



INSTITUT FÜR ARBEITSMARKT- UND  
BERUFSFORSCHUNG  
Die Forschungseinrichtung der Bundesagentur für Arbeit

# ECONOMIC EXPECTATIONS OF GERMAN HOUSEHOLDS:

**IMPACTS OF JOB INSECURITY, INSTITUTIONAL TRUST, AND THE COST OF LIVING CRISIS**

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# BACKGROUND

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- In recent years German Households faced **multiple crises**. The Covid-19 pandemic, followed by geopolitical tensions in Ukraine and the Middle East, put significant strain on firms and households.
- Shortages in raw materials led to a massive rise in energy and food prices, with **inflation rates exceeding 10%** in October 2022 and remaining high into 2023 despite measures to cap price increases
- Although the German labour market has generally shown resilience, certain groups faced **job loss risks** due to significant Covid-19 restrictions and a collapse in customer demand leading to worries about losing jobs and lowered economic expectations
- **Falling** general trust and **trust in political institutions** contributed negatively to economic expectations of the households

# RELEVANT RESULTS

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- **As the cost of basic goods and services increases**, consumer confidence typically declines. People may expect their disposable income to shrink, leading to more conservative spending behaviour and reduced overall economic optimism
  - **Recovery** in economic expectations **is often slow and uneven** across socio-demographic groups
- **Job insecurity** is linked to lower consumer confidence and economic pessimism
  - Workers facing job instability tend to have more conservative economic expectations, reducing consumption
  - Persistent job insecurity exacerbates long-term economic anxiety and pessimistic economic forecasts
- **Low trust in political institutions** correlates with negative economic expectations and increased economic pessimism
  - Declining trust in institutions affects perceived government effectiveness in handling economic issues
  - Political distrust leads to reduced support for economic reforms and policy interventions

# SAMPLE AND ANALYTICAL STRATEGY

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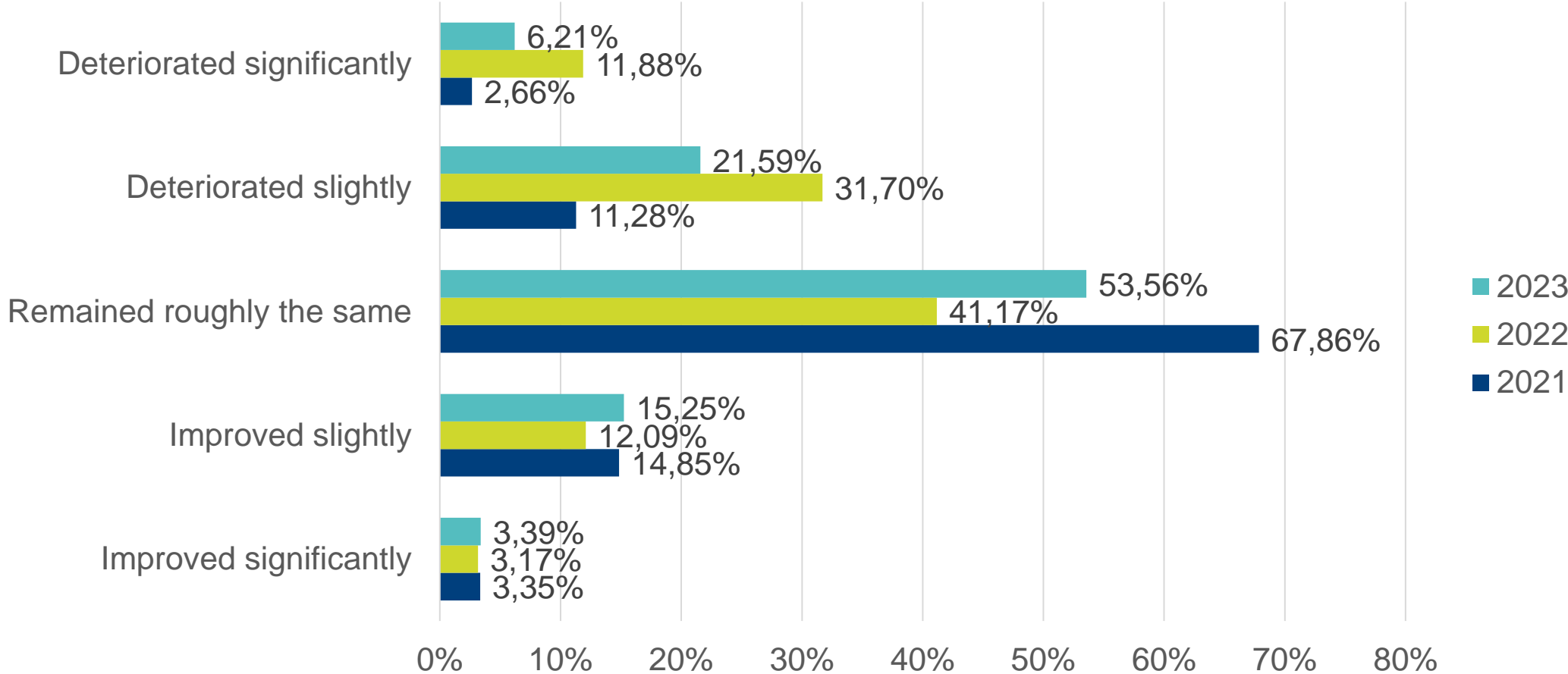
- Panel „Panel Labour Market and Social Security” (PASS),
  - Module “Household economics and everyday economic practices” in Household questionnaire
  - Waves 15 (2021); 16 (2022); and 17 (2023)
  - 20,538 observations on 10,228 households (household and person questionnaire)
- Linear fixed-effects regressions with marginal fixed effects
  - Dominance analysis to understand contribution of predictor variables in the regression models
  - Focus on nonlinear effects of increased spending by income levels

