

The Effects of the Economic Crisis on the Older Population: Changes in Consumption and Expectations

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Data

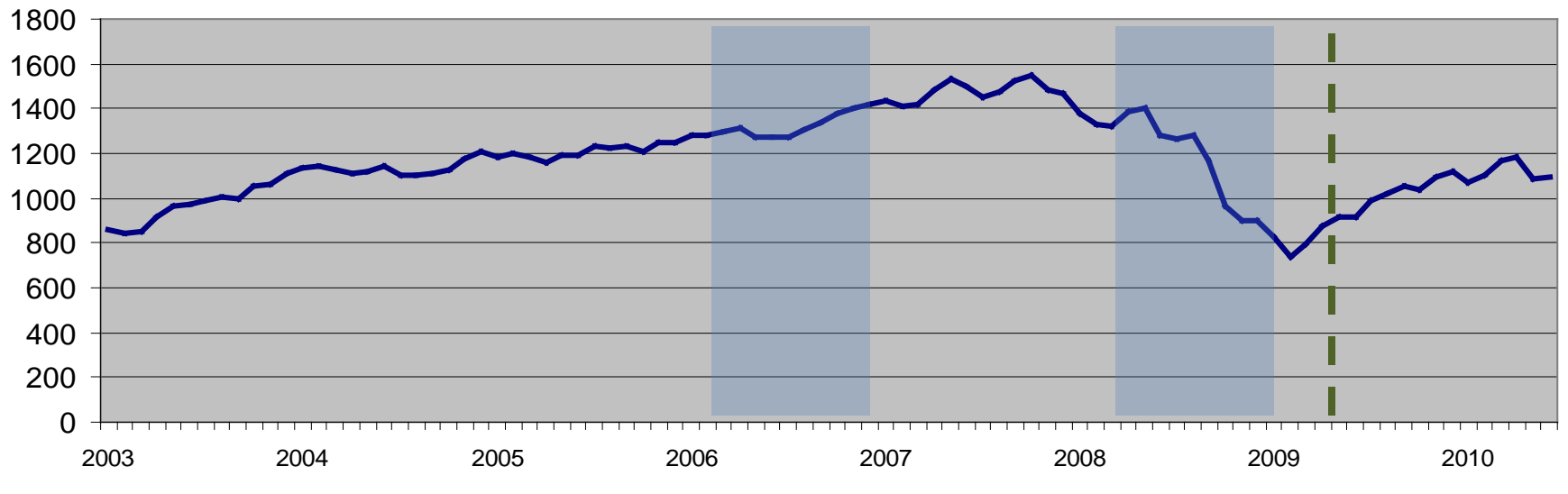
- Health and Retirement Study
 - Core survey 2006 and 2008
 - Internet survey April-June 2009
 - Subsample of HRS
 - Access to Internet and agreed to survey
 - Key variable: Expectations
 - Changes in expectations in panel

Data (continued)

- Consumption and Activities Mail Survey
 - Random sample of HRS
 - Complete measure of spending in prior 12 months
 - 2001, 2003, 2005, 2007 and 2009
 - Compare change between 2007 and 2009 with earlier change in panel

