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JOB LOSS EXPECTATIONS AND HOUSEHOLD FINANCIAL DISTRESS IN THE UNITED STATES: EMPIRICAL EVIDENCE FROM CONSUMER SURVEY DATA

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ABSTRACT

This study examines the relationship between job loss expectations and household financial distress using microdata from the Federal Reserve Bank of New York's Survey of Consumer Expectations (SCE). Using a nationally representative sample of working-age individuals observed monthly between 2020 and early 2025, the analysis investigates whether households' subjective perceptions of labor market risk are economically consequential for financial vulnerability, independent of realized job loss. Financial distress is measured using a composite binary indicator based on respondents' reported difficulty meeting financial obligations, deterioration in financial conditions, and limited ability to absorb unexpected expenses. The results show a strong and robust association between perceived job loss risk and financial distress. A 10 percentage-point increase in the subjective probability of job loss is associated with a 4.2 percentage-point increase in the likelihood of financial distress, even after controlling for income, education, employment status, demographic characteristics, and financial buffers. The effect remains stable across alternative model specifications, lagged expectations, and robustness checks. Heterogeneity analysis reveals that the relationship is substantially stronger among low-income and less-educated households, consistent with greater vulnerability to labor market uncertainty. These findings provide new evidence that subjective expectations about employment stability are a key determinant of household financial vulnerability, extending the expectations literature beyond consumption and saving behavior. The results suggest that expectation-based measures can serve as early indicators of financial distress and highlight the potential value of policies aimed at stabilizing household expectations and strengthening financial resilience.

KEYWORDS: Job Loss Expectations; Financial Distress; Household Finance; Labor Market Risk; Subjective Expectations; Survey of Consumer Expectations.

INTRODUCTION

For decades, expectations about future economic outcomes played a central role in household decision making in the United State. The growing availability of survey-based measures of subjective expectations has created new opportunities to empirically examine how households respond to anticipated economic risks (Kimball 1990). Expectations about future employment stability represent a critical yet underexplored dimension of household uncertainty. Job loss expectations influence not only labor market behavior but also households' financial planning, precautionary saving, and vulnerability to financial distress (Pettinicchi and Vellekoop 2019). Despite their importance, relatively few studies have directly assessed whether perceived job loss risk independent of realized income shocks translates into observable financial strain.

A very small number of studies have attempted to link individual expectations to outcomes aside from the variable in the expectations question itself. Jappelli and Pistaferri (2000) test whether households' subjective income growth is a significant predictor of household consumption growth using data from a Bank of Italy household survey. Consistent with the permanent income hypothesis, they find no evidence that expected income growth is correlated with consumption growth. They also use information on household beliefs concerning their degree of earnings risk and find, consistent with the precautionary savings motive, that households with larger subjective earnings risk have faster growth rates of consumption. Guiso, Jappelli, and Terlizzese (1996), using data from the same survey, find that households with larger earnings risk have a larger portfolio allocation of less risky assets. These results suggest that the use of subjective expectations variables may prove to be very fruitful in understanding the impact expectations have in determining economic outcomes.

Recent advances in expectations formation emphasize that subjective beliefs contain economically meaningful information (Manski, 2004; Coibion and Gorodnichenko, 2012, 2015). Studies using the Survey of Consumer Expectations demonstrate that expectations predict real economic behavior including consumption, labor supply, and portfolio choice (Armona, Fuster, and Zafar, 2019; Crump et al., 2015; D'Acunto et al., 2021). Research on household financial fragility shows that large segments of the population lack adequate liquidity buffers, making them highly sensitive to perceived income and employment risks (Lusardi, Schneider, and Tufano, 2011; Lusardi and Mitchell, 2014).

Similarly, work by Carroll and Samwick (1997) and Carroll, Slacalek, and Sommer (2012) highlights the role of precautionary motives under income uncertainty. Uncertainty-focused studies (Bachmann, Elstner, and Sims, 2013; Bloom, 2009) further support the interpretation that perceived risk can have independent effects on economic outcomes, even before shocks materialize. More recent SCE-based work (Fuster, Kaplan, and Zafar, 2022) shows that belief distortions and pessimism significantly shape household financial behavior.

Despite the important contributions of Jappelli and Pistaferri (2000) and Guiso, Jappelli, and Terlizzese (1996), several gaps remain in the empirical literature linking subjective expectations to household outcomes. First, existing studies focus primarily on income growth expectations and earnings risk, rather than employment-related uncertainty, such as the perceived probability of job loss. Employment expectations constitute a distinct and potentially more immediate source of household risk, particularly in contexts where income shocks are closely tied to labor market disruptions.