# THE MODULE

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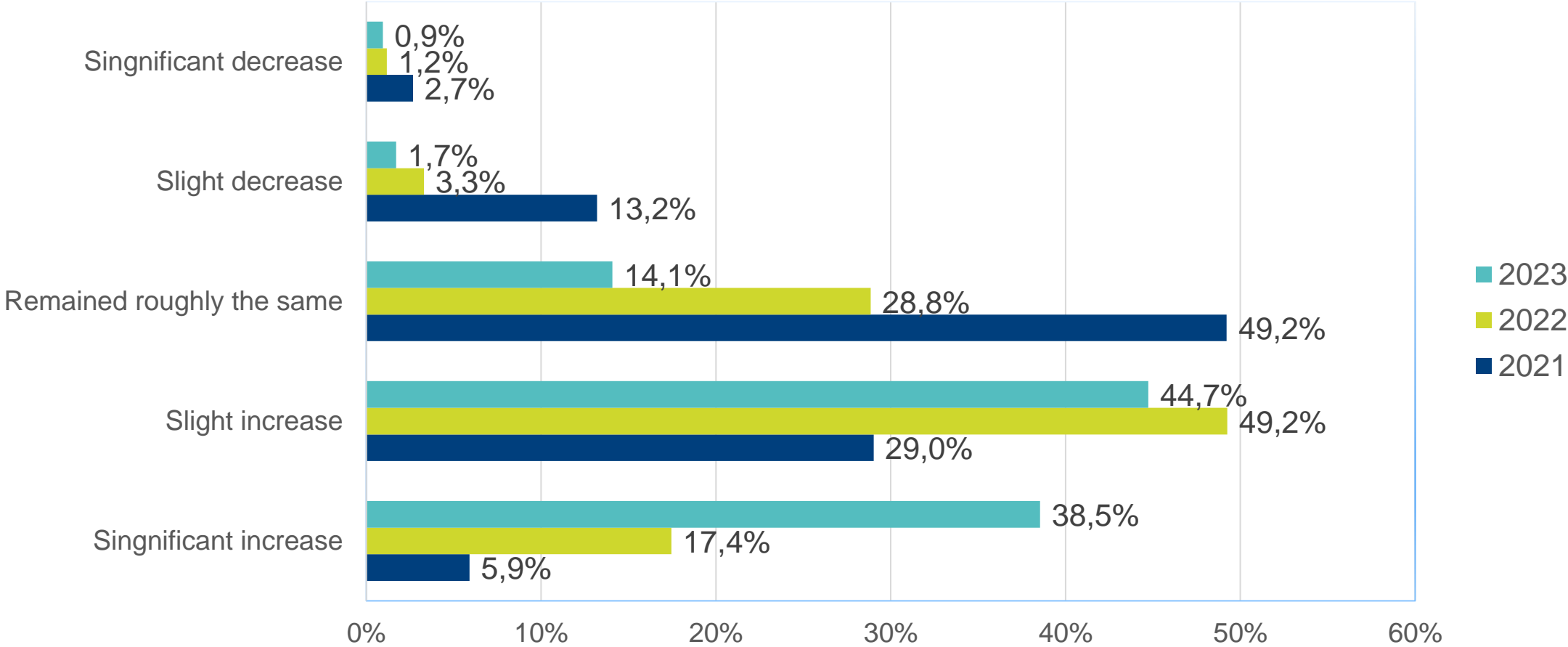
- How do you expect the financial situation of your household to develop over the next 12 months?
  - Improved significantly
  - Improved slightly
  - Remained roughly the same
  - Deteriorated slightly
  - Deteriorated significantly
- What about the regular expenses of your household over the last 12 months?

