THE FINANCIAL CONDITION OF AMERICAN FAMILIES HEADING INTO 2023

A report on findings from the Primerica Financial Security Monitor Survey

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Executive Summary

The sting of inflation in 2022 greatly impacted middle-income American families, forcing many to stop adding to savings or to tap into an existing nest egg to make ends meet, even after cutting nondiscretionary spending, according to the Primerica Financial Security Monitor, a quarterly survey of middle-income households across the U.S.

While 61% of economists recently surveyed by The Wall Street Journal said they expect a recession to start this year, Primerica's survey found middle-income families are already taking an economic hit, which threatens their long-term financial security. Still, the majority of middle-income households rate their financial situation positively, and many are adjusting their spending or saving habits to cope.

Overall, Primerica's Financial Security Monitor — which polls households with annual incomes between $30,000 and $100,000 per year — indicates families are well aware of the risks facing the U.S. economy, with 56% reporting they think economic conditions will worsen this year. Yet, 65% remain optimistic their personal financial situation will be the same or better.

Examining Primerica's survey and pulling out data from the monthly Consumer Price Index (CPI) to focus on just the necessities — food, gas and utilities (CPI-FGU) — presents a clearer picture of the pressures middle-income families are facing in the year ahead. Among the key data points:

- Inflation as measured by the CPI rose 7.1% through 2022. However, this measure includes large-ticket, less frequent purchases such as cars. An analysis focused on just the cost of food, gas and utilities — necessities that affect nearly all families and significantly impact middle-income households' budgets — shows prices on those items rose significantly higher to 10.7% in the same time period using the CPI-FGU.
- A large majority (82%) of respondents to Primerica's survey either curtailed or stopped saving for the future or tapped into existing savings to make ends meet as their income fell behind the cost of living.
- When asked about their financial plan for the next few months, 33% of middle-income households in the third quarter survey indicated they planned to cut back on spending. By the time the fourth quarter ended, however, a notably higher number — 39% — had taken that step.
- Meanwhile, 5% of respondents thought they would likely miss a debt payment in the fourth quarter, yet a significantly higher percentage of 18% reported being delinquent when the quarter ended.
- Finally, only 15% of survey respondents in the third quarter survey planned to spend more money overall in the fourth quarter. However, more than double that share — 33% — ended up spending more than planned.

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Inflation's Effect on the Middle Market

In 2022, high inflation and the Federal Reserve's efforts to rein it in dominated the news cycle. The only inflation-fighting tool available to Fed policymakers is to raise interest rates, a blunt but powerful mechanism. As the year ended, inflation was slowing but still well above the Fed's target level.

The Consumer Price Index (CPI), a common benchmark for measuring inflation, includes the cost of items such as computers and cars that don't affect everyone equally and are infrequent purchases as well as the cost of housing, which adjusts infrequently for most people. But all consumers feel the pinch of inflation through nondiscretionary purchases – particularly food, gas and utilities – which rose faster than overall inflation. The price of nondiscretionary purchases are particularly important to middle-income families, because they make up a bigger percentage of their budgets than they do for top earners.

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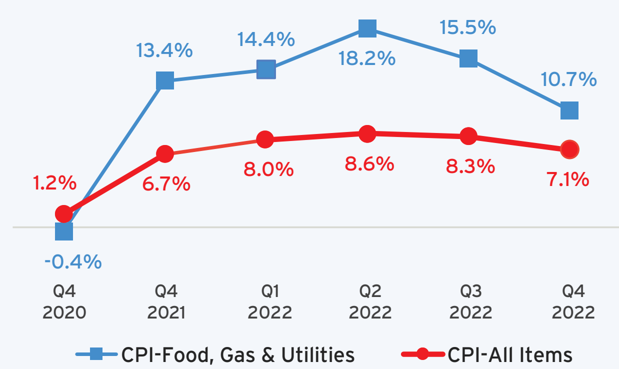
In Exhibit 1, the year-over-year percent change in the CPI for all items purchased in U.S. cities and the CPI for food, gas, and utilities are shown.

Through 2020, even with all the shortages and disruptions, overall inflation remained low, coming in at 1.2%. In addition, gas prices plummeted as many Americans worked from home and cancelled travel plans, resulting in a net decline in the CPI-FGU.

By the end of 2021, however, prices rose sharply. The CPI for all items showed a gain of 6.7% but the CPI-FGU rose by 13.4% over. Throughout 2022, food and energy prices remained elevated, peaking in the second quarter at 18.2% higher than the previous year. That number is partially attributable to the Russian invasion of Ukraine, which disrupted energy and food commodity markets since both countries are substantial exporters of these goods.