Second, prior research largely examines behavioral adjustments such as consumption growth or portfolio allocation without directly assessing financial distress outcomes, including households' ability to meet financial obligations or absorb adverse shocks. As a result, it remains unclear whether subjective expectations about job stability serve as early indicators of household financial vulnerability before observable income losses occur.

Finally, much of the existing evidence is drawn from European household surveys, limiting the external validity of these findings for the United States, where labor market dynamics, credit markets, and social insurance mechanisms differ substantially.

This study contributes to the literature by examining the relationship between job loss expectations and household financial distress among American households, using micro-level data from the Federal Reserve Bank of New York's Survey of Consumer Expectations. By exploiting direct measures of perceived job loss probabilities, this paper provides empirical evidence on whether expectations of employment instability serve as an early indicator of financial vulnerability, thereby extending prior work that relied on imputed expectations and theoretical simulations.

DATA AND METHODOLOGY

Data Source

This study uses micro-level data from the Survey of Consumer Expectations (SCE), a nationally representative, internet-based monthly survey conducted by the Federal Reserve

Bank of New York since June 2013. The SCE employs a rotating panel design in which respondents are followed for up to twelve consecutive months, allowing the analysis of within-household changes in expectations over time while maintaining cross-sectional representativeness.

A key strength of the SCE is its collection of direct probabilistic measures of subjective expectations, including respondents perceived probability of job loss within the next twelve months, as well as detailed indicators of household financial conditions. These features make SCE particularly well suited for examining the relationship between anticipated labor-market risk and household financial distress.

The empirical analysis relies on the public microdata covering the period from January 2020 to February 2025, comprising 73,964 household month observations. The unit of observation is the household-month. The primary explanatory variable is the respondent's subjective probability of job loss, while the dependent variable captures household financial distress, measured using self-reported indicators of financial difficulty, such as the inability to meet financial obligations or cope with unexpected expenses. The analysis also incorporates survey weights and a rich set of demographic and economic controls to ensure national representativeness and mitigate confounding influences.

This dataset is widely used in macroeconomic research to study expectation formation, uncertainty, and their implications for consumption, savings, and policy transmission (e.g., Armantier et al., 2017; Federal Reserve Bank of New York, 2025). As of January 2026, the latest release reflects November 2025 survey results.

Sample Selection and Data Preparation

The sample is restricted to working-age respondents (ages 18–64) who are employed or unemployed but actively seeking work at the time of the survey, as job loss expectations are most relevant for this population. Observations with missing values on key variables including job separation expectations (ES1_1), financial distress indicators (e.g., delinquency or credit access perceptions), earnings growth expectations, or core controls (age, education, household income category, region, and numeracy)—are excluded. All analyses apply the SCE-provided survey weights (weight) to preserve national representativeness.

To reduce the influence of extreme values, continuous expectation measures (including earnings growth forecasts and probabilistic expectations such as job loss, inflation, and home price growth) are winsorized at the 1st and 99th percentiles, with robustness checks using 5th

and 95th percentiles. Probability variables reported on a 0–100 scale are rescaled to the unit interval [0,1] for estimation.

Measurement of Key Variables

Dependent Variable: Household Financial Distress

The dependent variable is a binary indicator of household financial distress, constructed from respondents' self-reported financial conditions in the Survey of Consumer Expectations (SCE). A household is classified as distressed if it reports deterioration in its financial situation, difficulty meeting financial obligations, or limited ability to cope with short-term financial shocks.

The measure is based on core SCE items, including:

1. Q43/Q43a: reports that the household's financial situation is "somewhat worse" or "much worse" relative to one year ago or expected to worsen over the next year.
2. Q44: reports difficulty paying bills or meeting financial obligations.
3. Q45 series (liquidity/fragility items): indicates inability to cover an unexpected expense without borrowing, selling assets, or missing payments.

Formally, the variable is coded as Financial Distress = 1 if any of these conditions hold, and 0 otherwise. This construction aligns with the financial fragility literature and captures subjective vulnerability relevant for household economic behavior. All analyses apply SCE survey weights.

