

A Hangover From High-Expectations:

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Insights from the Latest Survey of Consumer Finances

Last month the Federal Reserve Board released results from the latest Survey of Consumer Finances (SCF), a triennial government survey that is one of the most definitive sources of information about the financial lives of American families.

Conducted in 2010, (and just now released, after two years of government number-crunching), the SCF paints a vivid portrait of how money ebbed and flowed in American lives during the turbulent decade that ushered in the new millennium: 2000-2010.

In particular, the SCF tells a tale of three distinct periods in the decade, and the events and expectations of each period continue to reverberate in the mindsets and marketplace approaches of consumers today.

2001-2004: The Valley Between the Bubbles

With the dot-com crash receding in the rear-view mirror, Americans entered the new millennium in a period of relative financial stability. Income and net worth changed only modestly from 2001-2004. In retrospect, it was a relatively soft landing for the post-dot-com bubble economy, particularly in the longer-term context of the financial gains many experienced during the decade of the 1990s.

In a sense, Americans learned that bubbles would come, generate tremendous wealth for a few, and then burst softly, with modest fallout. The lesson was no so much to avoid bubbles, but rather to resolve oneself to catch the wave of the next one. In many respects, Americans left the 2001-2004 period mentally primed to throw themselves into another thrilling and dream-inspiring bubble.

2004-2007: The Rising Tide of Expectations

Ahhh, the mid-2000s. A time of optimism and easy spending, remembered fondly by marketers and consumers alike. Mean and median net worth rose substantially from 2004-2007, as the rising tide of the housing bubble lifted most boats.

Expectations rose even faster. The future seemed bright. The “riches” of the dot-com era planted the notion of a new path to rapid wealth, but one that seemed remote and improbably for the vast majority “dot-com riches came to high-tech entrepreneurs or day-traders, not mainstream Americans. But 2004-2007 was different. Wealth was coming from home ownership and real estate investment. It was attainable. Even more, it seemed inevitable. It wasn’t some new untested business model creating wealth “it was home ownership, a pillar of the American Dream itself.

Americans began to spend, not based on their actual wealth, but on their felt and anticipated wealth. Business strategies followed suit. Many luxury providers rushed to offer lower-priced and more-accessible line extensions, as the “aspirational luxury consumer” seemed the future of the industry.

While net worth rose across the board, income statistics point to one of several underbellies in this picture. From 2004 to 2007, median income fell slightly “despite feeling richer, incomes for most held stable at best. Mean incomes, however, rose sharply, as the three-decade trend toward income concentration intensified, and a few at the highest-end of the income spectrum saw their incomes spike. The media covered their success stories, and wealth seemed more “in the air” than ever.

2007-2010: The Great Recession

We all know how the financial story of the 2000s ends. In a word, badly. In two words, very badly. In short order, unemployment nearly doubled, and threatened to skyrocket. Home values dropped roughly 25% nationally, and much more in states such as California, Florida, Nevada and Arizona. The stock market lost half its value.

The SCF report puts numbers around how dramatically key financial metrics faltered from 2007-2010. Median income fell by 7.7%; mean income by 11.1%. Net worth fell more dramatically, hammered by the troubled housing market. Median net worth 38.8%, reflecting a large and widespread fall. Mean net worth fell more modestly, by only 14.7%, as this metric was buoyed by the few at the higher-end with more of their net worth in investments (indeed, as 2010 ended, the stock market had already regained much of its Great Recession losses).

Even more telling than the financial numbers is the psychological fall-out. Fear was palpable and unprecedented. Aspirational luxury shoppers essentially went extinct. Consumers took several steps down the hierarchy of needs, back to a basic and primal focus on security, and often in a literal sense, survival.

2010-2012: Lowered Expectations amid Heightened Possibilities

Government surveys such as the Survey of Consumer Finances have the benefit of being definitive, but often have the limitation of being dated, as last month's release of the 2010 SCF reflects. But the general patterns are clear. The housing market — crucial to the net worth of most Americans — continues to recover slowly, as does the job market. In contrast, the stock market — more crucial to the net worth of Affluents — has rebounded with more vigor. The result is further wealth concentration, and a bifurcation of the economy that has left even packaged goods companies shifting from targeting the great American middle class to strategies based on higher-end products for the Affluent and more downscale offerings for the middle class and below.

Psychologically, the palpable fear of 2008 has given way to a more-persistent if less-acute lingering anxiety. Our monthly Mendelsohn Affluent Barometer surveys show that optimism and spending continue to be restrained even among many Affluent Americans, although some luxury markets have seen a mini-rebound as the stock market has helped those at the highest end

Perhaps the biggest psychological challenge of consumers today is wrestling with the hangover of high expectations. The double-bubble of the last decade, and the seeming-accessibility of housing-related wealth in particular, left many expecting great financial success. But now many — Affluents and non-Affluents alike — struggle with a future of uncertainty and diminished expectations.

In a cruel irony, this hangover takes place amid social changes that continue to make success seem so attainable. Today's rags-to-riches stories are raggier, richer, faster-moving and more widely-known than ever (see Zuckerberg, Mark). The omnipresence of social media makes "having a following" seem easy. And reality TV seemingly opens up paths to success with modest requirements in terms of hard work or talent; outrageousness seems the only criterion, and it makes little difference if the outrageousness is authentic, fabricated, or post-produced. It is a social environment that adds insult to injury for many suffering from the hangover of high expectations.

by: Steve Kraus

The Federal Reserve Board's detailed report on the 2010 Survey of Consumer Finances can be found here:
<http://www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf>

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