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W I S C O N S I N

THE VOICE OF THE WISCONSIN HOMEOWNERS ALLIANCE

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## VOICES FROM THE KITCHEN TABLE

### It's My Money and I'll Cry If I Want To

*Higher prices hit homeowners, change spending patterns and affect Wisconsin businesses*

**Editor's Note:** *This visit to Wisconsin's kitchen tables revealed families and individuals responsibly addressing the financial challenges higher gas, utility, grocery and health care prices have imposed on their pocketbooks. Some have cut back on regular expenditures. Others have postponed prescribed medical care or put off their educational advancement. All appear to be doing what they must to make ends meet and despite having to do without, most of our citizens feel good about their current situation and are upbeat about the future.*

#### As the cost of basic goods and services rise, discretionary income shrinks

Wisconsin homeowners are feeling squeezed financially and the pressure is affecting how they spend their money.

In a statewide Wisconsin Homeowners Alliance study conducted by Wood Communications Group in mid-November 2006, more than 80 percent of Wisconsin homeowners say that prices for gasoline, health insurance, college education, groceries, utilities and the cost of maintaining a home are either a lot more or somewhat more expensive than they were a year ago. More than two-thirds say they've seen similar increases in the prices of prescription drugs, the cost of buying a home, state and local taxes and K-12 education.

Are the increased costs, or at least the perception of higher prices, affecting homeowners? You bet. In 2003, when asked in a Wisconsin REALTORS® Quality of Life survey whether they have more or less money at the end of each month than they did a year ago, just over half of all respondents (52%) say they have less. Today, almost three-fourths (73%) say they have less and one in five says he or she has a lot less.

#### Tighter home budgets force millions of consumers to cut back on or postpone spending

There are just over four million adults in Wisconsin, which means that nearly three million adult consumers are telling us that they have less money at the end of the month than they used to. Based on these numbers, three conclusions seem reasonable. First, large numbers of Wisconsin consumers have less money at the end of each month because they are, in fact, spending more on gas, health insurance, utilities, groceries and taxes. Second, if they're spending more on these items, they are probably spending less money on other things. And, third, if we don't work for a business that nearly three million Wisconsin consumers tells us they are spending more money on, the odds are we're probably working for a business that makes and/or sells something Wisconsin consumers may be cutting back on.

As homeowners grapple with their individual financial pressures, the most immediate reaction appears to be an effort to "cut back" on normal spending. Over half of Wisconsin adult consumers—think two million buyers—tell us that they are visiting the stores they normally shop at less frequently. Seventy-two percent of those who are going less frequently and 26 percent of those who did not report a drop in frequency tell us they are buying less when they visit these stores, which means that nearly two and a half million consumers report that they are spending less when they go shopping than they used to.

Tourism and leisure activities also are likely to be affected more immediately. Nearly two-thirds (62%) of all respondents say that they are spending less money on leisure activities like eating out and going to the movies. At \$10 for



a ticket and a box of popcorn and \$10 a piece for an inexpensive dinner, it's a \$99 million hit for the leisure industry every time those 2,400,000 consumers skip that "dinner and a movie." In addition, almost half (46%) say they are driving their cars less and more than a third (38%) report that they have postponed a family vacation.

