

What U.S. Consumers Know About The Economy: The Impact of Economic Crisis on Knowledge

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Chart 2: Research Design

❖ Financial Crisis was defined by official economic statistics

- Intense public interest in acquisition of information about economy
- Self-interest motivation as nearly all people suffered economic losses
- Extensive media coverage of all aspects of the crisis and downturn
- Lower costs and greater benefits to keep up-to-date on economic statistics

❖ Research Design:

- Repeat survey conducted in 2007 on knowledge of key economic statistics
- Little knowledge of unemployment, inflation, and GDP growth rates in 2007
- Favorable economic statistics in 2007: little benefit and high costs to update
- No change in high cognitive burden of economic “knowledge” questions
- Economic crisis changed public’s motivation to obtain accurate data

❖ Key hypotheses tested:

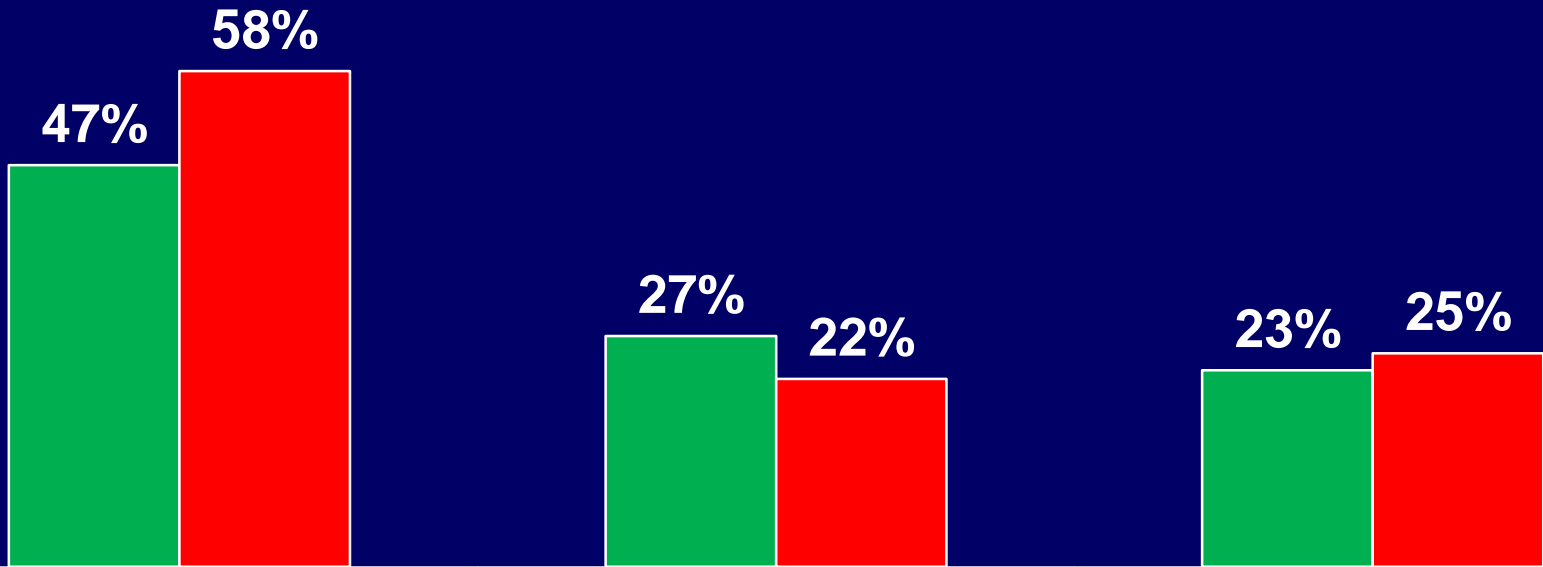
- Updating should increase given high benefit and low costs of information
- Rapid and large changes favor official statistics rather than private information
- Public assigns greater importance and trust in official statistics

Chart 3: 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 4: Knew and Reported Official Rates

■ 2007 ■ 2009



Unemployment Rate

Consumer Price Index
(CPI)

Gross Domestic
Product (GDP)

