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New Middle Class

Q1 2022 Financial Household Tracker Report

Consumer financial health is still recovering from the pandemic, but inflation is now adding renewed strain for non-prime Americans.

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Summary

THIS REPORT EXAMINES the general sentiment of prime and non-prime Americans on key factors surround personal finances. We found that:

- 31% of non-prime consumers feel less financially secure than the year before.
- The labor market is rebounding more quickly for prime Americans than non-prime Americans.
- Manageability of day-to-day expenses is further strained by inflation.
- The pandemic has eroded access to credit for non-prime Americans.

In this report, we sought to uncover was the general sentiment of prime and non-prime American consumers surrounding their finances. Right away, we noticed a striking trend. This research shows a steady increase in the feeling of financial instability amongst non-prime respondents, starting before the pandemic. The non-prime consumer has an additional headwind in that their households appear to be rebounding in the labor market slower than prime households. For the last year, we are seeing an increase in the number of households who report at least one expense category is causing "a lot" of strain on their month-to-month finances. As so many Americans are still suffering from a decline in their income, they now must contend with a sharp uptick in inflation. The number of non-prime households who report that their debts are less manageable compared to the previous year has also ballooned. All these factors contribute to the continued tightening of American household finances.

> **Non-prime consumers have credit scores below 700. Prime have scores above 700.**

Introduction

The non-prime tracker was started in 2018 to track more than 50 aspects of household finances every month. Dividing the population into prime (those with credit scores above 700) and non-prime (those with credit scores below 700) allows us to see the unique challenges of the nearly half of Americans who do not have full access to all credit instruments.

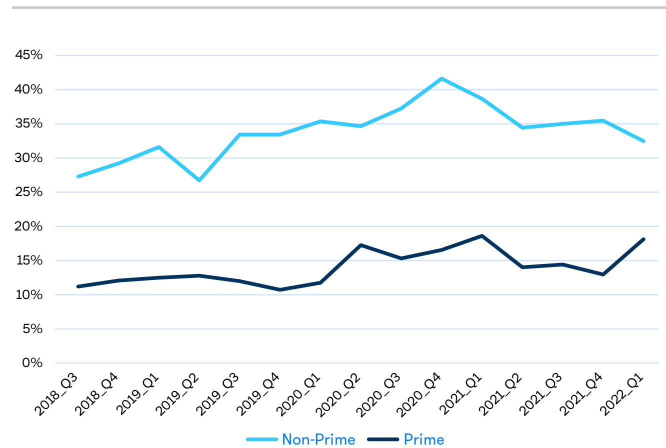
In this quarterly report, we looked closely at measures of financial security, job and income changes, impact of expenses, and the manageability of household debt levels.

Feeling Less Secure

Feeling financially insecure can lead to a myriad of societal woes. A small survey can provide insight into the scope at which financial security affects our lives. Financial insecurity can lead to disconnection at work,[1] erosion of physical health,[2] cognitive decline,[3] family instability,[4] political disengagement,[5] and can even lead to the evaporation of the tax base of local governments.[6]

Non-prime households who felt less financially secure compared to the year prior peaked (42%) in the fourth quarter of 2020. This was at a time when the country was still reeling from COVID restrictions but most stimulus package benefits had run out. The number of people who feel less secure compared to a year earlier has been dropping since that point.

Respondents who feel "Less secure" financially compared to a year ago



Compared to a year ago, how do you feel financially? ["More Secure", "About the Same", "Less Secure"]. Percent responded "Less Secure" Shown. N = 20,839, as of 3/28/2022

This is cold comfort. What is little known is that that measure of increasing instability is substantially today compared to when we began tracking , in Q4 2018. In Q1 2022, almost a third (31%) of non-prime households report to feeling less financially secure compared to the prior year.

Prime households, unsurprisingly, have always fared better. Prior to the emergence of COVID-19, about 12% of prime households would report feeling less secure. This number spiked up to 17% at the height of the economic shutdown in Q2 2020 and reached a high-water mark of 18% in Q1 2021. After that, they trended downward until Q1 2022 when it shot back up to 18%.