HRS 2006, 2008 and HRS Internet 2009

S&P 500 monthly closing prices



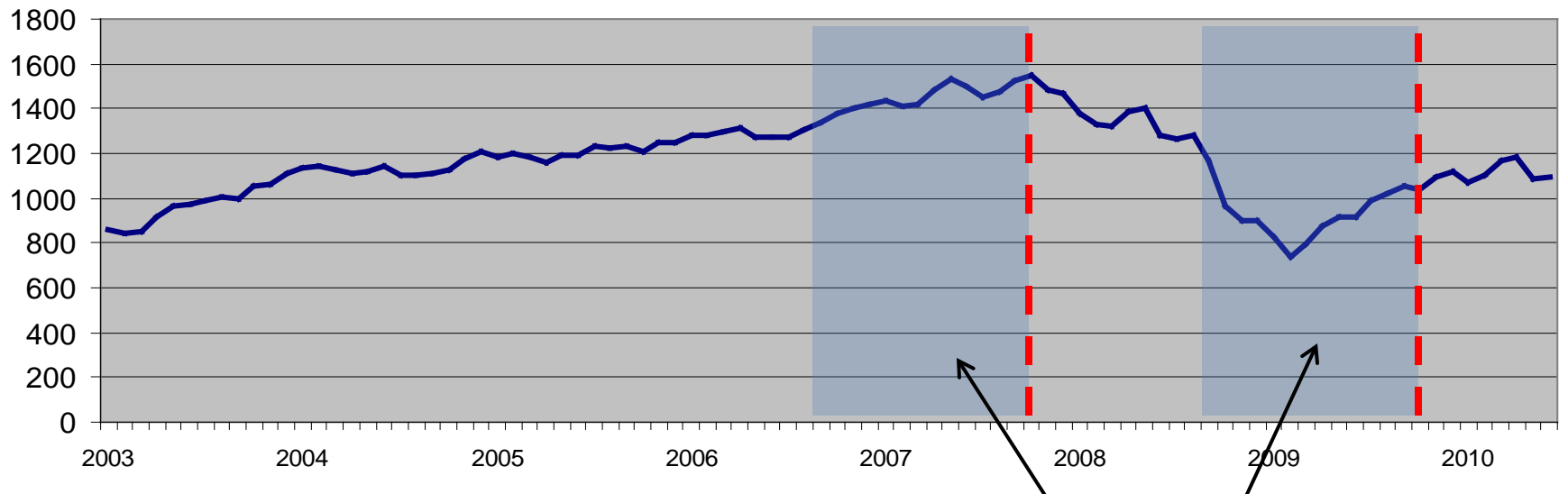
HRS 2006

HRS 2008

HRS
Internet

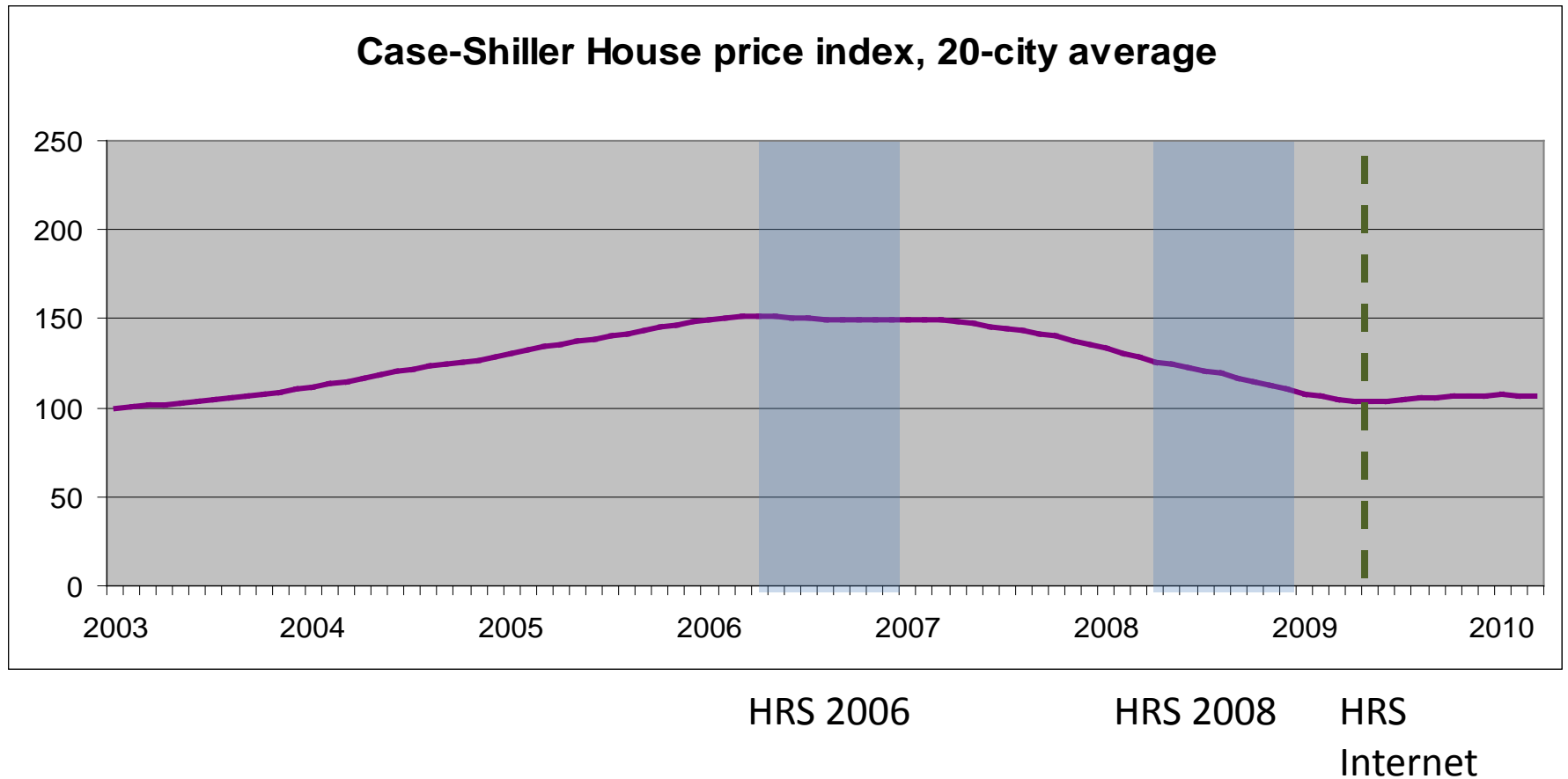
CAMS 2007 and 2009

S&P 500 monthly closing prices

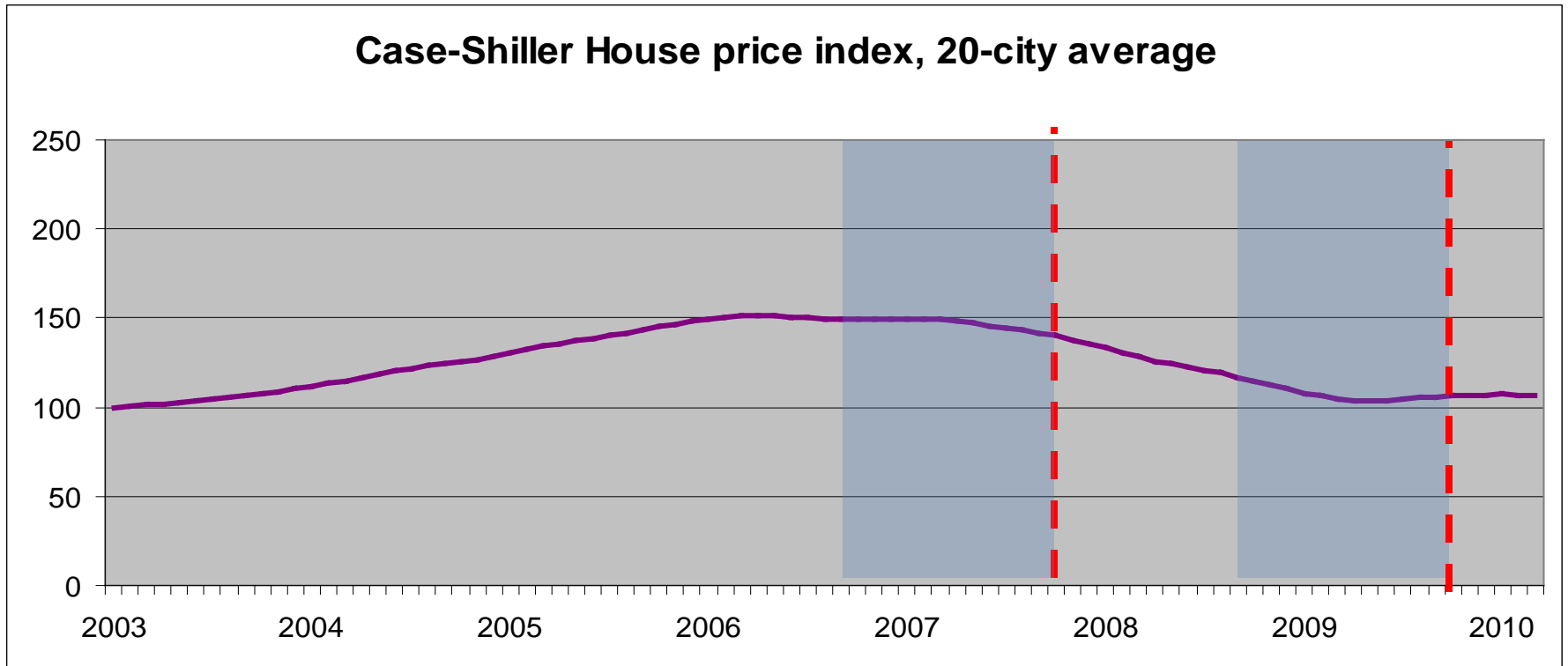


spending period covered

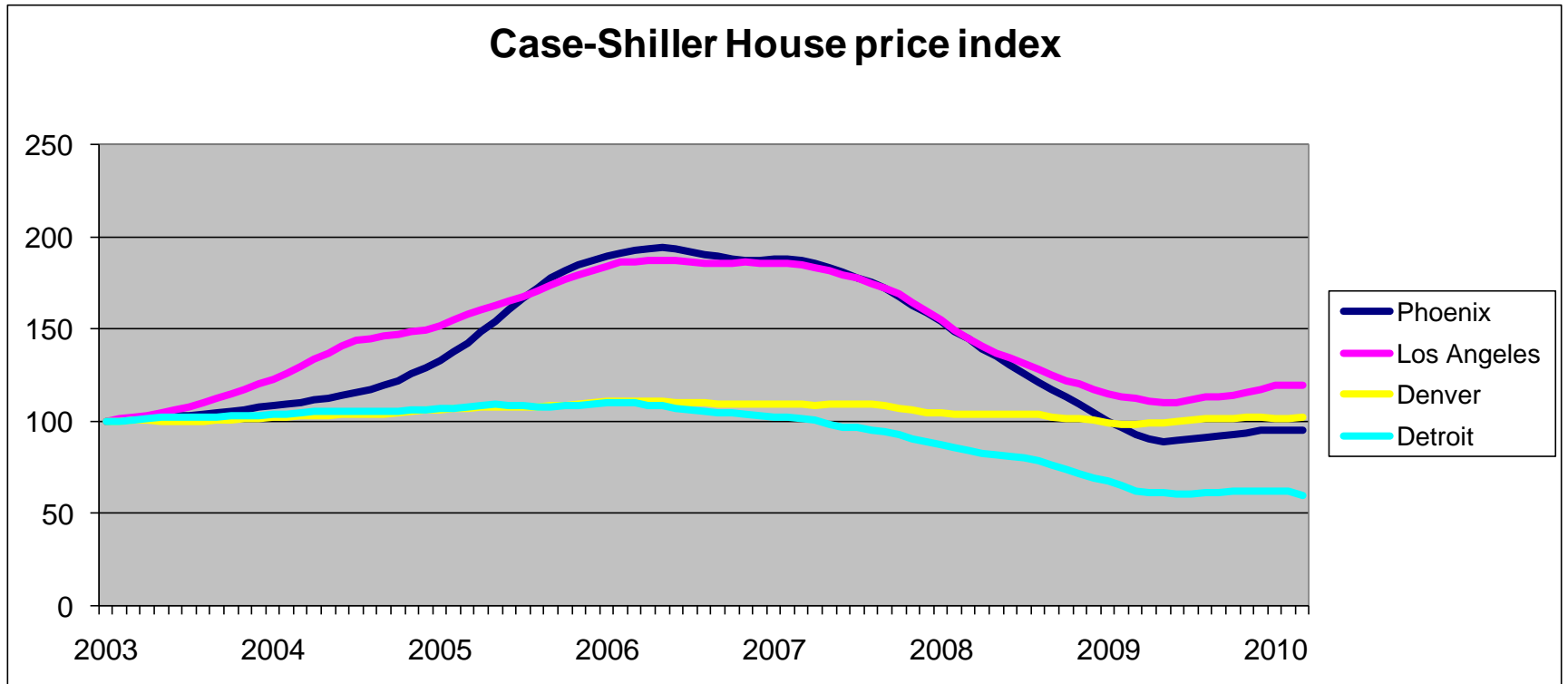