Exhibit 1: Inflation, especially in food, gasoline, and utilities prices, had a big impact on American household wallets in 2022

Percent change in Consumer Price Index versus same period a year ago



Source: AC Cutts & Associates LLC, US Bureau of Labor Statistics, Federal Reserve Bank of St. Louis (FRED)

The price of eggs rose 150% compared to the average price in 2021, and milk prices rose over 21% from the start of 2022.

The impact of food, gas and utilities inflation on middle-income families in the U.S. is substantial. For example, if a family spent $330 in January 2022 on gasoline when it was $3.30 a gallon, they had to find another $175 for gas money when the price rose to $5.10 a gallon in June or find alternative ways to get to work, which becomes a meaningful tax on their time. Though the price of gasoline is back to about $3.25 a gallon now, our hypothetical family spent an extra $770 in 2022 getting to work.

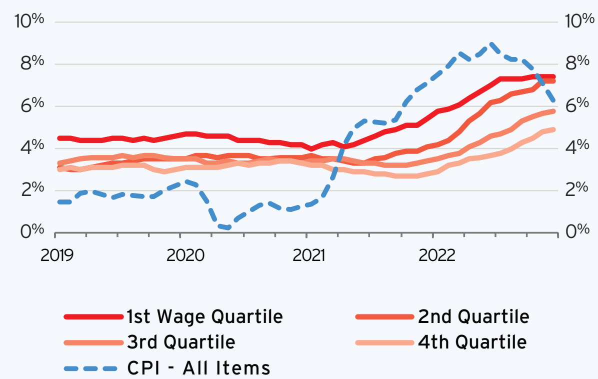
The price of gas was not the only hardship in 2022. The price of eggs rose 150% compared to the average price in 2021, and milk prices rose over 21% from the start of 2022. Pork prices mid-year rose as high as 40% more than where they started, and beef ended the year 12% higher. Families can choose to eat less of some things or to cook more at home rather than eat out, but there wasn't a feasible way to avoid the rising cost of food as it affected so much of the grocery list.

And, despite headlines about rapidly rising wages, incomes overall fell far behind rising prices for much of 2022. Thus, families had to choose to cut some part of their budgets to make ends meet. In Exhibit 2, the CPI for all items is plotted along with the annualized change in median wages by income quartile. The quartile with the lowest wages experienced the most growth, while the highest wage workers received the smallest increases. Toward the end of 2022, the bottom 50% of hourly wage workers made some income gains above overall inflation but were still losing ground against rising food and energy costs.

When asked about the condition of their personal finances in Primerica's quarterly Financial Security Monitor, 53% of the survey respondents in the fourth quarter of 2022 reported they were in good or excellent shape, down from 60% a year earlier. The financial health of respondents' communities also deteriorated over the year, falling from 48% rating the condition of their community as good or excellent in the fourth quarter of 2021 to 44% in the final quarter of 2022.

Exhibit 2: Inflation outpaced wage increases at all income levels for much of 2022

Annualized change in the Consumer Price Index versus wage gains by income quartile (%)



Source: Federal Reserve Bank of Atlanta, US Bureau of Labor Statistics. Wages are the 12-month moving average of the median growth rate of hourly earnings for each quartile from a year earlier. Rates are seasonally adjusted. Data are through December 2022.

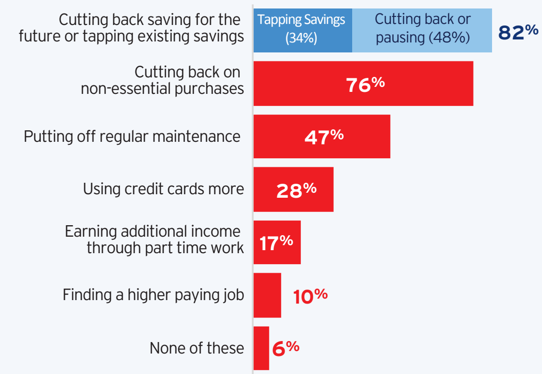
Families Are Coping with Inflation Now

In Primerica's fourth quarter 2022 survey (Exhibit 3), 82% of respondents tackled inflation by either curtailing or outright halting putting aside money for the future or tapping their savings accounts. A secondary strategy involved 76% of respondents cutting back on nonessential purchases. Putting off regular house or car maintenance was the next most cited move at 47%. In addition, 28% relied more heavily on credit cards.

While such steps work well in the short term, they can have a lasting impact on financial security later. For example, deferring maintenance on a house or car now could lead to a more substantial bill later due to additional damage or deterioration. And how long a family takes to get back on track with longer-term goals could mean the difference between retiring confidently when they are ready or having to delay retirement for years.