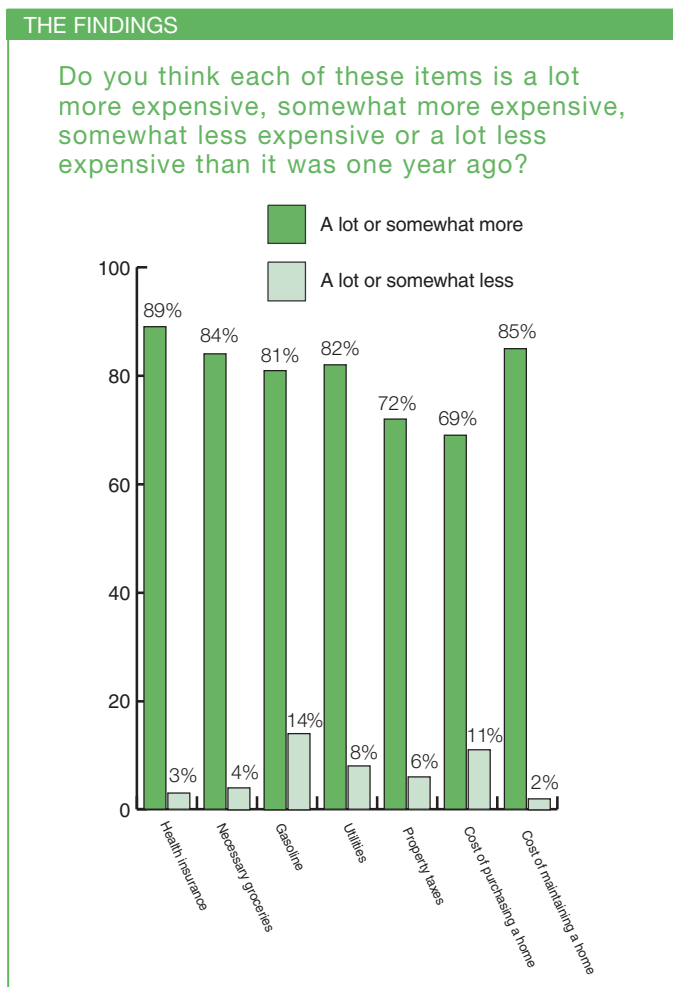
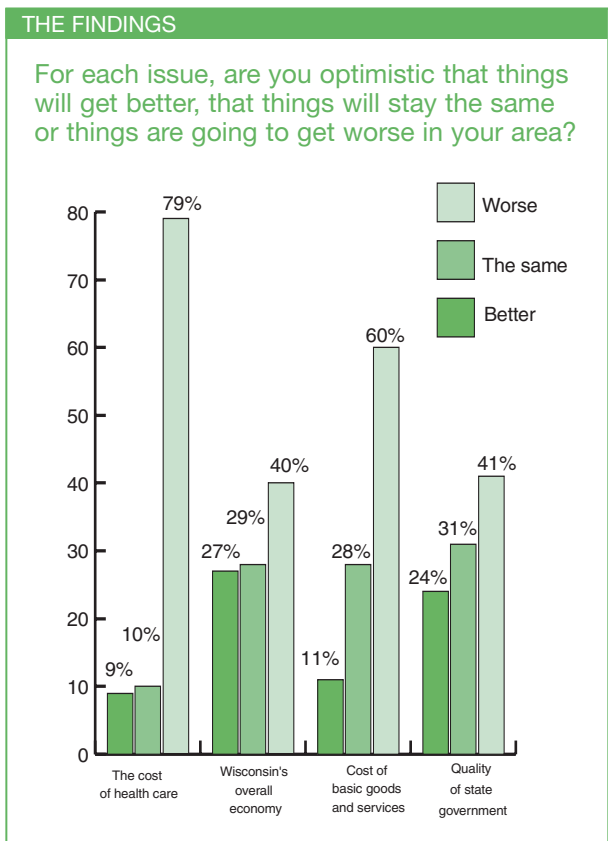
For some, however, cutting back appears to have more serious ramifications. One in five, for example, report that they postponed spending money on something they thought their family really needed and the data indicates that spending on health care is on many families' list of cuts. Almost one in four (24%) say they have visited their doctor less frequently for the sorts of illnesses and medical emergencies they would have a year ago, and nearly half of those making less than \$40,000 annually report fewer visits to their doctors. One in five women between the ages of 18 and 34 say they have postponed a physician recommended treatment or surgery.