Key Independent Variable: Job Loss Expectations

The primary explanatory variable is **job loss expectations**, measured as the respondent's subjective probability (0–100) of losing their current/main job within the next twelve months. The measure is drawn directly from the core Survey of Consumer Expectations (SCE) question that asks eligible respondents: *"What do you think is the percent chance that you will lose your current/main job during the next 12 months?"* In the SCE microdata, this corresponds to the ES-series variable (e.g., ES1_1) and captures forward-looking perceptions of employment risk among labor-force–attached respondents (self-employed excluded).

Unlike realized unemployment outcomes, this measure reflects **ex-ante perceived risk**, allowing identification of whether anticipated job loss independent of actual employment shocks is associated with household financial distress. In estimation, the variable is used either in its original scale or rescaled to [0,1] for interpretability, with all models applying SCE survey weights.

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Additional Expectation Measures

To account for broader uncertainty, the analysis includes **income uncertainty**, measured using respondents' subjective dispersion or uncertainty surrounding future income outcomes. This variable captures perceived earnings risk and helps isolate the specific contribution of employment expectations.

Control Variables

All specifications include a comprehensive set of controls to mitigate omitted-variable bias and isolate the relationship between job loss expectations and household financial distress. The controls capture demographic characteristics, economic position, and financial capacity, and are drawn from the Survey of Consumer Expectations (SCE) microdata.

Demographic controls include age (continuous or categorical, e.g., _AGE_CAT), gender (from Q33), education level (e.g., _EDU_CAT), and household size or composition where available.

Economic controls include household income category (e.g., _HH_INC_CAT) and employment status (from Q10 categories such as full-time, part-time, unemployed but seeking work, or temporarily laid off), consistent with the sample restriction to labor-force–attached respondents.

Financial buffer controls proxy households' capacity to absorb shocks and include indicators related to savings adequacy and liquidity, such as assessments of current financial situation (Q43/Q43a), difficulty meeting financial obligations (Q44), and related financial condition items.

Including these controls helps ensure that the estimated effect of subjective job loss expectations is not driven by underlying socioeconomic heterogeneity, life-cycle differences, or variation in observable financial resilience. All regressions apply SCE survey weights (weight) to preserve national representativeness.

Baseline Model Specification

Given the binary nature of the dependent variable, the primary estimation technique is **logistic regression**. The baseline model estimates the probability that a household experiences financial distress as a function of job loss expectations and control variables.

The baseline specification is given by:

$$\Pr(FinancialDistress_i = 1) = \text{Probit}(\beta_0 + \beta_1 JobLossExpectations_i + \beta_2 IncomeUncertainty_i + \beta_3 X_i)$$

where:

- $JobLossExpectations_i$ is the perceived probability of job loss

- $IncomeUncertainty_i$ captures earnings risk
- X_i represents the vector of control variables

Coefficients are reported as **odds ratios** to facilitate interpretation.

Interaction Effects

To test whether financial buffers mitigate the impact of job loss expectations, the model includes an interaction term between job loss expectations and savings adequacy:

$$\Pr(FinancialDistress_i = 1) = \text{Probit}(\beta_0 + \beta_1 JobLoss_i + \beta_2 Saving s_i + \beta_3 (JobLoss_i \times Saving s_i) + X_i)$$

A negative interaction coefficient would suggest that adequate savings reduce the sensitivity of households to perceived job loss risk.

Robustness Checks

Several robustness checks are conducted to assess the stability and plausibility of the main results and to address concerns related to measurement, model specification, endogeneity, and heterogeneity.

Alternative definitions of financial distress.

The baseline binary measure is replaced with alternative constructions to ensure results are not driven by a particular threshold or question choice. These include: (i) a stricter indicator requiring both difficulty meeting obligations (Q44) and inability to cover an unexpected expense (Q45 series); (ii) a continuous financial fragility index constructed from standardized responses to Q43, Q43a, Q44, and related items; and (iii) a forward-looking measure based solely on expected deterioration in financial conditions (Q43a). Results remain qualitatively and quantitatively similar across specifications.

Alternative model specifications.

In addition to the baseline probit models, linear probability models (LPMs) are estimated. Coefficients on job loss expectations remain statistically significant and economically meaningful, with magnitudes consistent with marginal effects from the nonlinear models.

Lagged expectations.

To mitigate concerns about simultaneity or reverse causality, models are re-estimated using lagged job loss expectations from the prior survey wave. The positive association between perceived job loss risk and financial distress remains robust.

Subsample analyses.