HRS 2008 and HRS Internet 2009



CAMS 2007 and 2009



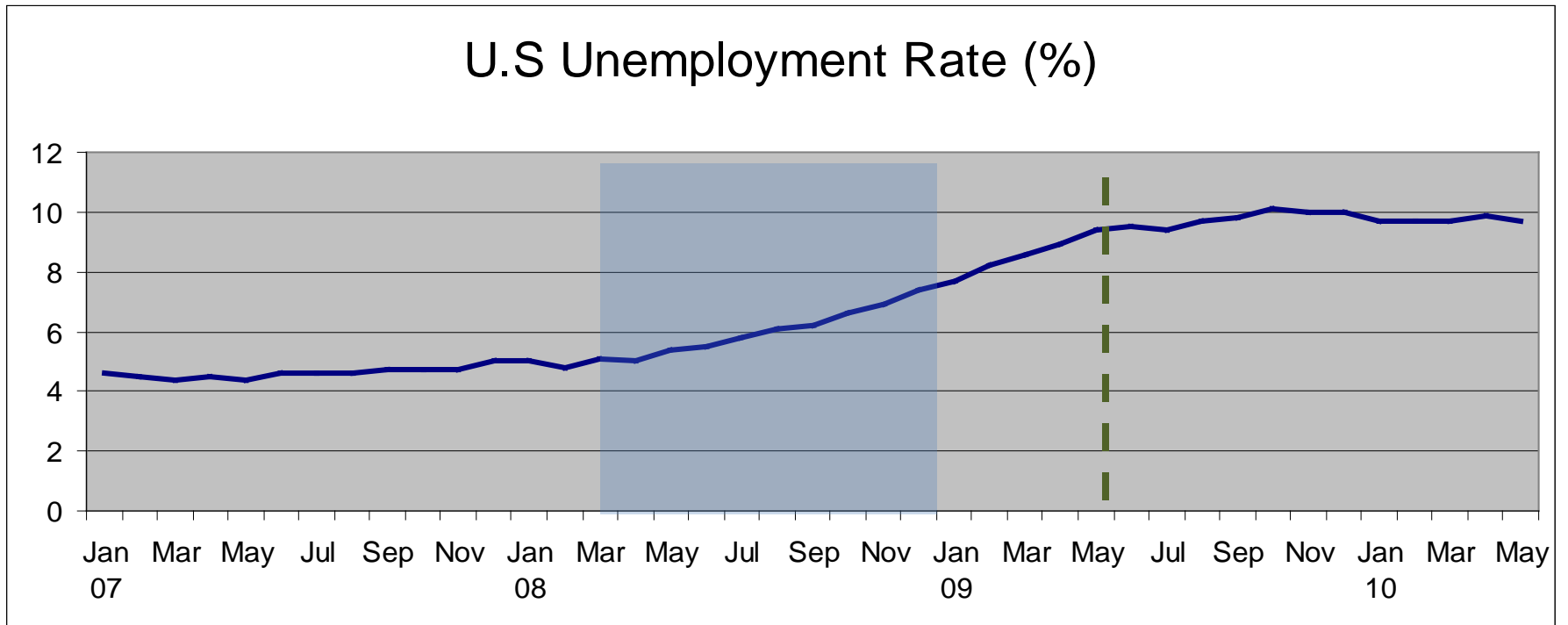
Impact depends on location



Phoenix, Los Angeles, Denver, Detroit

HRS 2008 and HRS Internet

U.S. Unemployment Rate (%)

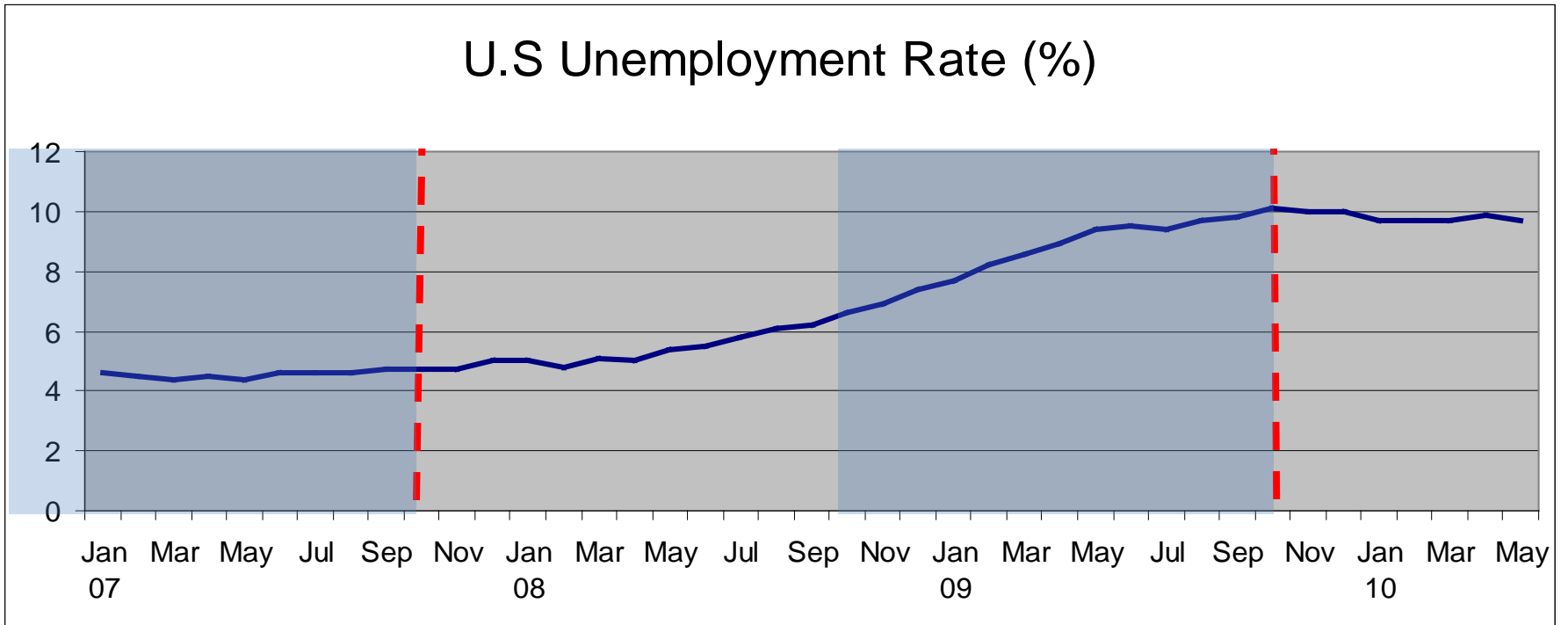


HRS 2008

HRS
Internet

CAMS 2007 and 2009

U.S. Unemployment Rate (%)