Job Loss

The impact of COVID on the labor market is well established.[7] What is less well understood is how individual households have fared. Macroeconomic metrics measure the individual employment rate. This does not measure the compounding effect of job loss within the household.

While the number of households that are reporting a recent job loss peaked in the first half of 2020—in conjunction with widespread economic shutdown—the number has been coming down. Overall, in Q1 2022, about 30% of households had experienced a job loss in the prior twelve months.

Respondents with a job loss in their household within the last 12 months.

Which of the following employment events occurred to you or your spouse/partner in the last 12 months? Lost a job (e.g. laid off) with or without severance. ["Me", "Spuose/Partner", "No One"]. Shown: 'Me" and/or "Spouce/Partner". N = 20,839, as of 3/28/2022

An interesting aspect of this metric is that the number of prime and non-prime households who reported some job loss in the prior twelve months tended to move together. The measures experience disparate peaks and valleys, but their correlation is remarkably close. That tandem action broke in the middle of 2020 when the two groups experience job loss in different phases of the pandemic. Since then, the number of prime households reporting a job loss has dropped at a much faster slope than that of non-prime households. Indeed, non-prime households have been stagnant at around 34% since the beginning of the pandemic in Q1 2020.

The labor market is rebounding quicker for prime households than it is for non-prime households.

Decreased Income

Then the pandemic hit, Mark Napoli[8] felt blessed to be employed by a company that wanted to preserve his job. When the economy didn't bounce back immediately, they still tried to protect their employees, but they cut his salary by 40%. Still, he had a job, which was more than he could say for many around him at the time. Eventually, he transitioned to a job with better prospects, but it didn't pay well. While Mark was never officially out of work, the economic disruption of the pandemic significantly impacted his income.

Mark is not alone. At the height of the pandemic, 44% of non-prime Americans reported having a lower income than the year before. That number is gradually coming down, but it still is higher than pre-pandemic levels.

Respondents who stated their household income has decreased compared to 12 months prior

Has your household income changed over the past 12 months? ["Yes, it has increased", "No it has not changed", "Yes, it has decreased"] Shown: Percent "Yes, it has decreased" . N = 20,839, as of 3/28/2022

Even though the magnitude is lower for prime Americans, the trend is similar. At the high point, more than one in four (27%) prime respondents said that their income had dropped compared to the year before. In Q1 2022, that number is 17%, which is still higher than any measured period before the pandemic.

The labor market is rebounding quicker for prime households than it is for non-prime households.

Strain on Month-to-Month Finances

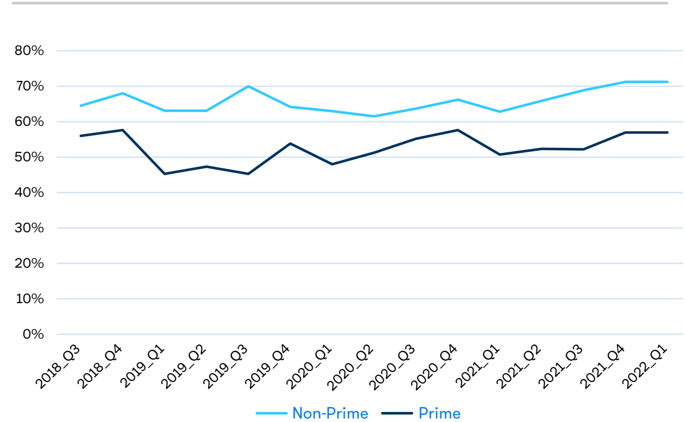
Income is only one factor that can disrupt household finances. Another component, of course, is expenses. When the once predictable costs of everyday life become more expensive, households feel the pinch.

> **The number of households who reported at least one category causing them "a lot" of strain has been steadily rising since Q1 2021.**

We track a series of different regular expenses (from grocery and gas to healthcare and education). We ask the respondents whether any of those categories are causing any strain on their month-to-month finances.

