The Economic and Financial Crisis in Michigan: Survey Evidence from Michigan Households

Lisa D. Cook, MSU

Financial and Economic Crises

- My Research
  - Banking, financial crises in developing countries and emerging markets, e.g., Russia, South Africa, Nigeria
- My Practice
  - U.S. Treasury Department (Council on Foreign Relations), 2000-2001
  - Senior Adviser on Finance and Development
  - Worked on international financial crises

Financial and Economic Crises

- Lessons from Other Crises
  - Recognized, like a number of other economists, that

    - Features of the housing and credit markets were unsustainable
    - Michigan was the epicenter of the crisis – rising unemployment, declining personal income, defaults on subprime mortgages
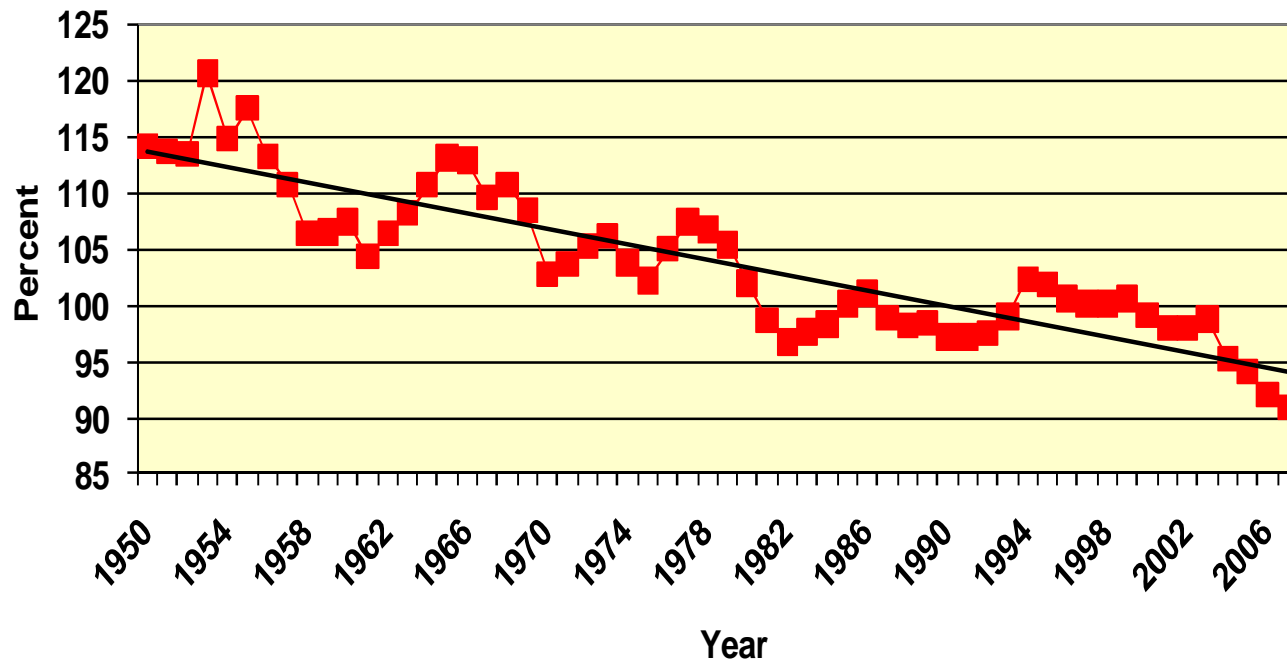
Michigan: The Epicenter

Unemployment Rate, 2007-2009

State	Oct-07	Oct-08	Oct-09
Wyoming	2.7%	3.2%	7.4%
Massachusetts	4.4%	5.8%	8.9%
Texas	4.4%	5.3%	8.3%
Georgia	4.8%	6.9%	10.2%
U.S.	**4.8%**	**6.6%**	**10.2%**
Illinois	5.4%	6.8%	11.0%
California	5.7%	8.0%	12.5%
Ohio	5.7%	6.9%	10.5%
Michigan	**7.4%**	**9.1%**	**15.1%**
Source: www.bls.gov			