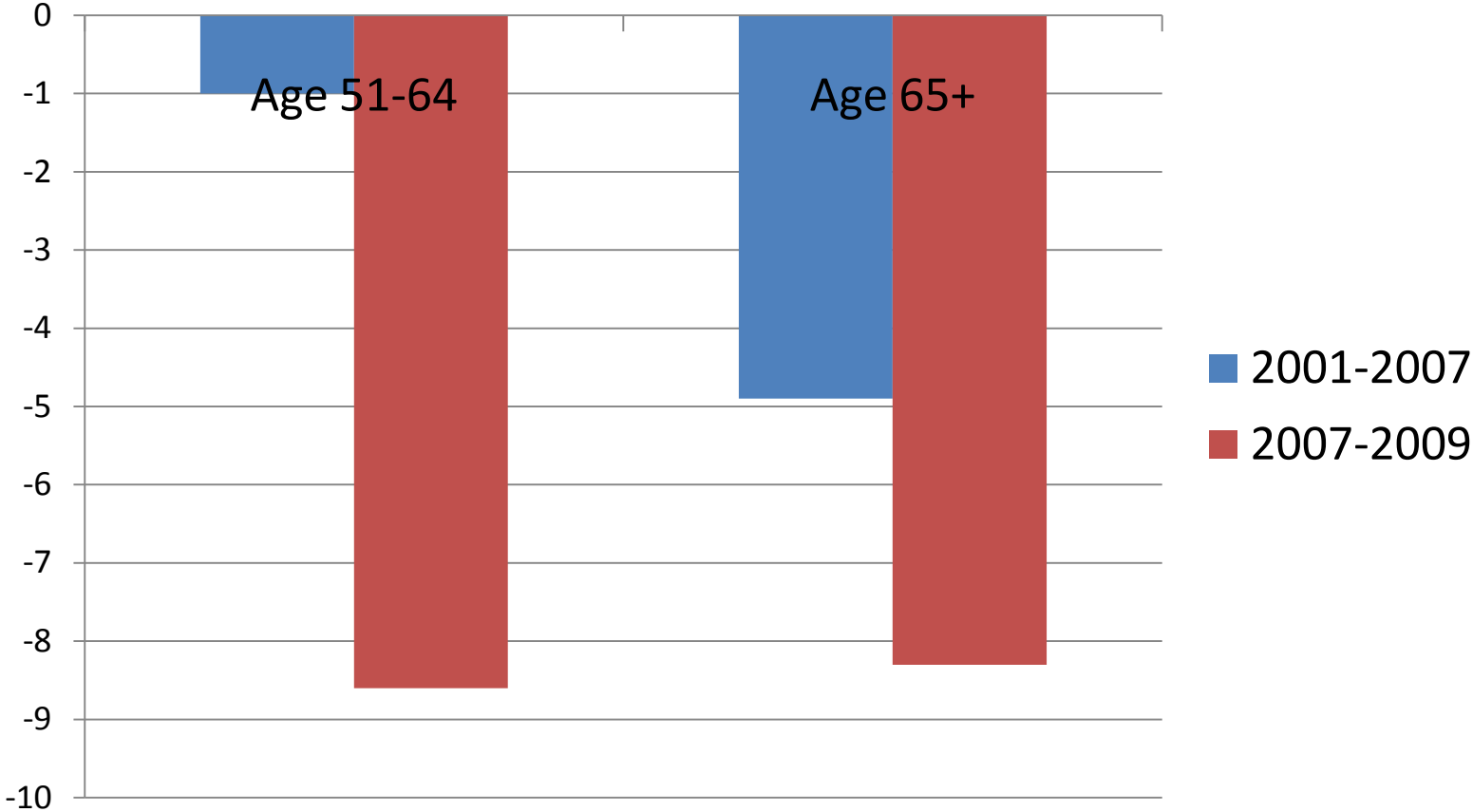
Will show

- Change in spending 2007-2009 based on CAMS
- Change in subjective spending and expectations based on HRS 2008 and HRS Internet 2009

Change in actual spending

- In older population expect spending decline because of life-cycle effects
- Compare two-year change in “normal” times with two-year change 2007-2009
- “Normal” times: average of three transitions
 - 2001-2003
 - 2003-2005
 - 2005-2007

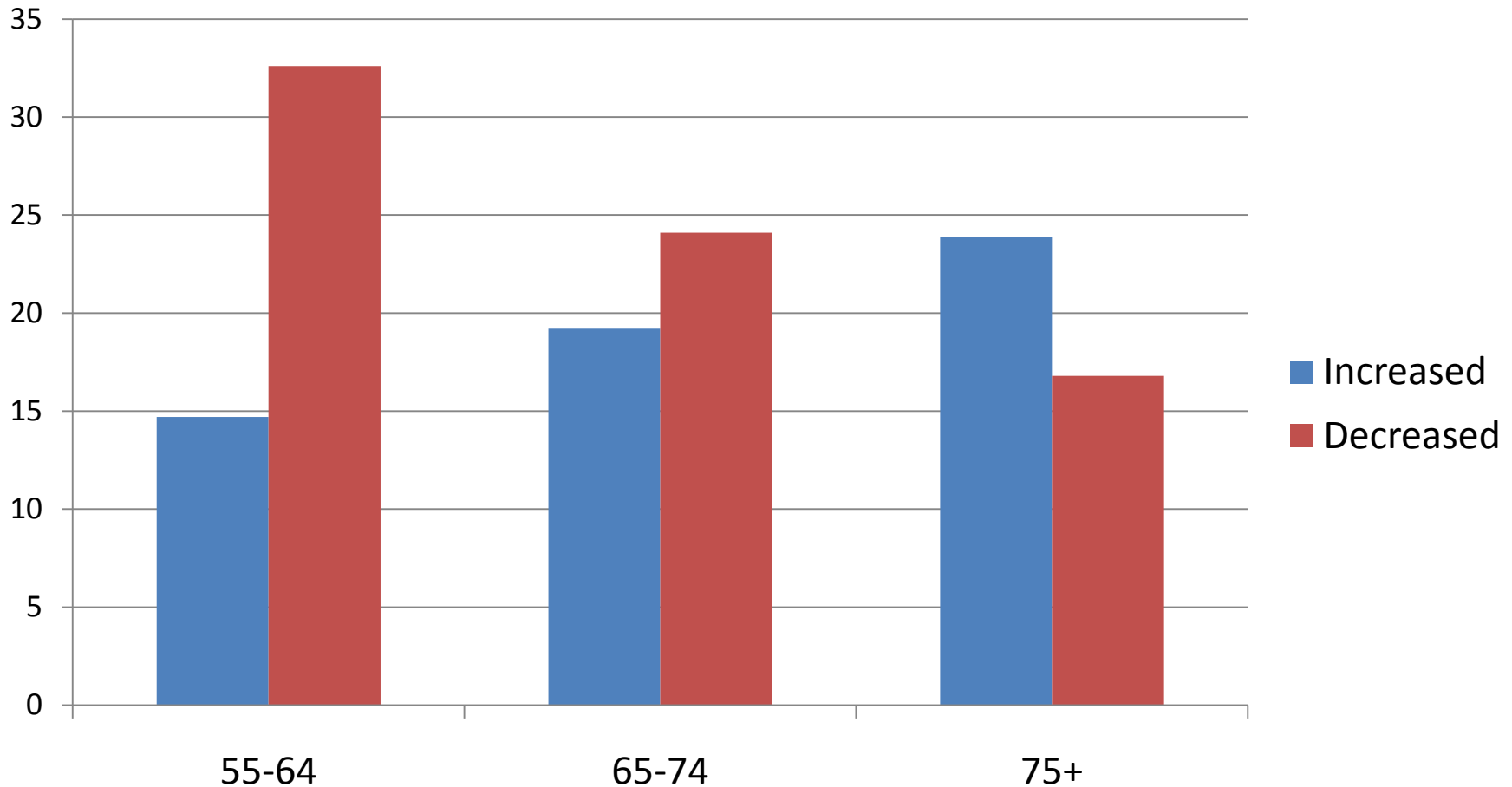
Two-year change in nondurable spending, means, panel



Rest of results from HRS 2006, 2008 and HRS Internet 2009

HRS Internet April-June 2009.

