of the mass media in communicating information from agencies of the federal government about the performance of the U.S. economy. If you do not have any information about one of these questions, please just say so, and I will go on to the next question. However, if you do not know the exact answer but just have a rough idea, it is important for you to tell me what you know.

❖ No Opt-out offered

The next several questions are about the effectiveness of the mass media in communicating information from agencies of the federal government about the performance of the U.S. economy. If you do not know the exact answer but just have a rough idea, it is important for you to tell me what you know.

Chart 7: Proportions that Provided Rate Answers Depending on “Opt-out” Instruction



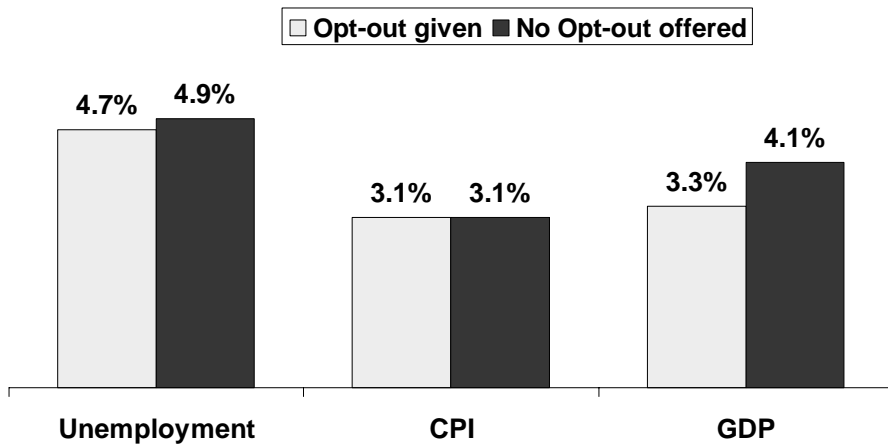
Significant Regression Coefficients

+0.19 * Educ (yrs)
+ 0.13 * Age
-0.89 * Female

+ 0.10 * Educ (yrs)
- 0.85 * Female

+ 0.11 * Educ (yrs)
- 0.01 * Age
- 0.97 * Female

Chart 8: People’s Perceptions of Official Rates of Unemployment, CPI and GDP



Actual Official Figures

4.5%, 4.4%, 4.5%

2.4%, 2.8%, 2.6%

3.1%, 2.1%

Chart 9: Median Absolute Percentage Point Error in Perceptions of Official Measures

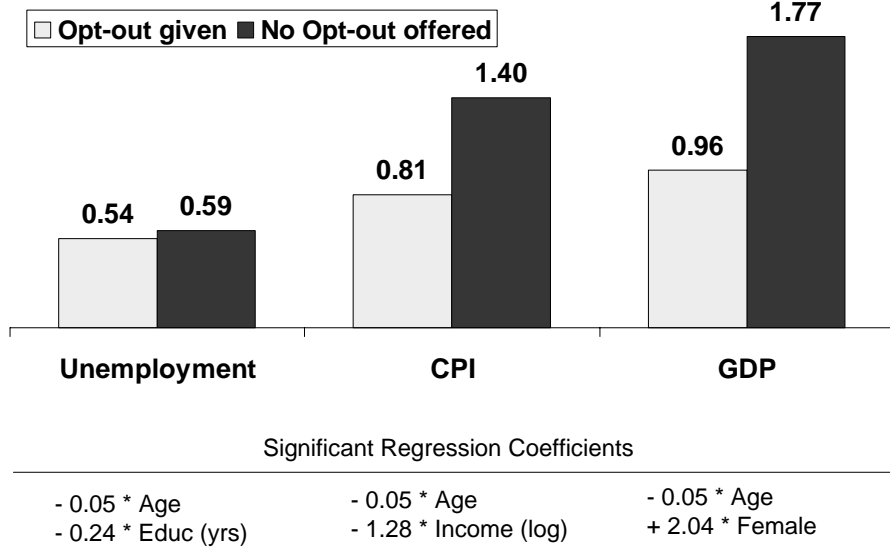
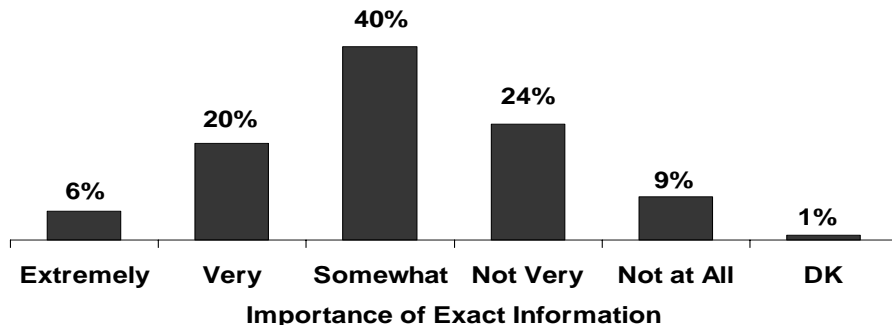
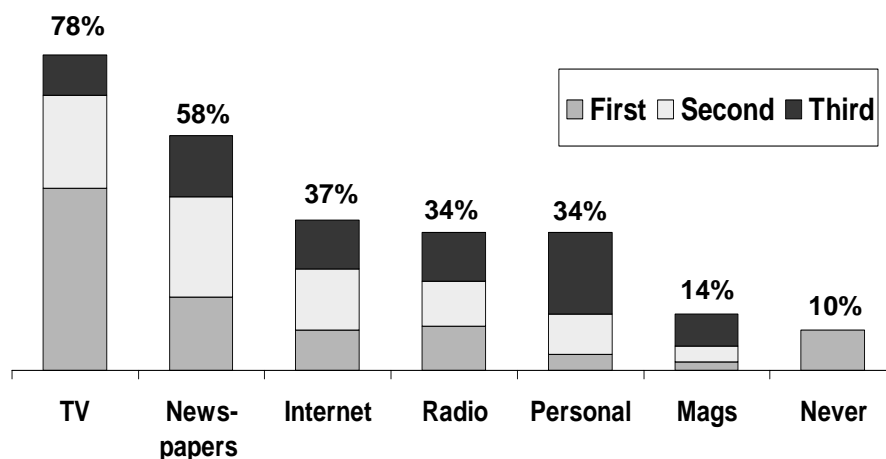