Michigan: The Epicenter

**Per-Capita Personal Income:
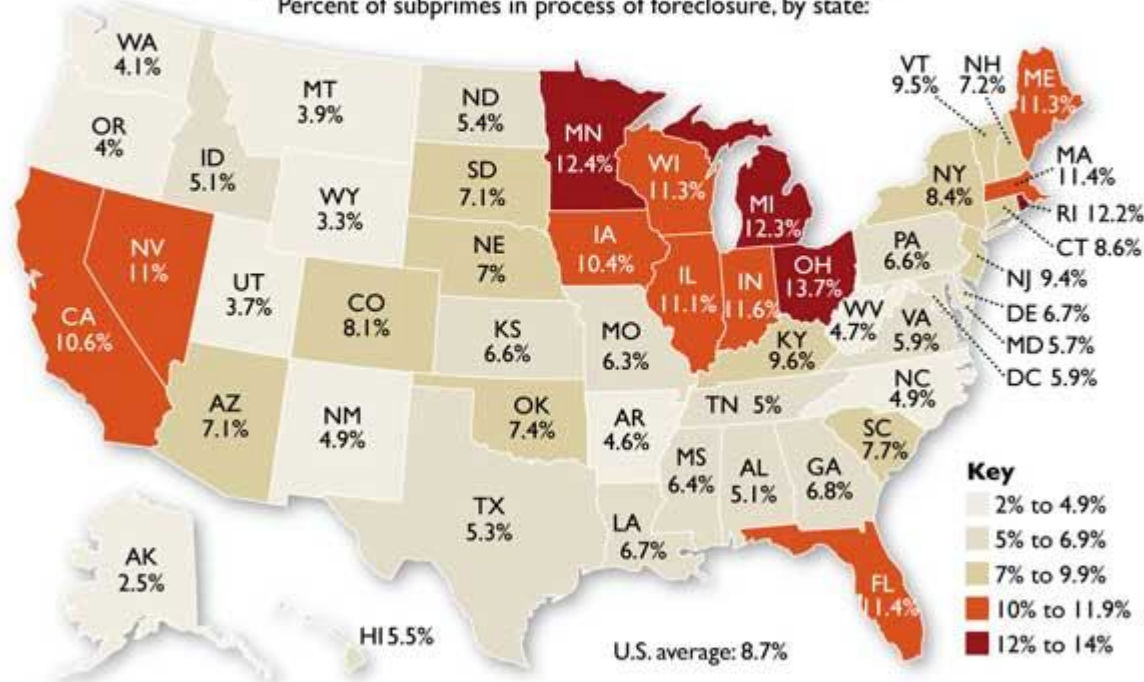Michigan as Percent of U.S., 1950-2007**

Source: Charles Ballard, MSU, 2009.

U.S. Nonprime Foreclosures, 2007

Source: http://www.heritage.org/press/alachart/images/023/alc_023_3col_c.pdf

Michigan Foreclosures, October 2009
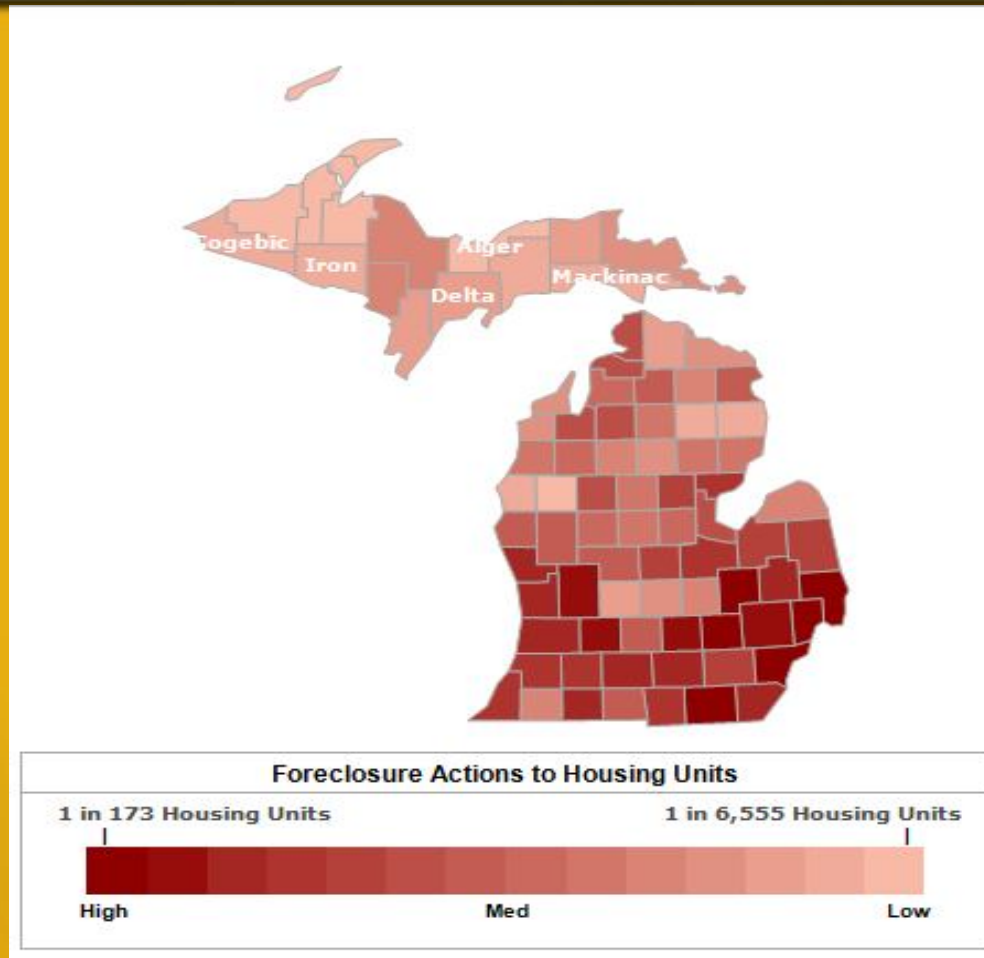
Source: www.realtytrac.com