Household spending now compared with a year ago. % of households



Important reasons for spending decline (among those stating decline)

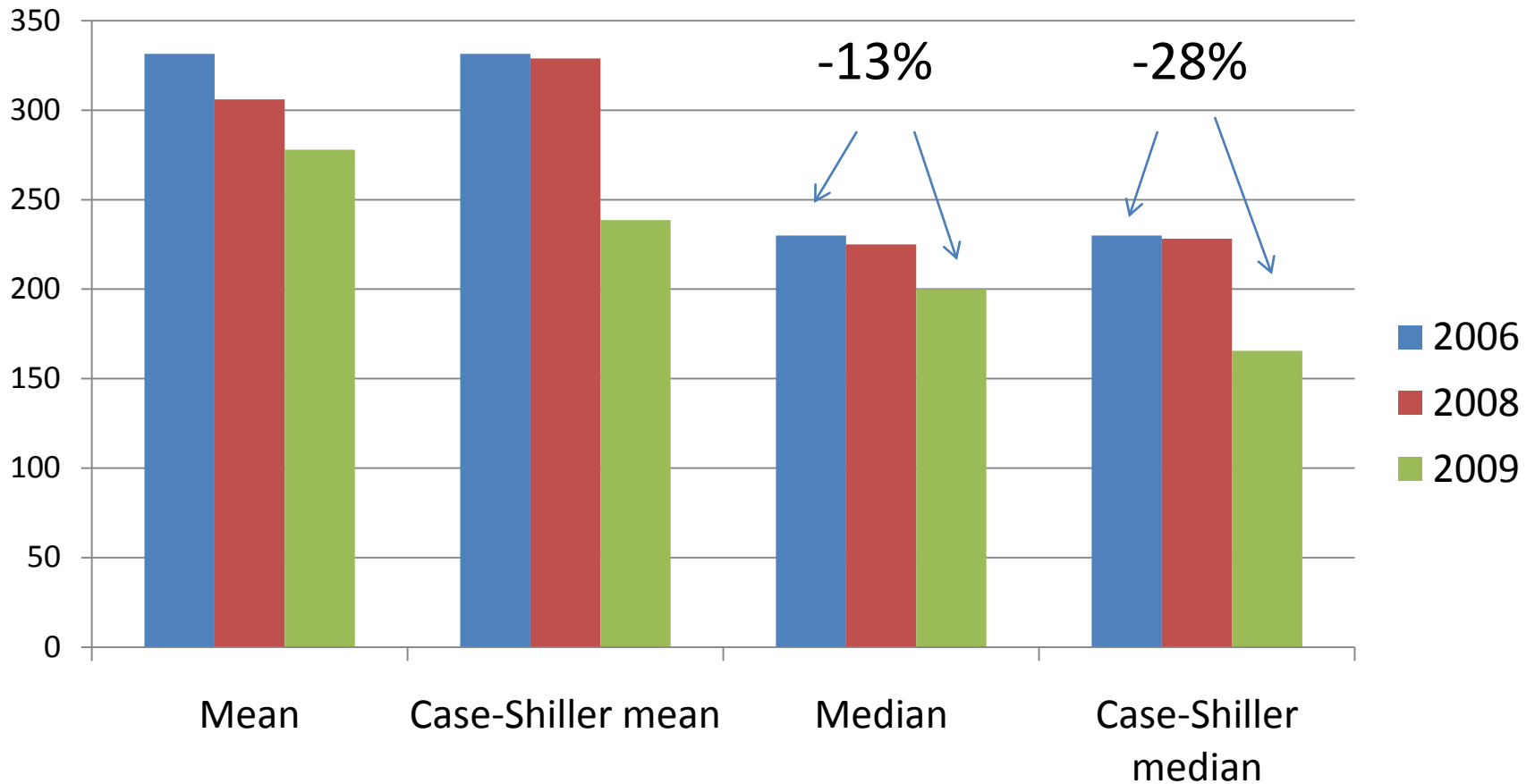
- Worried about economic future: 85%
- Lower income: 74%
- Need to reduce debt: 70%
- Stocks down: 59%
- Lower house value: 52%
- Worse employment: 47%

- Age differences: less income, debt, employment among the oldest

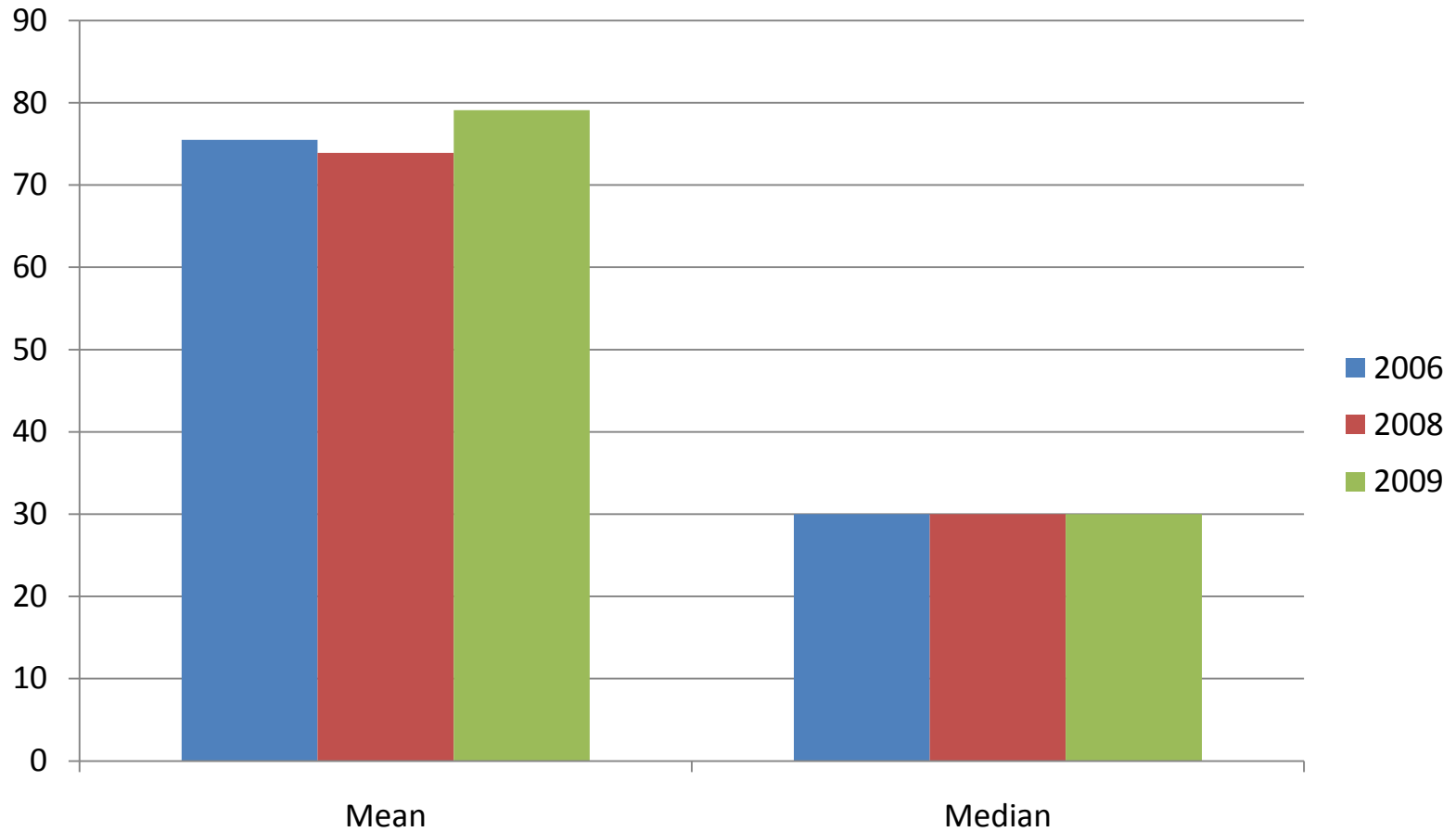
House value

- Self-reports in HRS
- Compare with Case-Shiller 20 city average normalized to HRS 2006 values