The raw numbers are striking: 71% of non-prime households reported at least one category was causing a lot of strain on their finances in Q1 2022. For prime households, the number is only better by degree at 57%. More than half of Americans are feeling the pinch.

One or more factors cause “A lot of strain” on month-to-month finances.



How much do the following costs place on your month-to-month finances? Matrix: Costs: “Healthcare out-of-pocket costs”, “Health insurance”, “College education or savings”, “Housing (mortgage or rent)”, “Groceries”, “Entertainment (eating at restaurants, going to the movies, etc.)”, [“Does not Apply”, “No Strain”, “A little bit of strain”, “A lot of strain”]. Shown: At least one “A lot of strain” . N = 20,839, as of 3/28/2022

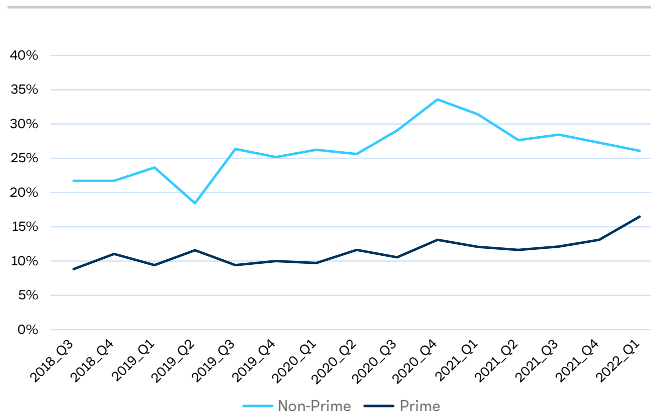
Manageability of Day-to-day Expenses

Related to the measure of month-to-month financial strain is the manageability of day-to-day expenses.

Before inflation eroded the buying power of American households and before the pandemic upended the economy, non-prime households had been reporting a steady increase in the number of households who found that day-to-day expenses were becoming less manageable. It peaked in Q4 2020 with one in three households admitting to the struggle. Prime households popped that quarter as well (13%) but didn’t peak. They held generally steady until Q1 2022 when they jumped to 16%.

As so many Americans are still suffering from a decline in their income, they now must contend with a sharp uptick in inflation.[9] We are seeing that struggle in both the strain of month-to-month finances as well as the manageability of day-to-day expenses.

Percent of responders saying their day-to-day expenses are less manageable than a year ago



Overall, compared to a year ago, are your day-to-day expenses more manageable, about the same, or less manageable? Shown “Less Manageable. N = 20,839, as of 3/28/2022

Percent of responders saying their debt is “Less Manageable” versus a year ago

“Compared to a year ago, do you think your personal debt level are more manageable, about the same, or less manageable?” Shown “Less Manageable”. N = 20,839, as of 3/28/2022

Manageability of Debt

One of the ways households seek elasticity in their finances—especially at times of financial stress—is by using credit. It can help them overcome short-term liquidity issues or provide them the funds to solve bigger problems.

Prior to the pandemic, 8% of prime respondents said that their debt was less manageable compared to the prior year, a metric that held steady. After the pandemic started the number grew to 10% and remained consistent with only a single spike in Q1 2021. However, Q1 2022 has seen a meaningful quarter-over-quarter increase (now 13%). This meaningful increase over pre-pandemic levels shows continued weakness in even the more resilient prime households.

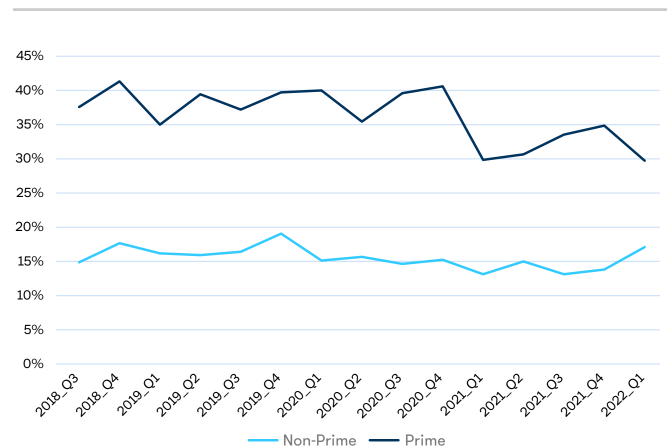
The metric for non-prime respondents has not been as stable over time, but the trend has been unmistakably slanted upward. At the beginning of 2019, 20% of non-prime respondents felt that their debts were less manageable compared to the prior year. Eighteen months later, that number had ballooned to 33%. By Q2 2021, the number retreated and has since held steady (27%).