MI Foreclosures and Home Prices, 2008-9

Source: www.realtytrac.com

Food Stamp Participation

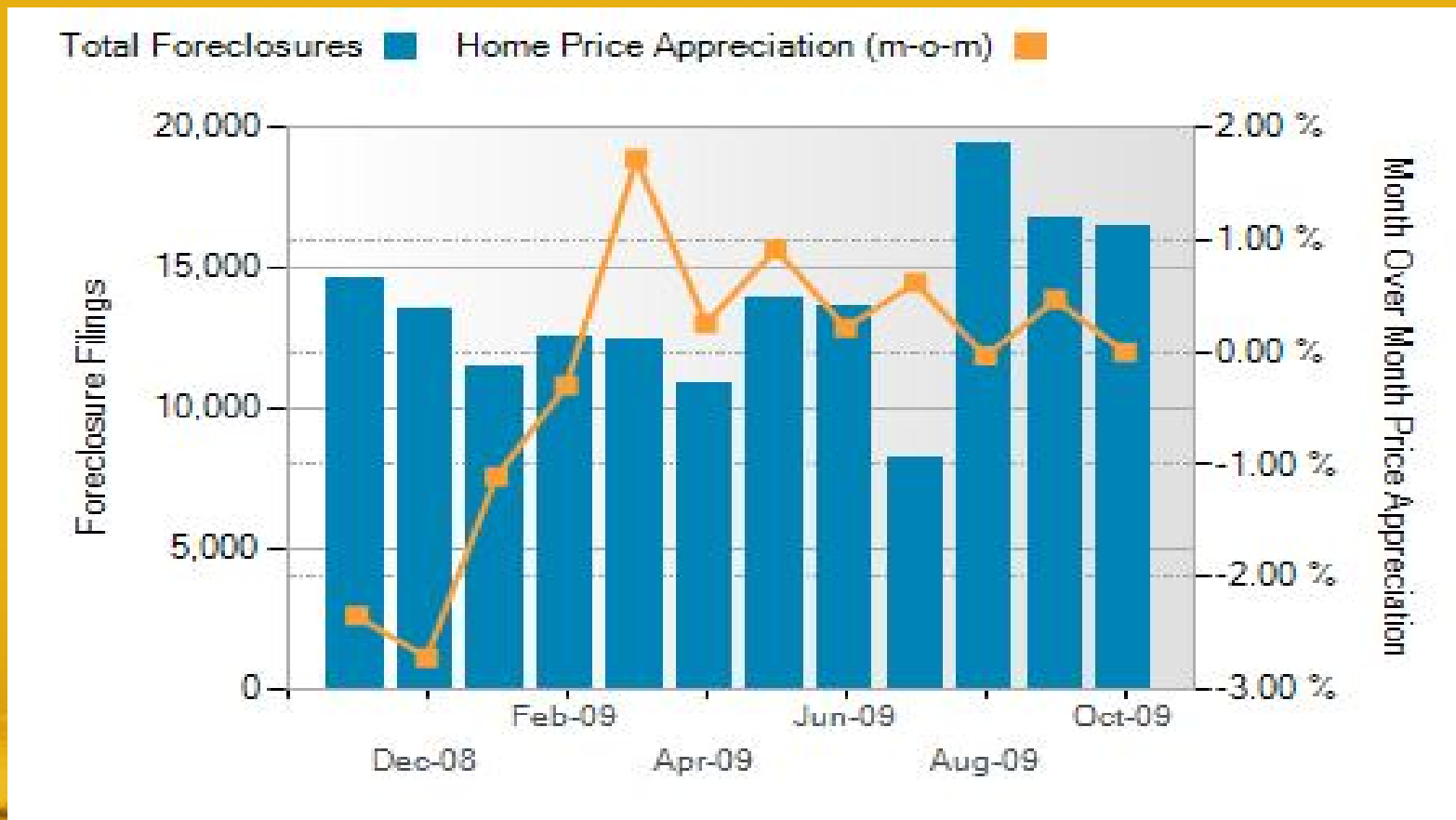| State	FY 2004	FY 2006	Aug-08	Aug-09	Percent change vs Aug-09	
					Aug-08	Jul-09
California	732,239	799,469	962,778	1,226,446	27.4%	1.5%
Georgia	353,040	386,192	446,050	598,127	34.1%	2.8%
Illinois	476,050	556,293	611,531	712,200	16.5%	0.0%
Massachusetts	154,543	227,263	283,818	371,032	30.7%	1.8%
Michigan	**412,666**	**515,030**	**609,359**	**751,922**	**23.4%**	**0.5%**
Ohio	419,271	480,582	540,411	683,132	26.4%	1.8%
Texas	864,342	1,017,313	1,056,145	1,204,415	14.0%	1.4%
Wyoming	10,382	10,134	9,448	12,097	28.0%	0.0%
U.S.	**10,278,593**	**11,734,491**	**13,220,994**	**16,559,716**	**25.3%**	**1.8%**