Chart 5: Heard of Statistics, But Didn't Know Current Rates

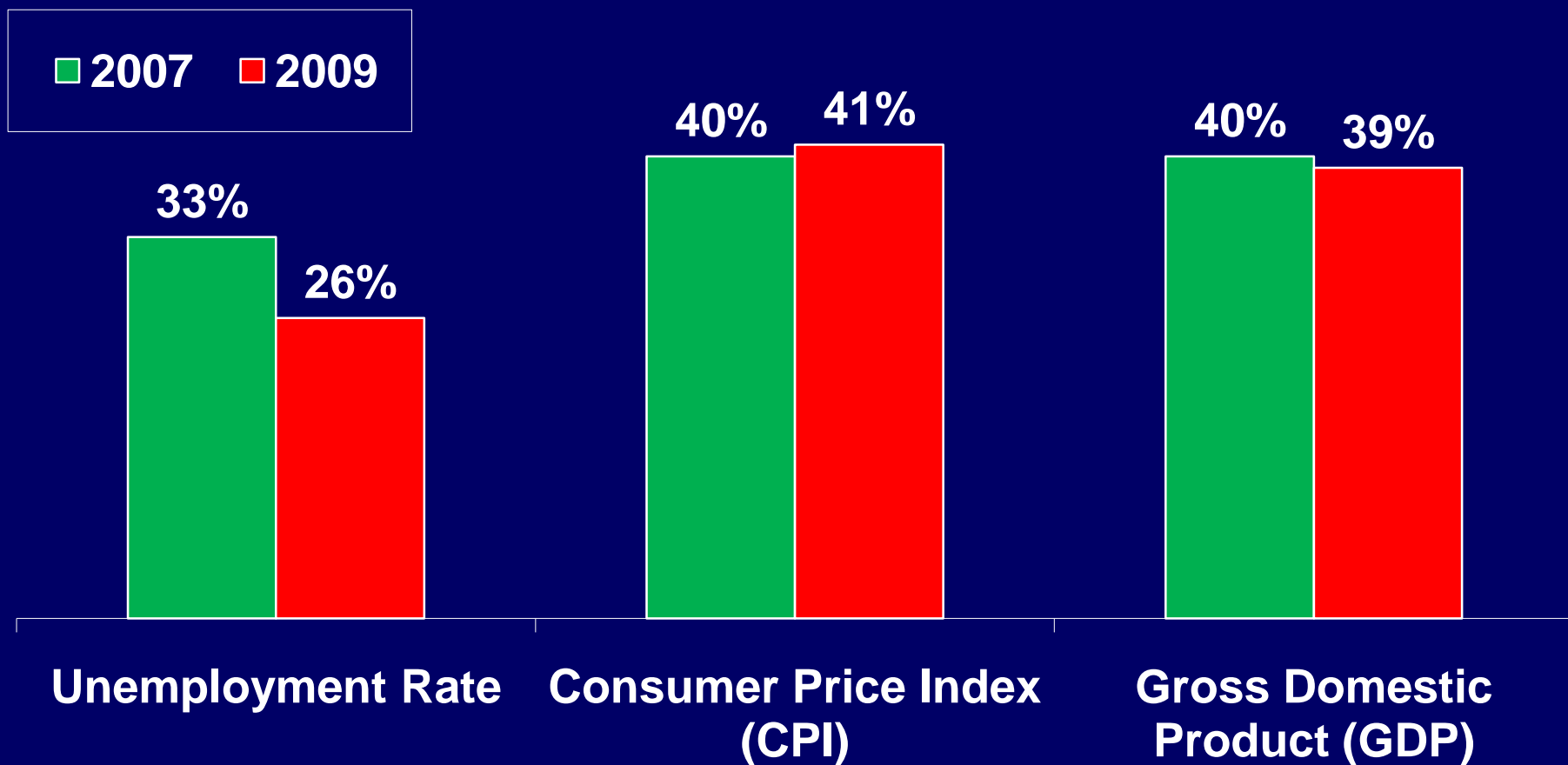


Chart 6: Never Heard of Official Statistic or Agency

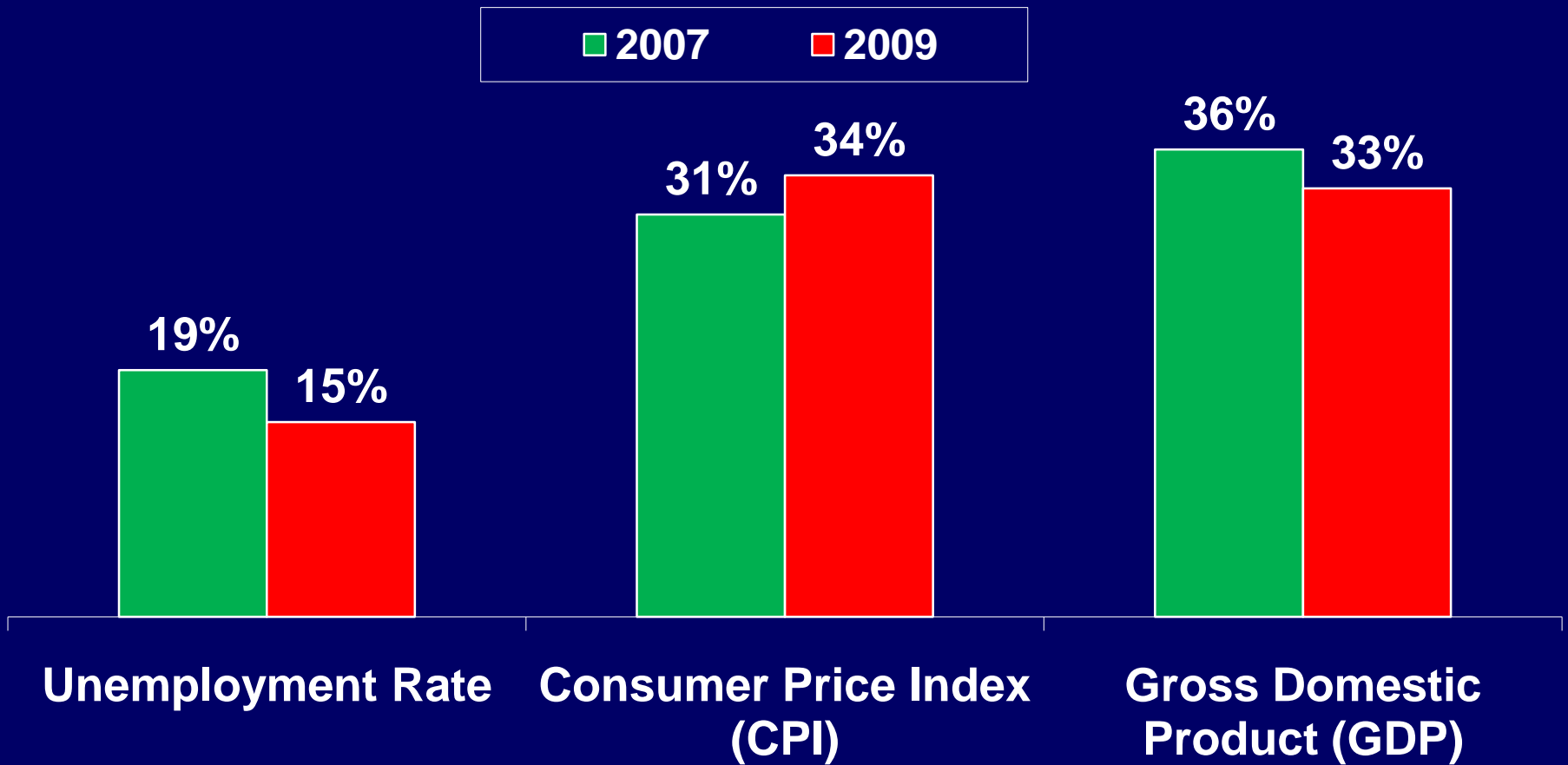


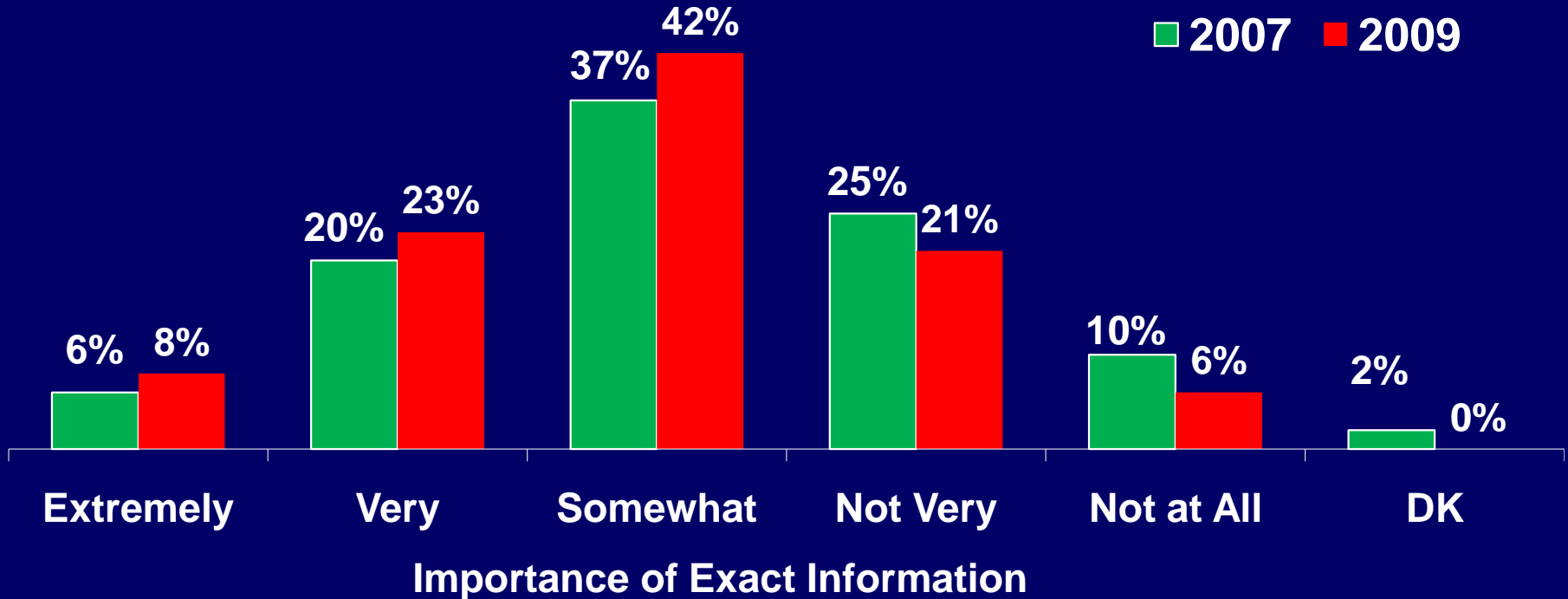
Chart 8: Median Absolute Errors in Reports of Official Rates by Income and Age of Respondents

	Unemployment Rate		Consumer Price Index (CPI)		Gross Domestic Product (GDP)	
	<u>2007</u>	<u>2009</u>	<u>2007</u>	<u>2009</u>	<u>2007</u>	<u>2009</u>
Household Income						
Bottom third	1.08	1.45	0.88	3.70	1.94	5.37
Middle third	0.90	1.41	0.82	3.13	1.46	2.35
Top third	0.56	0.88	0.76	2.65	1.10	1.90
Age of Householder						
18 - 34	0.90	1.60	1.28	3.02	1.49	3.84
35 - 54	0.81	1.26	0.80	3.06	1.43	2.91
55 or older	0.56	1.00	0.69	3.17	1.22	2.28

Chart 9: Median Absolute Errors in Reports of Official Rates by Education and Sex of Respondents