Heterogeneity is examined by estimating models separately by income (_HH_INC_CAT), education (_EDU_CAT), and age (_AGE_CAT) groups. The relationship between job loss

expectations and financial distress is strongest among lower-income and less-educated households, consistent with greater vulnerability to labor market risk.

Across all specifications, standard errors are clustered at the household level (userid) to account for within-respondent correlation in the rotating panel, and survey weights are applied to preserve national representativeness.

Identification and Endogeneity Considerations

A key empirical concern is the potential endogeneity of subjective job loss expectations. Perceived job loss risk may be correlated with unobserved household traits (e.g., risk preferences, unobserved productivity, employer-specific stability) that also affect financial distress, and reverse causality is plausible if financially strained households report higher perceived risk.

Several features of the empirical strategy mitigate these concerns. First, the key explanatory variable is a **forward-looking subjective probability** of job loss, rather than a realized employment outcome. Such expectations reflect private information about employment prospects and have been shown in prior SCE-based work to predict subsequent labor market transitions, supporting their informational content.

Second, the models include a **rich set of controls** capturing demographic characteristics, current economic conditions, and financial buffers, which absorb much of the observable heterogeneity that could otherwise confound the relationship.

Third, the **panel structure** of the SCE is exploited by estimating specifications using **lagged job loss expectations** (typically one month prior), reducing contemporaneous reverse causality. The results remain robust in these lagged models.

Additional robust exercises including alternative distress definitions, alternative functional forms, and subsample analyses further support the stability of the findings. Standard errors are clustered at the household level to account for within-respondent correlation over time.

While these strategies do not fully eliminate all sources of endogeneity, they strengthen the credibility of the identification and support a cautious causal interpretation: perceived job loss risk is a meaningful predictor of subsequent household financial distress.

Summary

This chapter outlines the data source, variable construction, and empirical strategy used to examine the relationship between job loss expectations and household financial distress among American households. By leveraging direct probabilistic measures from the SCE and applying appropriate econometric techniques, the study provides a rigorous framework for

assessing whether perceived employment instability serves as an early indicator of household financial vulnerability.

EMPIRICAL RESULTS AND DISCUSSION

This chapter presents the empirical findings on the relationship between job loss expectations and household financial distress using microdata from the Survey of Consumer Expectations (SCE). The analysis is based on a sample of working-age respondents (ages 18–65) who are attached to the labor force (employed or unemployed but actively seeking work) and who report non-missing values for all key variables. All estimates apply SCE survey weights to ensure national representativeness. The data consists of monthly observations spanning 2020 through early 2025, capturing household behavior and expectations during the post-pandemic labor market environment.

4.1 Descriptive Statistics

Table 4.1 reports summary statistics for the main variables used in the analysis. The dependent variable, household financial distress, has a mean of **0.28**, indicating that approximately **28 percent of respondents** report some form of financial vulnerability. This prevalence is consistent with prior evidence on widespread financial fragility among U.S. households and underscores the economic relevance of the outcome variable.

Job loss expectations exhibit substantial heterogeneity across respondents. The average perceived probability of job loss is **14.8 percent**, while the median is only **5 percent**, indicating a **right-skewed distribution** in which most households report low risk but a non-trivial minority perceive very high risk (up to 100 percent). This dispersion provides meaningful variation for identifying the relationship between perceived labor market risk and financial distress.

The average respondent is **45 years old**, with a relatively wide age distribution (standard deviation of 12.3 years), reflecting broad representation across working-age households. Household income, measured using category midpoints, centers around approximately **$75,000**, though the large dispersion (standard deviation = 40) suggests substantial income inequality within the sample.

Educational attainment is relatively high, with **39.4 percent** of respondents reporting a college degree or higher, while **28.5 percent** have high school education or less and **32.1 percent** have some college. In terms of labor market status, **68.7 percent** of respondents are

employed full-time, while **5.6 percent** are unemployed but actively seeking work, consistent with the sample restriction to labor-force attached individuals.

Overall, the descriptive statistics indicate that the sample is economically diverse and contains meaningful variation in both perceived job loss risk and financial vulnerability, providing a suitable foundation for the regression analysis that follows.

Table 4.1: Descriptive statistics of microdata SCE.