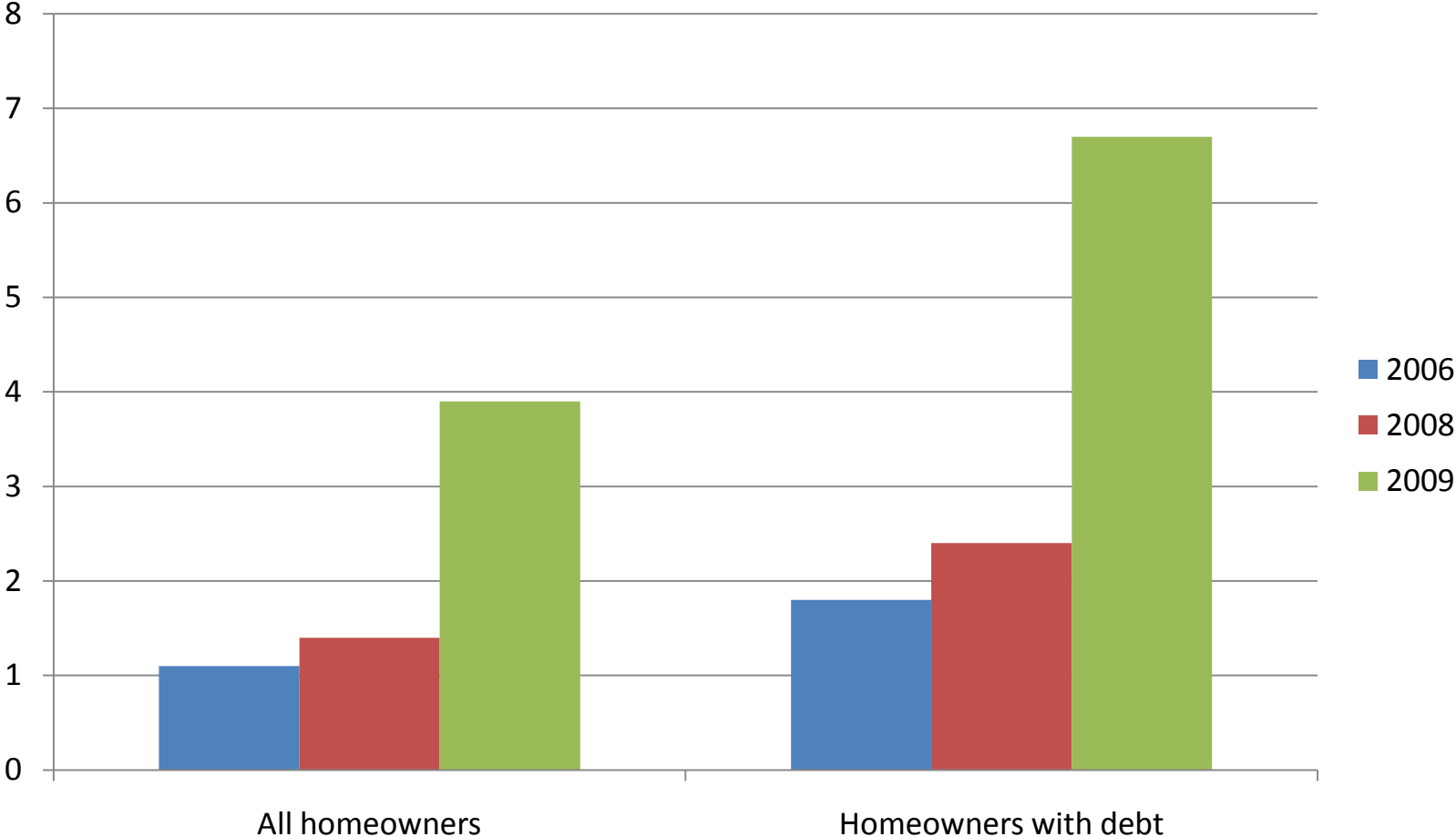
HRS house value (thous.), panel and Case-Shiller normalized to 2006 HRS



HRS house debt (thous.), panel



Homeowners underwater (%)



Expectations measured by subjective probabilities

On a scale from 0 percent to 100 percent where 0 means that you think there is no chance and 100 means that you think the event is absolutely sure to happen, what do you think are the chances that by next year at this time your home will be worth more than it is today?

Additional targets

10% and 20% up

10% and 20% down

Average subjective probability of gain in house prices

	1 year from now	5 years from now
Any increase	32.3	53.5
Increase by 10% or more	21.3	47.0
Increase by 20% or more	10.6	28.0
Decrease by 10% or more	18.5	13.7
Decrease by 20% or more	11.0	9.2
<i>Estimated median change</i>	<i>-4%</i>	<i>+6%</i>