Exhibit 3: American households are reducing saving for the future and cutting back on non-essential purchases to cope with inflation's bite

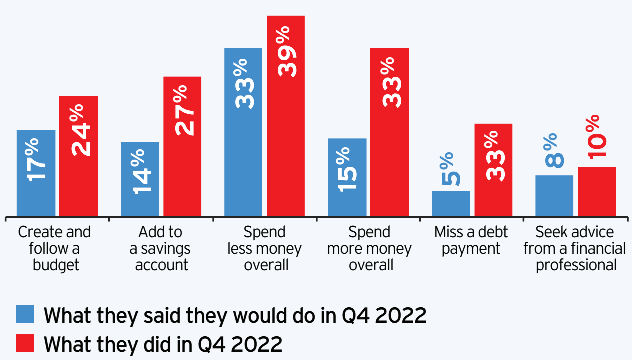
How are you dealing with falling behind?



Source: Primerica Middle-Income Financial Security Monitor, Q4 2022 Survey; "If you said your income was falling behind the cost of living, how are you dealing with falling behind?" Respondents could select more than one option.

Exhibit 4: Middle-income Americans have good Intentions regarding their near-term financial plans but tend to overstate their actions

Share of respondents in the Q3 2022 Survey who said they expected to do certain actions in the next few months and the share in Q4 2022 who said they did those actions in the past year (%)



Source: Primerica Middle-Income Financial Security Monitor, Q3 2022 and Q4 2022 Surveys.

Intentions Matter, but Actions Count

Primerica's quarterly survey asks respondents a series of questions about their financial intentions over the next few months as well as what they did financially over the past year, which helps to provide a picture of how often middle-income households follow through with what they plan to do. In Exhibit 4, the intentions from the third quarter 2022 survey are matched with the actions reported in fourth quarter.

Two key findings emerged. First, respondents overestimated their ability to save and limit spending, and second, they overestimated even more their ability to curb spending and pay all their bills. These outcomes are not just limited to the most recent survey but rather are consistent across all surveys since the start of the Primerica Financial Security Monitor in July 2020.

A common piece of financial advice is to create a budget and follow it. In the third quarter 2022 survey, 17% of respondents said they would do that in the next few months. It turns out that 24% — more than previously indicated — were actually able to do that in the fourth quarter.

Another good strategy for building financial security is to regularly add to savings. Only 14% of respondents in the survey said they planned to add to their savings during the fourth quarter but nearly double that share (27%) found a way to put money aside for another day.

While 33% of respondents planned to spend less money overall in the fourth quarter of 2022, 39% successfully cut back on spending in the fourth quarter, despite the bite of inflation. On the other hand, 15% of respondents planned to spend more money in the last quarter of the year but more than double that — 33% — stated they spent more money.

Most troubling is that 5% of respondents in the third quarter 2022 survey who said they were likely to miss a mortgage, car loan or credit card payment in the next few months. At the end of the fourth quarter, 18% of respondents said they had missed a payment. While the cost of a missed payment might just be a small fee if only a few days late, it can quickly add up if the payment is more than 30 days past due, negatively affecting the consumer's credit score and their pocketbook.

Consulting a financial professional is another common recommendation given to people looking to get out of the debt grind and build a more secure future. During the fourth quarter, 8% of survey respondents intended to get advice from a financial professional and 10% followed through on that action.

Conclusion

Although middle-income families are stressed by the sting of inflation, the majority rate their current financial situation as good or excellent and many are adjusting their spending or saving habits to cope. Primerica's Financial Security Monitor indicates that American families are aware of the risks facing the U.S. economy and expect economic conditions to worsen in 2023, but most are optimistic that their personal financial condition will be the same or improve in the months ahead. Like the economists surveyed by *The Wall Street Journal*, middle-income American families are forecasting a rough patch ahead but one that is neither very long or very deep.

About the Author

Dr. Amy Crews Cutts is a nationally recognized thought leader and chief economist focused on providing strategic economic analysis rooted in practical business terms. Amy is the President and Chief Economist of AC Cutts & Associates LLC. She serves as an economic consultant to Primerica. She was previously Senior Vice President and Chief Economist for Equifax and Senior Director and Deputy Chief Economist at Freddie Mac before that. With over 25 years of economic analysis and policy development experience, Amy is a passionate advocate for building the financial security of families and expanding consumer and small business access to low-cost, nonpredatory credit. She is a noted expert in credit reporting, consumer and small business credit markets, loan servicing, securitization, residential real estate including home equity and price indices, and trends in employment and compensation. She is a regular panelist in *The Wall Street Journal* and *Blue Chip Economic Indicators* surveys of economists. She earned her PhD from the University of Virginia and is a Certified Business Economist®, a distinction of professional achievement from the National Association for Business Economics (NABE).