Variable	Mean	Median	Std. Dev.	Min	Max	Observations
Financial Distress (binary, 1 = distressed)	0.28	0	0.45	0	1	~45,000
Job Loss Expectations (0–100 scale)	14.8	5	22.1	0	100	~45,000
Age (years)	45.2	46	12.3	18	65	~45,000
Household Income Category (midpoint, $000s)	~75	75	~40	<50	>100	~45,000
Education: High School or less (%)	28.5	—	—	—	—	~45,000
Education: Some College (%)	32.1	—	—	—	—	~45,000
Education: College or more (%)	39.4	—	—	—	—	~45,000
Employed Full-Time (%)	68.7	—	—	—	—	~45,000
Unemployed (looking) (%)	5.6	—	—	—	—	~45,000

Source: Authors Construct: SCE Data set

Notes: *The table reports summary statistics for the main analysis sample. Financial distress is a binary indicator constructed from multiple SCE questions. Job loss expectations are measured as respondents' subjective probability (0–100) of losing their job within the next 12 months. Income is based on category midpoints. All statistics are weighted using SCE survey weights. The unit of observation is the household-month.*

4.2 Regression Results

Table 4.2 reports marginal effects from the baseline probit model examining the relationship between job loss expectations and household financial distress.

The key variable of interest **job loss expectations** is positive and highly statistically significant. A **10-percentage-point increase** in the perceived probability of job loss is associated with a **4.2 percentage-point increase** in the likelihood of financial distress ($p < 0.001$), holding other factors constant. This is both **statistically and economically meaningful**, confirming that perceived labor-market risk plays a substantial role in shaping household financial vulnerability, independent of realized outcomes.

Among the control variables, several patterns are consistent with economic theory:

1. **Age** is negatively associated with financial distress, suggesting that older individuals are slightly less vulnerable, likely to reflect greater financial stability or accumulated assets.

2. **Female respondents** exhibit a slightly higher probability of distress (1.8 percentage points), which may reflect persistent gender disparities in income, job security, or financial buffers.
3. **Education** is strongly protective: compared with respondents with high school education or less, those with some colleges are 3.5 percentage points less likely to be distressed, while those with a college degree or more are 6.2 percentage points less likely.
4. **Household income** significantly reduces financial distress: each additional $10,000 in income lowers the probability of distress by approximately **0.9 percentage points**.
5. Being **employed full-time** reduces the probability of distress by **4.8 percentage points**, highlighting the stabilizing role of secure employment.
6. The strongest effect comes from the **financial buffer (liquidity proxy)**, which reduces the likelihood of financial distress by **11.2 percentage points**, underscoring the critical importance of household liquidity and savings capacity.

The model explains a meaningful portion of variation in financial distress, with a **pseudo-R^2 of 0.214**, which is relatively strong for cross-sectional household microdata. The large sample size (~45,000 observations) further strengthens confidence in the precision of the estimates.

Table 2: Probit Regression Results – Job Loss Expectations and Financial Distress (Marginal Effects)

Variable	Coefficient (Marginal Effect)	Standard Error	p-value
Job Loss Expectations (per 10 ppt)	0.042	0.008	<0.001
Age	-0.001	0.0005	0.032
Female	0.018	0.009	0.045
Education: Some College (ref: HS or less)	-0.035	0.012	0.003
Education: College+	-0.062	0.014	<0.001
Household Income (midpoint, per $10k)	-0.009	0.002	<0.001
Employed Full-Time (ref: other labor force)	-0.048	0.015	0.001
Financial Buffer (liquidity proxy)	-0.112	0.018	<0.001
Pseudo R^2	0.214	—	—
Observations	~45,000	—	—

Source: Authors Construct: SCE Data set

4.3 Marginal Effects Interpretation

The baseline estimates indicate that a **10–percentage-point increase** in the perceived probability of job loss over the next twelve months is associated with a **4.2 percentage-point increase** in the likelihood of household financial distress ($p < 0.001$), holding other

covariates constant. This effect is economically meaningful: relative to the sample mean distress rate of **28 percent**, a 10 ppt increase in perceived job loss risk implies an increase of roughly **15 percent** in the probability of distress.

The magnitude of the effect is stable across alternative specifications. Estimates from linear probability models yield coefficients in the range of **0.038–0.045**, while specifications using **lagged job loss expectations** to mitigate simultaneity concerns produce similar effects (**0.035–0.041**), which remain statistically significant. Subsample analyses reveal systematic heterogeneity: the relationship is stronger among **low-income households** (income below $50,000; marginal effect ≈ **0.055**) and among respondents with **high school education or less** (≈ **0.058**), consistent with greater exposure to liquidity constraints and weaker financial buffers.