Source: http://www.fns.usda.gov/pd/SNAPmain.htm

Michigan: The Epicenter

- Managing financial and economic crises requires timely information

  - Consumers
    - Adjust current and future income and spending
    - Establish or use savings
    - Reduce household spending
      - Postpone or eliminate big-ticket purchases
      - Reduce entertainment or dining-out budget

Michigan: The Epicenter

- Managing financial and economic crises requires timely information

  - Policymakers
    - Stabilize economy
    - Reduce uncertainty, restore confidence
    - Use savings (rainy-day funds)
    - Implement appropriate countercyclical policies quickly

The Household Survey

- I noticed that timely, comprehensive information was not available on the impact of the crisis on Michigan households.

- From a macroeconomic perspective, could we collect data on the current situation and future activity (early warning system)?

The Household Survey

- With MSU extension, we created a survey that both

    - Gathered data on current and future situation of households and
    - Provided resources to help respondents

The Household Survey

- Questions
  - Current financial sustainability
  - Current and future changes in job status, hours worked
  - Past and future bankruptcy and foreclosure activity
  - Past and future credit-card activity
  - Financial literacy, e.g., budgets and credit scores

The Household Survey

- Web-based
- Respondents given information on where to find specific and general resources

Survey Results

- Phase I started in April
- 236 respondents so far
  - Small sample but results consistent with data collected from other sources, e.g., delinquencies, job uncertainty
- 54 of 83 counties in Michigan represented
- Median age of respondent is 45

Survey Results

- **Increasing uncertainty about job loss**
  - Up from 14% to 24% from June to November

- **Expected total income change**
  - Up from -2% in June to -5.1% on average in November

Survey Results

- Credit cards
  - Slightly fewer are reaching borrowing limit – 81% vs 75%, June to November
  - Total credit card debt:
    - Average is up: $5739 to $8342, June to November
    - Median is down: $3889 to $646, June to November

Survey Results

- Mortgage and rent payments:
  - Late house and rent payments in the last 12 months: 11%-13% between June and November

- Financial literacy:
  - Relatively low, given crisis
  - Check credit score: 60% -- yes
  - Household budget: 60% -- yes

Survey: What's Next

- Phase II of survey scheduled to start in mid-December or early January

- Key questions to appear on IPPSR's Michigan State of the State Survey in January to obtain larger and more representative sample of households

Policy Recommendations

- From survey results, any recommendations would be preliminary and offered with caution

Policy Recommendations

- Address uncertainty, foreclosures
  - Classic market failure with market and societal objectives misaligned
  - Growing social and economic costs, e.g., deteriorating neighborhoods, public safety

Policy Recommendations

- **Address uncertainty, foreclosures**
  - Incentives to keep homeowners in their homes should outweigh incentives to keep them in default or in foreclosure proceedings with accruing fees
  - Philadelphia's Foreclosure Diversion program as example
    - Estimates of 60%-78% of foreclosures averted with mediation

Policy Recommendations

- Promote financial literacy

  - Household financial sustainability
  - Forward-looking behavior
    - Savings
    - Debt management

Michigan's Future

- Given long-term trends, continue to invest in key areas
  - Education
    - Surest way to provide buffer against declining personal incomes and future shocks
  - Infrastructure
  - Innovation
    - Michigan is the state with the 7th highest number of patents awarded
    - Should convert success to innovation

Michigan

- Thank you for your attention!