Accessing Credit

The pandemic has constrained access to credit for prime respondents. Until Q4 2020, around 40% of prime households said that it was easier for them to obtain credit from a bank or financial institution compared to the prior year. By Q1 2021, the number dropped to 30%. For nine months, it looked as though financial institutions were loosening up, but Q1 2022 brought that number back to 30%.

Unsurprisingly, non-prime consumers report lower overall numbers. Their general lack of access to credit is also represented in a much steadier trend. However, the pandemic seems to have eroded access for about 2-3% of the population. The most recent quarter might suggest that financial institutions might be ready to provide a little more access as the metric has risen to a point not seen since before the pandemic.

Percent of responders stating it's "easier" than a year ago to access credit



"Compared to a year ago, would you say that getting credit from a bank or financial institution is..." ["Easier", "About the same", "Harder"] N = 20,839, as of 3/28/2022

Types of Debt

Debt comes in a myriad of forms. People turn to different instruments to meet their needs at different times. In a deep-dive look at the propensity of holding different types by credit constraint (prime versus non-prime), we can see the commonalities and differences in non-prime experience.

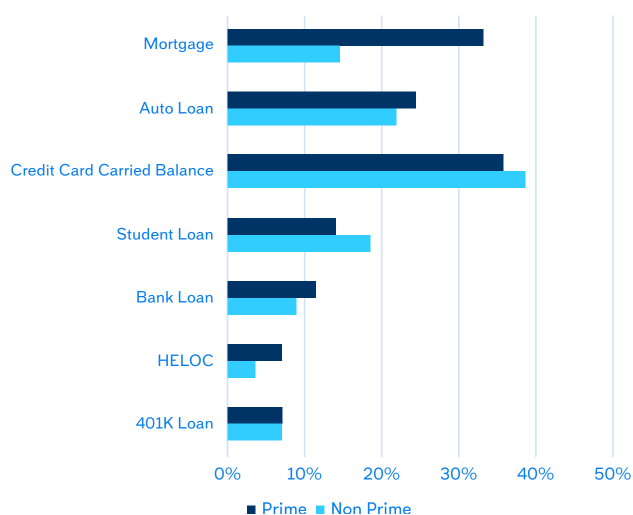
The first notable fact is that non-prime consumers carry all types of debt. The only debt type that non-prime folks significantly trail prime respondents is mortgage debt, which is the only debt instrument on the list that is potentially wealth-building.

Given the promise of higher earning power that comes with a college education, it might surprise some to learn that non-prime respondents were more likely to report carrying student loan debt. We know that the credit constraint status of a student's parents plays a significant role in the type of college as well as the likelihood to complete their degree.[10]

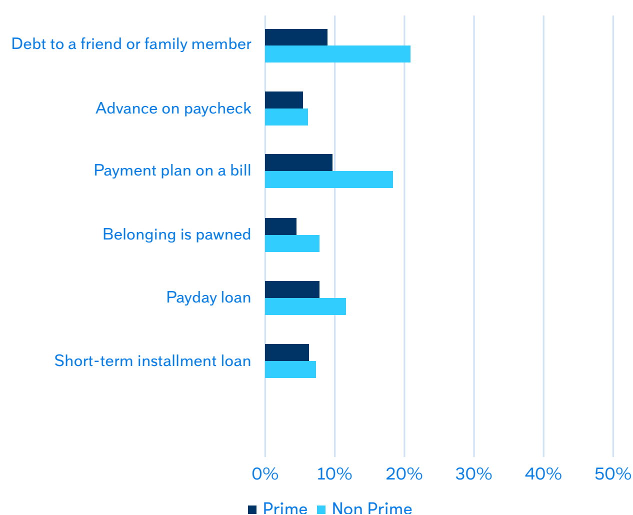
Non-prime consumers also are much more likely to turn to the lowest cost form of credit: borrowing from family and friends. More than one in five non-prime consumers report owing loved-ones money. Often cited as a responsible way to get out of a financial problem, it also carries emotional costs.