The financial squeeze is affecting some types of home related expenditures as well. More than one-third (36%) of Wisconsin homeowners say they have postponed remodeling to improve the value of their home—for those of you still counting consumers, that's more than 800,000 people who claim to have postponed a remodeling expenditure. Thirty-two percent say they have postponed buying new furniture. Thirty percent say they have decided not to buy carpeting or tile and 29 percent report that they put off spending money on landscaping. One in five say they have postponed buying a major appliance—think a half a million stoves, refrigerators or air conditioners—while 35 percent say they have put off some other home related investment. Perhaps most troubling, nearly one in four (24%) of those between the ages of 18 and 34 say they postponed buying a home.

### Despite their pessimism about the economy in general and the rising cost of necessities, most consumers say they're doing alright and believe that things will either stay the same for them or get better

Interestingly, despite the current financial pressures and a strong feeling that they are likely to continue, most homeowner-consumers tell us they're feeling good about their own situation. On the downside, 40 percent think the state's economy is going to get worse, 60 percent say the price of basic goods and services will get worse and 79 percent believe the cost of health care will get worse. In the face of all of that, nearly two-thirds (62%) of all respondents say they think things are going either excellently or good for them at the moment. Forty-one percent say they are optimistic things are going to get better for them, while 42 percent think things will stay the same and only 14 percent think things will get worse. One explanation for these responses may be that more than 72 percent of those respondents with jobs say they are optimistic that their job security will either remain the same or get better.

That's good news for Wisconsin businesses because it suggests that consumers are unlikely to reduce their total spending and that any dollar savings Wisconsin can generate by reducing the cost of basic goods and services like gasoline, health care, utilities, groceries and taxes are likely to resurface as dollars spent on other goods and services.





# My Home Is Worth More. Why Aren't I Smiling?



A periodic look at how homeowners feel about their homes, what they are and are not spending money on in their homes and what sets their teeth on edge

**Editor's Note:** Anyone who's read a newspaper or listened to the flock of Wall Street analysts that populate cable television and satellite radio knows that America's booming housing market helped fuel much of the prosperity we've enjoyed over the past decade and increased the net worth of millions of American homeowners. Most of us who followed the housing market concluded, therefore, that the activity in the housing market was good for the national and local economy and believed wholeheartedly that it was also good for the homeowners who saw the value of their homes increase substantially. Interestingly, the Wisconsin Homeowners Alliance could not find any data indicating whether Wisconsin homeowners thought it was good for them; so, we asked them. The results are not exactly what the pundits might have predicted.

In the "no surprises" category, nine out of every 10 Wisconsin homeowners (89%) report that the value of their homes has increased over the past five years. Somewhat surprising, however, is the fact that less than half say that they thought their homes have increased substantially (i.e., value increased a great deal [12%] or a lot [36%]), while the remaining half report that the value only increased a little (41%) or say their home's value has not increased at all or has actually decreased (5%).

Do the nine in 10 who report an increase in property value think it helped them financially? Some do, some don't and some say it's helped and hurt them. For example, in response to questions regarding how enhanced property values might have affected them, more than half (57%) of Wisconsin homeowners agree with the statement "The increased value of my home has helped me financially because it has increased the amount of my equity [in my home]." But almost half (47%) of those who agree that it has helped them by increasing their equity also agree that "The increased value of my home has actually hurt me financially because it has increased my property taxes."

About a third of all respondents (30%) report that higher home values benefited them financially by giving them access to a home equity loan, but once again a sizeable percentage of this population (43%) say that they are also hurt by higher property taxes.

All in all, nearly half (49%) of all respondents say they believe that higher home values have hurt them because it resulted in higher property taxes and nearly nine out of 10 of these people say they are either paying a lot more (38%) or somewhat more (50%) for their property taxes now than they were a year ago.

People between the ages of 35 and 55 and people with annual incomes of less than \$40,000 are most likely to report that increased home value has hurt them financially.