# CHANGES IN ECONOMIC EXPECTATIONS OF GERMAN HOUSEHOLDS



Source: PASS survey 2021, 2022; 2023, weighted

# CHANGES IN EXPENDITURES OF GERMAN HOUSEHOLDS



Source: PASS survey 2021, 2022; 2023, weighted

# DEPENDENT AND MAIN EXPLANATORY VARIABLES

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- Economic expectations: Significant deterioration in economic situation
- Cost of living crisis: changes in household (HH) expenditures
  - significant increase in HH expenditures
- Labour force status: Employed / Unemployed / Inactive
  - Among Employed: those with and without worries of losing the job
- Institutional trust: Composite indicator of trust in government, courts, police, parties, media, and health policy
  - Cronbach Alpha >0.9



# EMPIRICAL MODEL

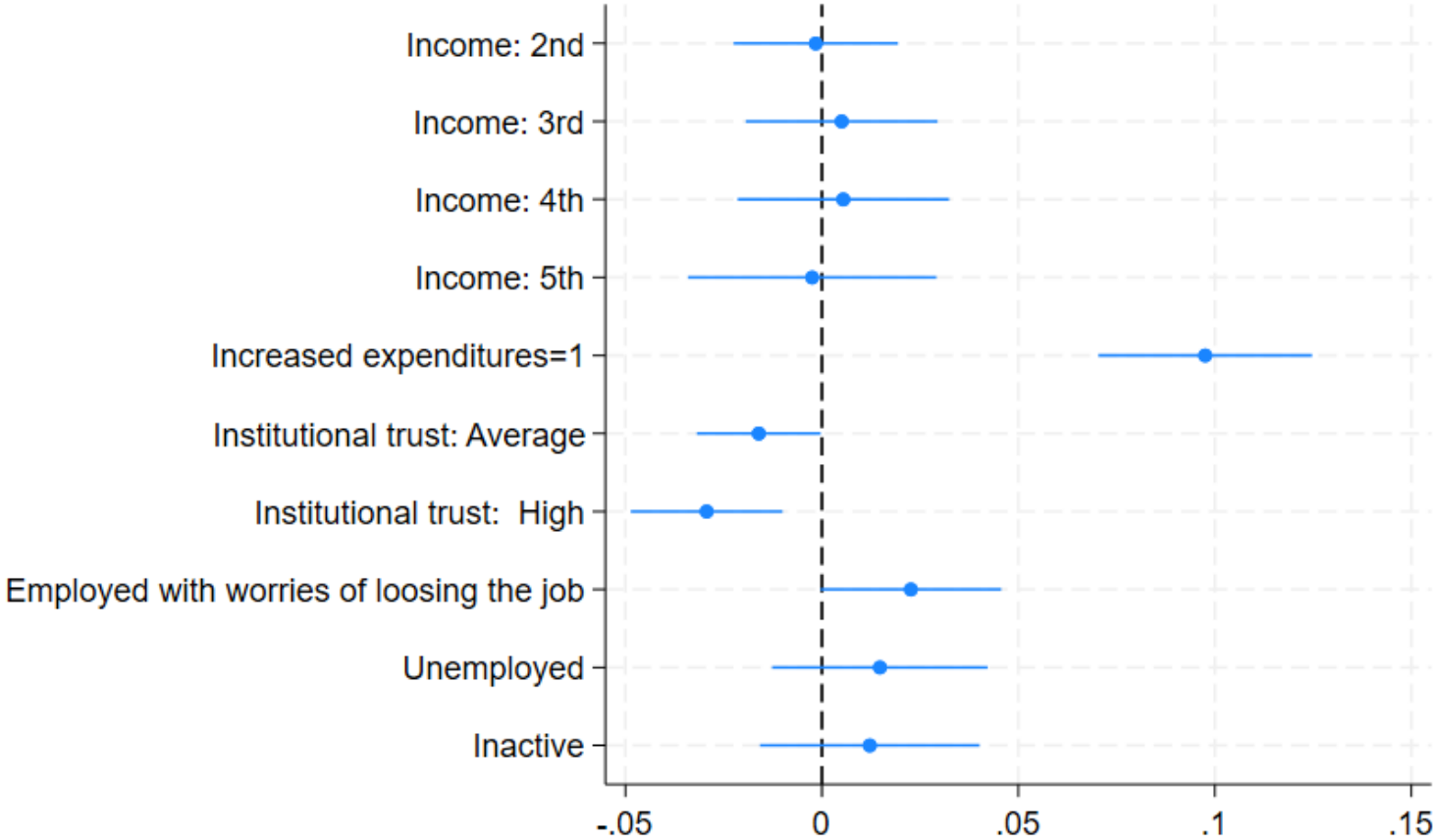
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$$\begin{aligned} \text{NegativeExpectations}_{it} &= \alpha_i + \beta_1 \text{IncomeQuintiles}_{it} + \beta_2 \text{IncreasedExpenditures}_{it} \\ &+ \beta_3 (\text{IncomeQuintiles}_{it} \times \text{IncreasedExpenditures}_{it}) \\ &+ \beta_4 \text{InstitutionalTrust}_{it} + \beta_5 \text{JobInsecurity}_{it} + \gamma_t + \epsilon_{it} \end{aligned}$$

- Additional Controls: Education years; Household type; Health; Period dummies;

