How Consumers Build the Expectations of Inflation and Income Growth into Credit Card Borrowing
Research Executive Summary

The Ohio State University's
Consumer Finance Monthly Survey

Business Problem: Your system for predicting the amount of money customers carry from month-to-month on their consumer credit card accounts is not as precise as needed.

Solution: Banks and other businesses that extend credit to individuals can more accurately predict the amount of money customers will carry from month-to-month by adding to their models a number of new variables that track what consumer expect to happen next year. Bankers needing accurate and timely information on these expectations can get the data from the Ohio State University's Consumer Finance Monthly Survey.

Research Details: This research shows that using data which tracks consumer confidence and individual beliefs about future inflation helps improve predictions of the amount of credit card balances carried over from month-to-month.

This research first describes the questions used to elicit information about expectations. Confidence is tracked in the survey by questions which ask if the respondent thinks they are better or worse off financially than they were 12 months ago and if they expect to be better or worse off financially next year. Similar questions are asked about the respondent's expectation for the state of the entire economy next year. The final set of expectation questions asks respondents whether prices in general will go up, down or stay the same over the next twelve months and by how much they expect prices to change. The research shows how to transform these general queries into information which is used to predict credit card balances.

The research finds that adding information on price and income expectations significantly improves prediction of credit card borrowing. For example, someone who thinks they will have more income in the next 12 months is likely to borrow around $350 more on their credit card than someone who thinks their financial position will not change. In general the research shows respondents who have expectations that inflation will be high or expectations that their income will be high in the next year tend to borrow more on their credit cards than their counterparts.

Research Title: *Do the Expected Real Interest Rate and Consumer Confidence Mater for Credit Card Borrowing?*

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