**If you ever wondered whether there really was a connection between consumer confidence and consumer spending, read on**

**Editor's Note:** Tight budgets are affecting homeowner decisions about home-related purchases and investments (see *It's My Money and I'll Cry If I Want To*, p.1). We are interested in whether or not there are any particular groups of people who are significantly less likely to be making purchases and investments. There are.

We asked homeowner consumers whether or not they have postponed purchases in five major categories. We asked about purchases like major appliances, furnace or water heaters, insulation and roof repairs. We asked about exterior maintenance purchases like painting and landscaping and interior maintenance purchases like new furniture and carpeting. We also asked about investments to improve home value or other improvements they might have been planning. And, finally we asked whether they have postponed buying or selling a home.

Four categories of respondents emerge as significantly more likely to have postponed purchases in all of these areas. Those who told us that they have "a lot less money" at the end of each month than they did a year ago are two to three times more likely to have postponed purchases in all categories. For example, about a third of all respondents say they have postponed purchasing new furniture (32%) or installing new carpeting or tiling (30%); but far more of those respondents who report having a lot less money at the end of each month say they have postponed these purchases (e.g., 64% postponed buying furniture, 59% postponed installing new carpeting or tile).

People who think things are going to get worse for them and people with annual incomes of less than \$40,000 are also far more likely to have postponed purchases. For example, while one in five of all respondents indicate they have postponed buying a major appliance more than one-third of these populations say they have postponed such purchases.

Lastly, we found a strong correlation between homeowner's sense of job security and whether or not they are spending money on their homes. In every single category of purchase or investment made, those who are concerned that their job security will get worse in the next year are one and half to two times as likely to have postponed purchases and investments in their homes. For example, 36 percent of all respondents report that they have postponed remodeling their homes to improve the value of the home, but 56 percent of those who are concerned about their job security say they have postponed such investments.



## The Details Are in the Demographics ...

*Interesting facts and figures about the people of Wisconsin*



Wisconsin's 35 to 55 year olds appear to be the most pessimistic about how things are going in Wisconsin. Nearly half (47%) think the overall economy is going to get worse. Forty-four percent think the quality of state government is going to get worse, and a staggering 68 percent think the price tag on basic goods and services is going to get worse.

Those most likely to say things are going well are those who describe themselves as white-collar professionals. Fully 76 percent of these folks report that things are going excellently or well for them. It's worth noting that 69 percent of this population make more than \$60,000 annually.

Households making more than \$60,000 annually are more likely to have a second mortgage or a home equity loan than those making less than \$60,000 a year—one in four (24%) of those making less than \$60,000 annually versus 38 percent of those making more.

Nearly half (49%) of the homeowners who say their property values have gone up also say that rising home values have hurt them because it's led to higher property taxes, but some segments of the population feel even more strongly about this issue. More than two-thirds (68%) of those who say they have a lot less money at the end of the month today than they had a year ago say that higher home values have hurt them. Sixty percent of those who think Wisconsin's economy is going to get

worse and of those who are worried about their own job security say higher home values have hurt them. Fifty-six percent of those who describe themselves as blue-collar workers and 58 percent of those making less than \$40,000 a year say higher home values have hurt them more.

More than one-third (36%) of homeowners say they have postponed remodeling to improve the value of their home, but only 28 percent of those who report that the value of their homes has gone up a lot say they have postponed remodeling efforts, while 40 percent of those who say the value of their homes has only increased a little report postponing remodeling. Nearly half (46%) of those who say things are going only fair or poor for them report postponing home remodeling and, once again, more than two-thirds of those who say they have a lot less money at the end of the month today than they had a year ago say they have postponed remodeling.

The age group most likely to be worried about job security are the 25- to 44-year-olds, where 28 percent report that they think their personal job security will get worse over the next year.

The age group most likely to be concerned about the rising cost of health care is the 45 to 54 age group, where 85 percent say they think the cost of health care is going to get worse.