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Survey: Recession Looms, But Cuts to “Nonessential” Spending Don’t Fly

Just 18 percent of Americans’ wages outpaced inflation in the past year.

PARK RIDGE, Ill. (October 27, 2022) — A year of skyrocketing inflation and growing recession fears have taken their toll on American households, but consumers say they need personalized financial advice rather than universal “rules” on household spending. A new MDRT study finds only 26% of Americans say their personal financial situation has improved in the past year, and 76% are worried about a recession occurring in the year ahead. As the nation braces for a possible downturn, decisions on where to cut back are made more complicated by personal and professional obligations.

Inflation Eats Away at Real Incomes

Though wage growth accelerated in the years leading up to the COVID-19 pandemic, real incomes fell for most Americans in the past year. Only 18% of Americans say they have received a raise that made up for inflation in the past year, with men (23%) significantly more likely to report a raise in real terms than women (15%). Another 29% of Americans say they received a raise that did not make up for inflation, and a 38% plurality say their wages have not changed in the past year. Seven percent of Americans say the past year saw their wages decrease.

When asked to name their top three increased expenses for essential goods, 78% of Americans chose groceries, 70% chose gas prices and 39% pointed to their electric bills. Certain other expenses fell harder on different demographic groups: 27% of Generation Z and 22% of millennials identified rising housing costs, while 17% of Americans with at-home dependents identified childcare.

Under this increased financial stress, only 38% of Americans say they have at least six months of income in easily accessible savings, with strong differences between racial communities. Forty-two percent of white Americans say they have at least six months of savings, compared with 35% of Asian Americans, 26% of Hispanic Americans and just 16% of Black Americans.

“The possibility of recession has clearly come home for most Americans, and consumers are looking for ways to staunch the bleeding” said MDRT First Vice President Greg Gagne, ChFC. “Building a sufficient emergency fund is critical for long-term financial security and should be the first step for all Americans looking to create a solid financial foundation.”

Childcare Costs Shrinking the Workforce

Rising childcare costs have garnered increased attention from economists, financial advisors and politicians in recent years. With the trend showing no signs of letting up, 16% of Americans with at-home dependents say they have left the workforce because childcare was too expensive. Slightly more women (18%) than men (13%) say they have left the workforce for this reason.

Another 10% of Americans with at-home dependents say they would consider leaving the workforce, and another 8% say their partner would, if childcare costs continued to rise. These figures indicate that childcare costs are having a substantial impact on the size of the American workforce, as these figures do not include parents who left the workforce for other reasons, like cultural beliefs or disability.

Cut the Coffee? Not So Fast

Many personal finance experts make broad recommendations on how to cut spending for households under financial stress, like skipping morning coffee. The MDRT survey, however, reveals many Americans either reject such recommendations, or say they are not applicable to their individual situation.

A full 38% of Americans say they cannot cut spending on caffeinated or energy drinks in a recession, and another 8% say they already don't purchase any. Baby boomers are the most resistant, with 43% saying they cannot cut back, compared with 38% of Generation X, 29% of millennials and 27% of Generation Z.

Twenty percent of Americans say they cannot cut spending on hobbies, like fitness, art or gaming. Younger Americans are more resistant here, with 25% of Generation Z and millennials saying they cannot cut back, compared with 18% of baby boomers and 16% of Generation X.

"In an era where social obligations and interactions often require spending money, we should not be surprised when consumers say they cannot cut some kinds of 'non-essential' spending," says MDRT Immediate Past President Randy Scritchfield, CFP, LUTCF. "Rather than forcing a one-size-fits-all solution, consumers must make the best financial decisions for their holistic well-being."

Survey Methodology

This online survey was fielded by G&S Business Communications on behalf of MDRT on August 31, 2022, with a representative U.S. sample of 1,326 adults, ages 18+, including 644 who reported having children or adult dependents in their households. The sample was balanced for age and gender using the Census Bureau's American Community Survey to reflect the demographic composition of the United States.

About MDRT

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Contact Information

Don Noverini
MDRT
847-993-4944
dnoverini@mdrt.org
@MDRTweet

Jack Miller
G&S Business Communications
312-648-6700 ext. 2150
jmiller@gscommunications.com
@gs_comms

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