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FINANCIAL TRUST INDEX: 21 PERCENT OF AMERICANS TRUST THE FINANCIAL SYSTEM

Trust in Banks Makes Five Percent Gain;
Report Shows More Optimism Toward Housing, Government

CHICAGO (July 13, 2009) – A sense of optimism and a reduction in fear and anger toward America's financial institutions mark the latest findings in the Chicago Booth/Kellogg School Financial Trust Index. According to the report published today, trust in financial institutions has gone up slightly in the last three months, especially toward banks and government intervention in financial markets.

The Chicago Booth/Kellogg School Financial Trust Index is a quarterly look at Americans' trust in the nation's financial system, measuring public opinion over three-month periods to track changes in attitude and to provide a better understanding of public trust. Co-authors Paola Sapienza (Kellogg School of Management at Northwestern University) and Luigi Zingales (University of Chicago Booth School of Business) published today's report as the third quarterly update since the inaugural findings in January 2009. Sapienza and Zingales analyzed data from more than 1,000 American households, randomly chosen and surveyed via phone during two weeks in late June 2009.

The researchers found that from March to June 2009, the Financial Trust Index has increased slightly from 19 percent to 21 percent. Most notably, the researchers report a jump in trust toward banks and bankers, from 29 percent in March 2009 to 34 percent in June 2009.

"In the first quarter of 2009 we reported a decline in trust in banks, likely a result of the negative perception perpetuated by news stories of banking disasters, layoffs and bailouts," said Zingales. "However, trust in banks has increased five percent in the last three months."

The researchers also reported that trust in the stock market has stabilized. In the last six months, the fear of a large drop in the S& P (specifically, a 30 percent drop) is significantly reduced to 46 percent in June 2009, from 56 percent in December 2008. And, the percentage of survey respondents who think the market is undervalued fell by nine percent since March, while the number of people who think the stock market is overvalued did not increase.

At the same time, Sapienza and Zingales report significantly more optimism on the housing front. The percentage of people who think house prices in their area will decrease in the next year has dropped to 26 percent in June 2009, from 37 percent in March and 47 percent in December 2008.

"In only six months we've seen marked improvement in confidence toward home values. In fact, 75 percent of the people who changed their opinion during this time period now think house prices will remain stable, while the remaining fourth think house prices will rise," said Sapienza.

This issue of the Financial Trust Index also continued to study the impact on trust in the government's intervention in the financial system.

The June 2009 results demonstrate that government intervention still makes 62 percent of Americans less confident in investing in financial markets. However, this is a considerable change from 80 percent who felt less confident in December 2008 and 67 percent in March 2009. This improvement affects Republicans, Democrats and Independents equally, Zingales noted.

"Overall we've seen a strong increase in trust toward the government across the board—11 percentage points between December 2008 and June 2009," said Zingales. "Also, while Americans were still feeling angry toward the situation in March 2009 (41 percent), the percentage of people harboring anger dropped to 29 percent in June 2009."

Of all the data collected in this issue, the only negative uncovered was related to the prospect of losing a job. The researchers reported a median rise from one percent in December 2008 to five percent in June 2009 (mean rises from 24 percent in December 2008 to 26 percent in June 2009) in the perceived probability of becoming unemployed.

"Layoffs and jobless claims have continued to make headlines in the last three months, and as a result Americans are still feeling uncertain about their job security," said Sapienza.

ABOUT THE SURVEY: On a quarterly basis, the Financial Trust Index captures the amount of trust Americans have in the private institutions in which they can invest their money. The survey is conducted by Social Science Research Solutions (SSRS) using ICR's weekly telephone omnibus service. As part of the most recent wave, exactly 1,003 individuals were surveyed over two weeks starting on June 17, 2009. The institutions considered in the survey are banks, the stock market, mutual funds, and large corporations.

MORE INFORMATION: To learn more about the Chicago Booth/Kellogg School Financial Trust Index, visit www.financialtrustindex.org. To arrange an interview, contact Meg Washburn or Allan Friedman at the contact information listed above.

To learn more about the Kellogg School of Management at Northwestern University, visit www.kellogg.northwestern.edu.

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