# RESULTS: AME OF THE MAIN EXPLANATORY VARIABLES

## DEPENDENT VARIABLE: SIGNIFICANT DETERIORATION IN ECONOMIC SITUATION OF THE HH

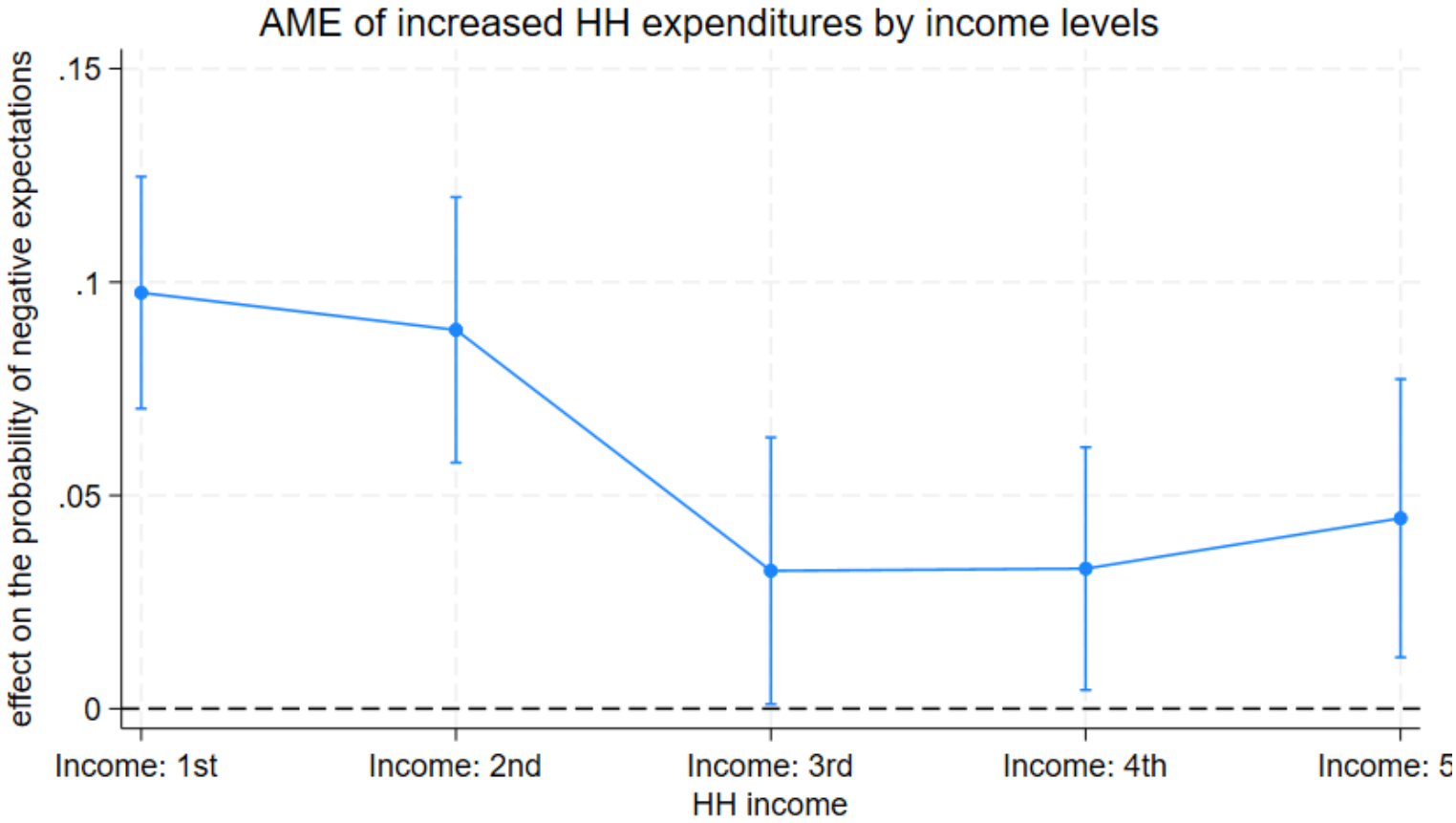


# DOMINANCE ANALYSIS: CONTRIBUTION TO EXPLAINING THE VARIANCE IN THE DEPENDENT VARIABLE

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	Dominance Stat.	Standardized Domin. Stat.	Ranking
Expenditures significant increase	0,01	0,1677	1
Trust	0,0009	0,0142	2
Labour force status	0,0003	0,0057	3

# RESULTS: INTERACTION EFFECTS OF HH INCOME AND INCREASED HH EXPENDITURES



# CONCLUSION

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- **Key Findings:** Economic expectations among German households have been negatively impacted by job insecurity, institutional trust, and cost of living crisis
- Marginal effects indicate significant variation in negative expectations based on income levels and increased expenditures
- Trust in institutions plays a crucial role in shaping economic outlooks, with lower trust correlating with more negative expectations
- **Implications:** Policymakers should address the drivers of job insecurity and the cost of living to improve household economic confidence
- Efforts to rebuild institutional trust could positively influence economic expectations
- **Next Steps:** Further analysis of how specific interventions (e.g., HH everyday practices) affect economic expectations across different income and job security groups



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VIELEN DANK.