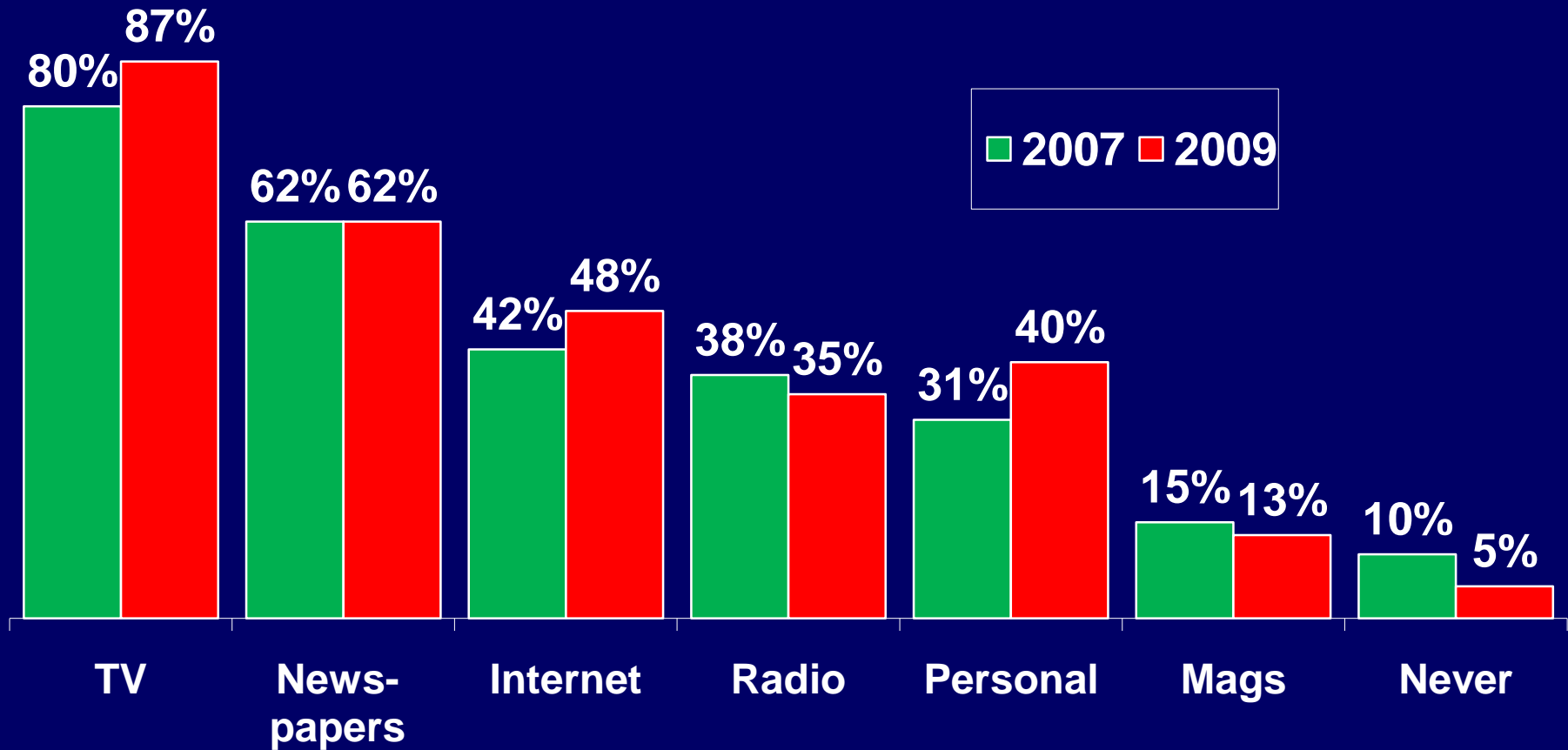
	Unemployment Rate		Consumer Price Index (CPI)		Gross Domestic Product (GDP)	
	<u>2007</u>	<u>2009</u>	<u>2007</u>	<u>2009</u>	<u>2007</u>	<u>2009</u>
Education						
High school or less	1.12	1.45	2.06	3.02	1.73	5.08
Some college	0.62	1.14	0.78	2.84	1.30	2.11
College degree	0.55	0.93	0.60	3.10	1.02	2.11
Sex of Respondent						
Male	0.56	0.63	0.72	2.63	0.94	1.83
Female	1.20	1.54	1.00	3.23	1.74	5.44