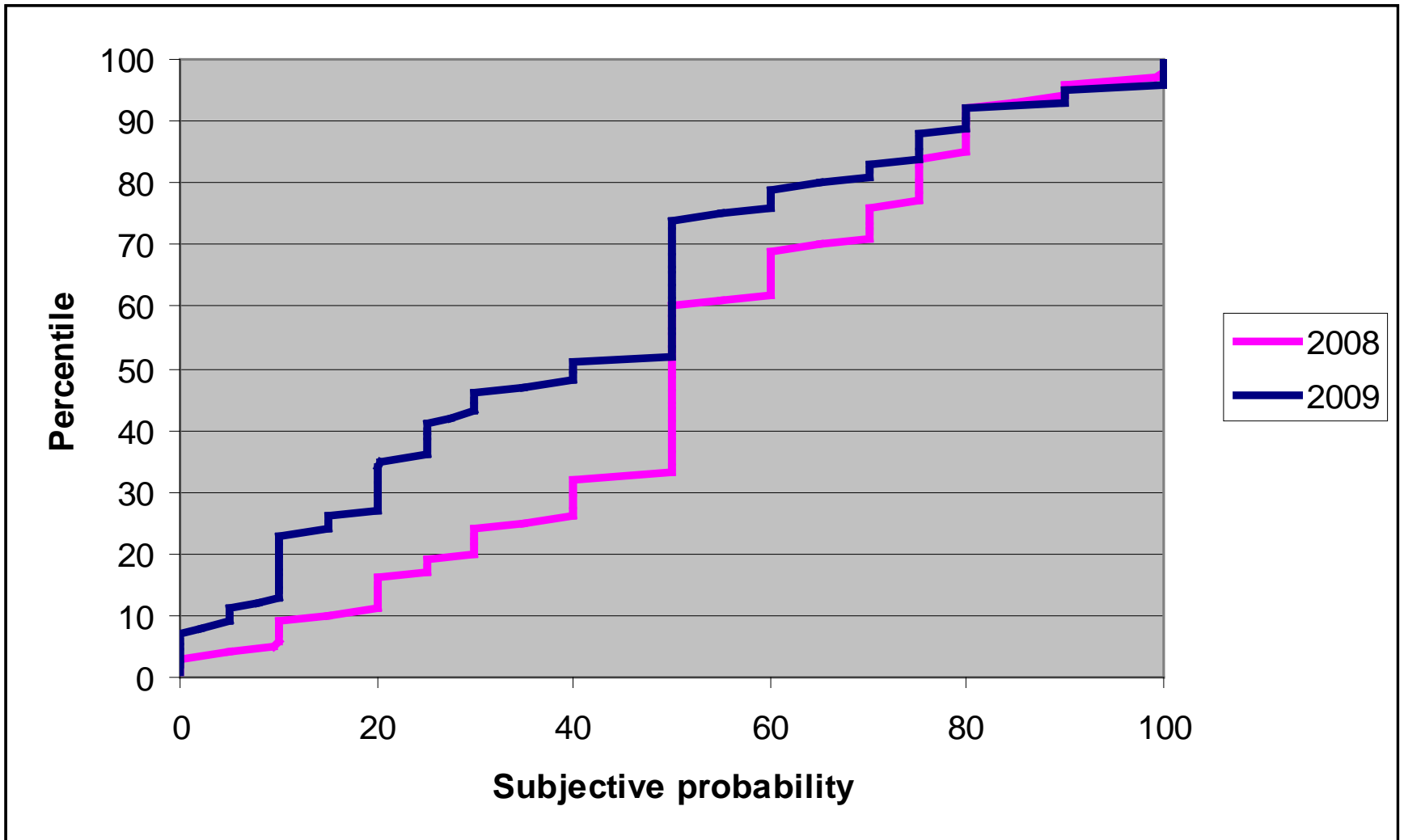
In 88% of one-year intervals between 1991 and 2009, housing prices increased. In all five-year intervals housing prices increased.

Average subjective probability of stock market gain, one-year horizon

- HRS 2008: 52%
- HRS Internet 2009: 41%

Cumulative distribution across individuals

Cumulative distribution. Subjective probability of stock market gain one year ahead



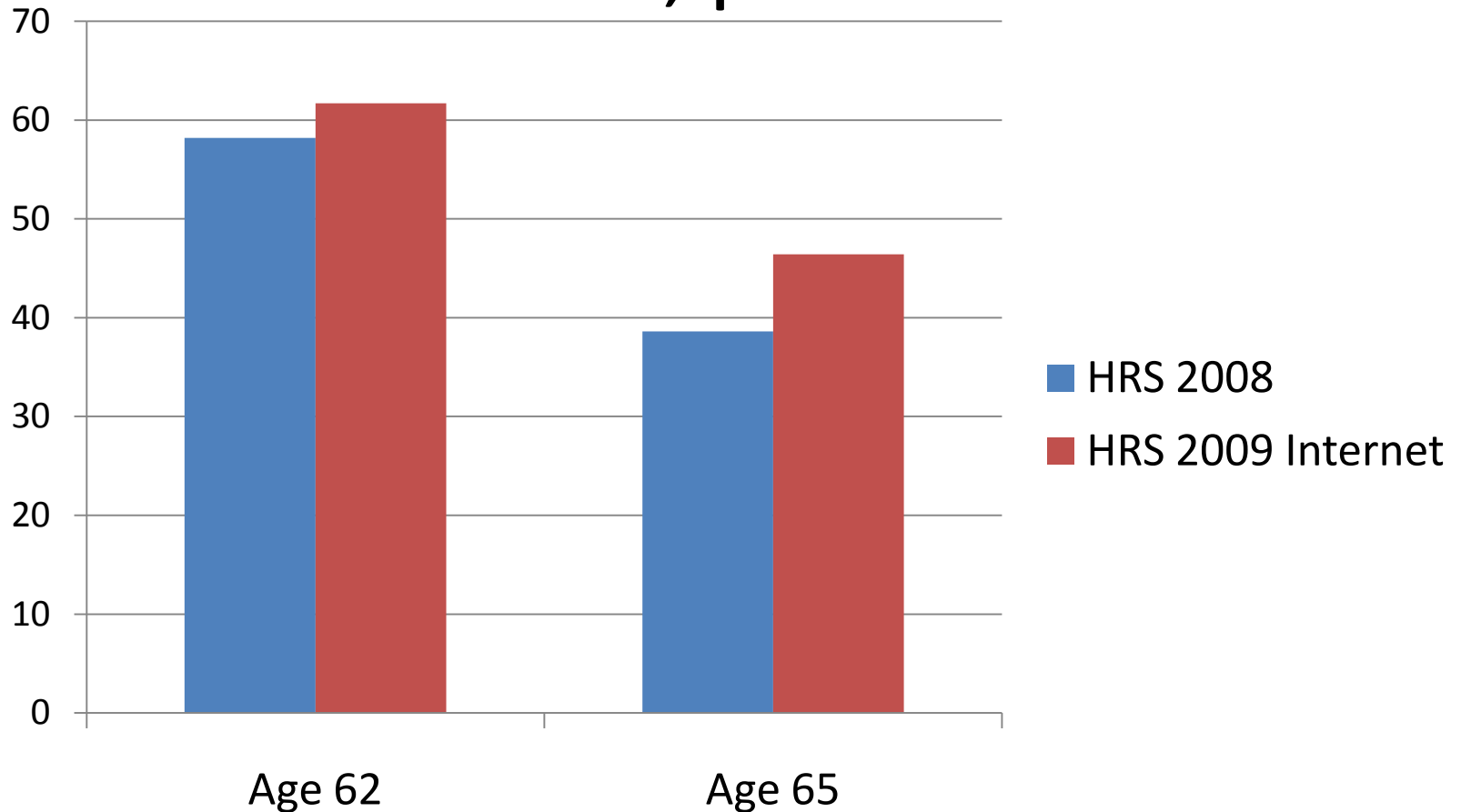
Average subjective probability of bequest less than three target amounts

<u>Targets</u>	<u>2008</u>	<u>2009</u>
10k	16.2	23.9
100k	36.0	44.1
500k	71.2	77.5
Mean expected bequest	\$535.5k	\$436.0k