Chart 10: Importance of Exact Information on Economic Statistics



How important is it for a person like you to have exact information about the rate of unemployment, the rate of change in prices, and the rate of change in the Gross Domestic Product — would you say it is extremely important, very important, somewhat important, not very important, or not important at all?

Chart 11: Sources of Information on Official Economic Statistics



We are interested in how people get official government information about the rate of unemployment, the rate of change in prices, and the rate of change in the Gross Domestic Product. Do you get most of this type of information from television, the radio, newspapers, magazines, the internet, your family, friends, or co-workers, your own personal experiences, from some other sources, or do you never get any official government information on these topics? What is your second most common source of official government information about these topics? What is your third most common source of official government information about these topics?

Chart 12: Reports of Official Rates for Economic Statistics from January 2006 - May 2007

	Unemployment	CPI	GDP
TV Networks (ABC, NBC, CBS, CNN, Fox)	94% (56% - 100%)	31% (13% - 63%)	44% (25% - 81%)
Largest Newspapers (27 with circulation of more than 400,000)	44% (0% - 100%)	38% (6% - 100%)	19% (0% - 100%)

Figures represent the proportion of releases that the typical TV network or newspaper cited the official quantitative rate of the economic statistic.

Chart 13: Inflation Expectations and Knowledge of Official CPI

Knowledge of official CPI rate	Provided Percentage Rate For Expected Inflation Rate
Provide rate answer for official CPI	94%
Heard of, but didn't know current rate	92%
Never heard of official rate or agency	83%
Total sample	89%

Chart 14: Informal Inflation Expectations and Formal Knowledge of Official CPI

Knowledge of official CPI rate	Expected Inflation Rate
Provide rate answer for official CPI	3.2%
Heard of, but didn't know current rate	3.3%
Never heard of official rate or agency	3.4%
Total sample	3.3%

Chart 15: Conclusions and Discussion

- ❖ **People know little about official economic statistics or government agencies**
 - Only a minority could report recent official rates and errors ranged from 0.5 to 1.5 percentage points.
 - Unemployment rate most accurate (simple percentage not growth rate), CPI next, and GDP least accurate.
 - People may overestimate unemployment and inflation as planning buffer
 - Questions represented high cognitive burden/embarrassment
- ❖ **Data consistent with theories about “rational inattention” and staggered updating**
 - Most heard of statistics but didn’t know latest rate; low and stable rates mean that consumers delay updating (except on special items such as gasoline)
 - Costs of updating information much larger than widely assumed given that most mass media do not publish exact figures for the official economic statistics
 - Potential benefits of macro measures may be more limited than assumed
- ❖ **People may prefer private sources of information as more relevant to their decisions**
 - Despite the widespread ignorance of official rates, the vast majority of people provided specific rates of expected inflation (which have proven accuracy)
 - People appear to value information on the same “concepts” but not on the same measures of unemployment, inflation, and economic growth.