Chart 10: Importance of Exact Information on Economic Statistics



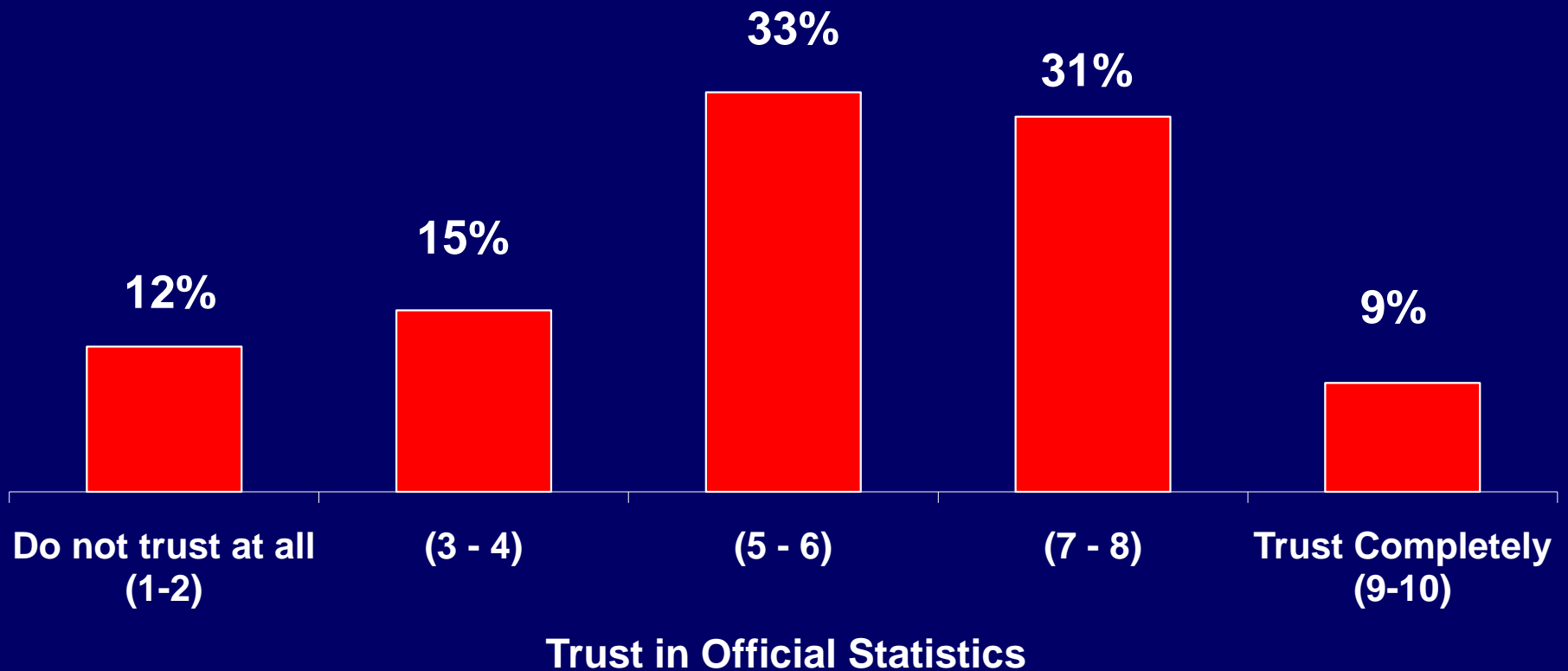
How important is it for a person like you to have exact information about the rate of unemployment, the rate of change in prices, and the rate of change in the Gross Domestic Product — would you say it is extremely important, very important, somewhat important, not very important, or not important at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

Chart 12: Trust in Official Statistics



In general, on a scale of one to ten, where one is “I do not trust at all” and ten is “trust completely” how much do you trust official government statistics to accurately measure the rate of unemployment, the rate of change in prices, and the rate of change in the Gross Domestic Product?

Chart 13: Reports of Official Rates for Economic Statistics in the Mass Media

	Unemployment		CPI		GDP	
	2006-2007	2008-2009	2006-2007	2008-2009	2006-2007	2008-2009
TV Networks	83%	60%	35%	35%	46%	51%
Largest Newspapers	51%	75%	57%	49%	40%	52%

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

Chart 14: Inflation Expectations and Knowledge of Official CPI

	Provided Percentage Rate For Expected Inflation Rate	
	2007	2009
Knowledge of official CPI rate		
Provide rate answer for official CPI	89%	93%
Heard of, but didn't know current rate	92%	90%
Never heard of official rate or agency	78%	84%
Total sample	87%	88%

Chart 15: Informal Inflation Expectations and Formal Knowledge of Official CPI

	Expected Inflation Rate	
	2007	2009
Knowledge of official CPI rate		
Provide rate answer for official CPI	3.0%	2.7%
Heard of, but didn't know current rate	3.3%	2.6%
Never heard of official rate or agency	3.5%	3.1%
Total sample	3.3%	2.8%

Chart 16: Conclusions and Discussion

- ❖ **People still knew little about official economic statistics despite the crisis**
 - Despite the sharp and sudden deterioration in economic conditions, the public's knowledge of official statistics was no better in 2009 than in 2007.
 - Rise in the public's demand and the media's supply of economic information did not extend to the official rates of unemployment, inflation, and economic growth.
 - Unemployment rate most accurate (simple percentage not growth rate), CPI next, and GDP least accurate.
- ❖ **Data inconsistent with theories of “rational inattention” and staggered updating**
 - Economic crisis would imply greater attention and more frequent updating
 - If didn't update economic statistics when people said more information was needed implies that official statistics are not fully relevant for financial decisions
 - Potential benefits of macro statistics may be more limited than assumed
 - Costs of updating information much larger than widely assumed
- ❖ **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.