Perhaps the one surprise from prime respondents is the 8% of respondents who said that they currently have a payday loan. This measure is fairly consistent across various CNMC instruments which gives us confidence of its validity. This does not, of course, explain why someone with a reliable credit score would turn to a notoriously expensive form of credit. The reasons must be varied, but perhaps one example might suffice. Mary Seely[11] had a good financial resources but ran into a liquidity issue during a divorce when all assets were frozen for a period of time. She took out a payday loan to pay a couple of bills. The speed and the fact that the company would not need to pull her credit report made it the option she turned to.

Mainstream Debt Instruments



Alternative Debt Instruments



"Which of the following forms of debt do you currently carry? N = 1,251, as of 3/28/2022

Conclusion

The economy has emerged from the pandemic, but its disruption to American households continues. Prime households are feeling less secure than normal while non-prime households are feeling slightly better. There is a growing group of people in both groups that report that month-to-month and daily expenses are less manageable versus twelve months ago. Prime households are experiencing job loss at a lower rate than non-prime households. Both groups are seeing lower numbers report a decrease in income from the prior year. Non-prime households are more likely to use debt, but even prime households use alternative lending products. All of this speaks to the continued tightening of American household finances.

Footnotes

1 https://www.frontiersin.org/articles/10.3389/fpsyg.2021.610138/full#:

2 https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7233592/ and https://www.purdue.edu/hr/CHL/healthyboiler/news/newsletter/2020-01/finances-health.php

3 https://www.forbes.com/sites/teresaghilarducci/2021/09/17/financial-insecurity-and-cognitive-decline---what-is-the-link/

4 https://www.all4kids.org/news/blog/benefits-of-being-financially-stable/

5 https://www.pewresearch.org/politics/2015/01/08/the-politics-of-financial-insecurity-a-democratic-tilt-undercut-by-low-participation/

6 https://sfgov.org/ofe/financial-insecurity-costing-our-families-and-city

7 https://www.pewresearch.org/fact-tank/2021/04/14/u-s-labor-market-inches-back-from-the-covid-19-shock-but-recovery-is-far-from-complete/#

8 Names have been changed to protect anonymity.

9 [Put in the link from the recent CNMC inflation study]

10 https://www.newmiddleclass.org/college-tuition-how-non-prime-families-cover-college-tuition/

11 Names have been changed to protect anonymity.

The tracker index is a longitudinal study measuring all aspects of American household finances. It collects responses from prime and non-prime consumers every month and has been running since September 2018. This analysis included 20,370 completed surveys of a questionnaire which measures over 50 variables related to personal and household finances.

- As of 3/28/2022, the total sample size of our survey is 20,839
- Initial survey collection was 150 prime and non-prime per month
- At the onset of COVID, we increased this to 100 prime and 100 non-prime per week
- We reduced this in late 2020 to 100 prime and 100 non-prime every 2 weeks
- In 2021, we settled on 100 prime and 100 non-prime twice monthly
- In May of 2022 we surveyed an extra 300 prime and 300 non-prime

Elevate's Center for the New Middle Class (CNMC) is a non-profit research group sponsored by Elevate Credit (ELVT). The CNMC's mission is to research the challenges, behaviors, and attitudes of American household finances, especially the impact of credit constraint on households' financial resilience. Our studies can be accessed on our website NewMiddleClass.org or you can contact us directly with the email address NewMiddleClass@elevate.com.