Possible retirement responses to stock market and labor market

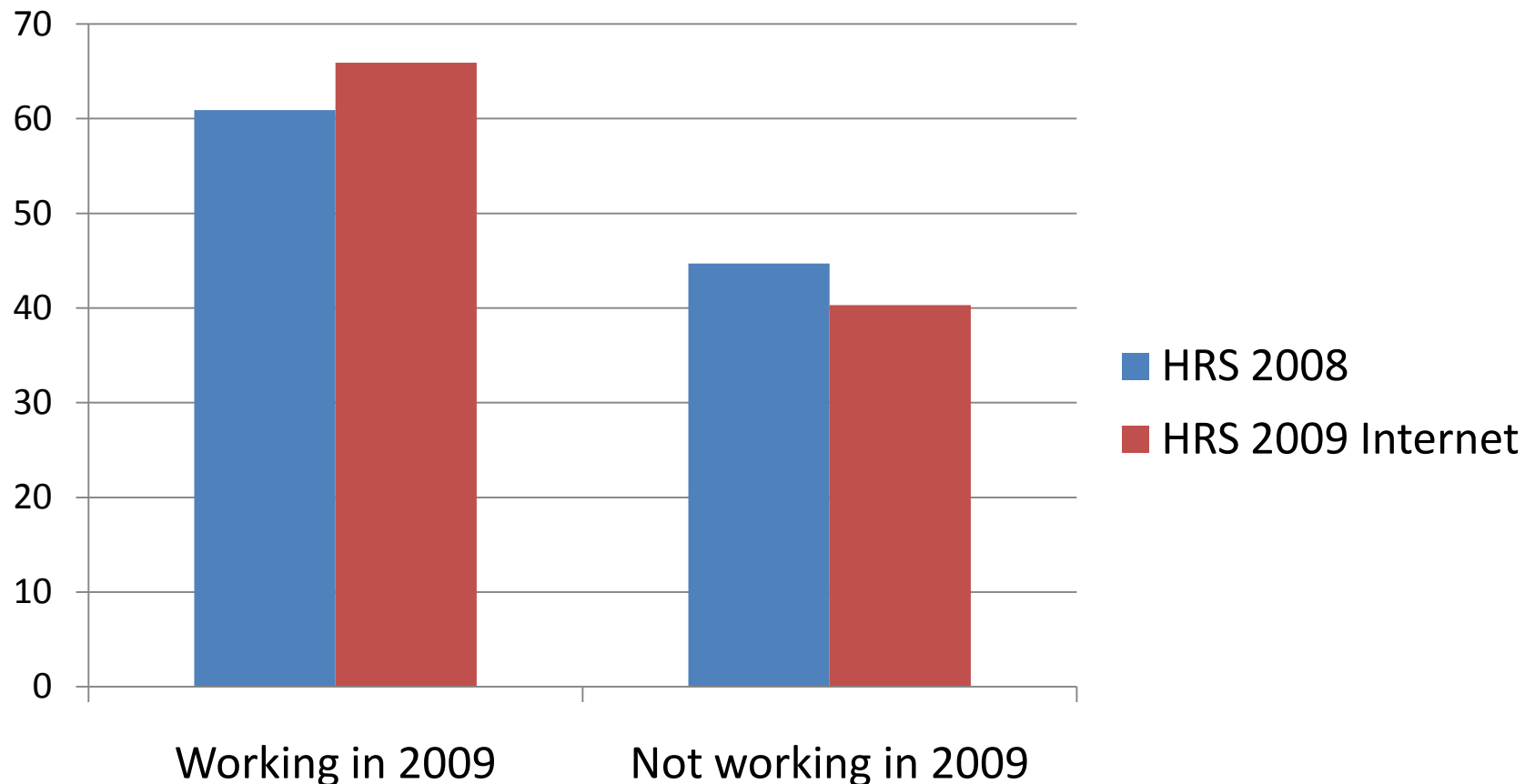
- Stock market: increase retirement age
- Labor market: possibly reduce retirement age
 - May become unemployed
 - Difficulty of finding another job
 - Social Security reported increase in claiming between ages 62 and 66

Average subjective probability of working past age 62 or 65 among those working in 2008, panel

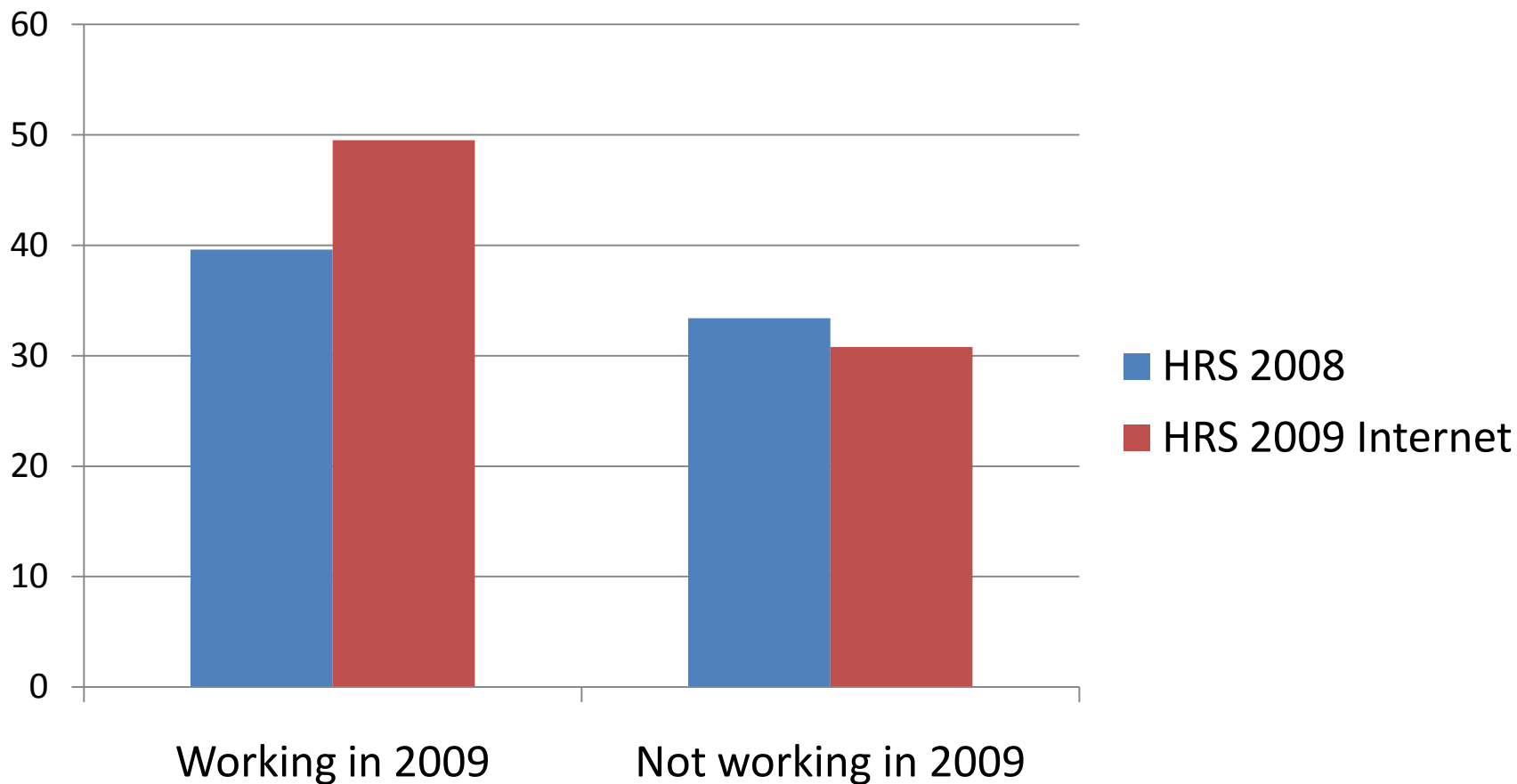


Transition rate from working in HRS
2008 to not working in HRS 2009
Internet was 13.7%

Average subjective probability of working past age 62, among those working in 2008 by work status in 2009, panel



Average subjective probability of working past age 65, among those working in 2008 by work status in 2009, panel



Conclusions

- Substantial spending reductions (measured)
 - about 7.6% among 51-64 year-olds over two years (deviation from “normal” times)
 - about 3.4% among 65+
- Self- reported: 29% of households reduced spending (17% increased)
 - but age 51-64: 33% reported decrease
- Age differences
 - Retired population pretty well insulated
 - Although their children may have been affected

Conclusions (continued)

- Small increase in housing debt at an age when it should be decreasing
- Sharp increase in underwater 2008-2009
- Reduction in expected bequests
 - Allocation of losses in stock market and housing market (and possibly future earnings) between consumption and bequests
- Considerable pessimism in house price and stock market expectations

Conclusions (continued)

- Labor market
 - those working in 2009 expect to retire later than they did in 2008...wealth effect?
 - those not working in 2009 expect to retire earlier than they did in 2008...labor market effect?
- Although recession is over (NBER) it is not over