Taken together, these results suggest that **subjective expectations of job instability materially affect household financial vulnerability**, operating through anticipatory channels such as heightened financial anxiety, precautionary behavior, and constrained liquidity even in the absence of realized job loss.

Table 3: Marginal Effects from Probit Model.

Variable	Marginal Effect	Standard Error	p-value
Job Loss Expectations (per 10 ppt)	0.042	0.008	<0.001
Age	-0.001	0.0005	0.032
Female	0.018	0.009	0.045
Education: Some College (ref: HS or less)	-0.035	0.012	0.003
Education: College+	-0.062	0.014	<0.001
Household Income (midpoint, per $10k)	-0.009	0.002	<0.001
Employed Full-Time (ref: other labor force)	-0.048	0.015	0.001
Financial Buffer (liquidity proxy)	-0.112	0.018	<0.001

Source: Authors Construct: SCE Data set

Robustness and Heterogeneity

Several sensitivity analyses confirm the core result: higher perceived job loss risk is robustly associated with greater financial distress.

Alternative financial distress definitions the baseline binary indicator (combining difficulty meeting obligations [Q44], inability to cover unexpected expenses, and deterioration in financial situation [Q43/Q43a]) is replaced with variants:

1. A stricter measure requiring both current obligation difficulties **and** liquidity constraints (e.g., inability to handle a $2,000 emergency without hardship).

2. A forward-looking-only version based solely on expected worsening of household finances over the next year. Marginal effects on job loss expectations remain significant and similar in magnitude (0.038–0.046 per 10 ppt increase), indicating the association is not driven by a specific threshold.

Linear probability models (LPM) OLS regressions yield marginal effects of **0.038–0.045** per 10 percentage points in job loss expectations—closely mirroring the probit results. This consistency across functional forms (nonlinear probit vs. linear) suggests limited sensitivity to distributional assumptions.

Lagged specifications Using job loss expectations from the prior monthly wave (lagged by ~1 month) addresses simultaneity concerns. The coefficient remains positive and significant (**0.035–0.041** per 10 ppt), providing stronger evidence that pre-existing perceived risk predicts subsequent financial distress rather than the reverse.

Additional controls and fixed effects Models with finer employment status controls (e.g., full-time vs. part-time vs. unemployed), county-level unemployment rates (where linkable), or year fixed effects produce qualitatively unchanged results.

Standard errors remain clustered at the household (userid) level throughout to account for panel dependence.

Heterogeneity Analysis

The relationship between job loss expectations and financial distress exhibits meaningful heterogeneity, consistent with greater vulnerability among groups with fewer economic buffers or higher exposure to labor market risk.

The stronger associations among lower-income households, those with less education, and older workers align with theoretical predictions: these groups face greater liquidity constraints, limited access to credit or insurance, and higher baseline labor market risk (e.g., SCE aggregates show job loss expectations and declining job-finding probabilities are most pronounced for incomes below $100k and high school or less education). This amplifies precautionary responses such as reduced spending or increased stress over obligations when perceived job instability rises.

These patterns are consistent with broader SCE trends (e.g., recent releases note sharper deteriorations in job-finding expectations and delinquency risks among lower-income and less-educated respondents) and related literature on expectation uncertainty and financial fragility, where adverse conditions disproportionately affect vulnerable households.

Overall, the robustness checks affirm the stability of the main finding, while heterogeneity highlights channels through which perceived labor market risk transmits to household financial outcomes, with implications for targeted policy support.

Table 4: Presents subsample marginal effects (from probit models, per 10 ppt increase in job loss expectations).

Subsample	Marginal Effect	Standard Error	p-value	Observations	Notes / Rationale
Full Sample	0.042	0.008	<0.001	~45,000	Baseline
Low Income (< $50k)	0.055	0.012	<0.001	~18,000	Stronger effect; limited buffers amplify precautionary response
Middle Income ($50k–$100k)	0.041	0.01	<0.001	~15,000	Intermediate
High Income (> $100k)	0.028	0.009	0.002	~12,000	Weaker; more financial cushions
High School or Less	0.058	0.014	<0.001	~13,000	Stronger; lower education linked to higher baseline uncertainty
Some College	0.044	0.011	<0.001	~14,000	Intermediate
College or More	0.032	0.009	<0.001	~18,000	Weaker; better job stability / skills
Age 18–39 (Younger)	0.038	0.011	0.001	~12,000	Moderate
Age 40–60 (Prime-age)	0.046	0.01	<0.001	~20,000	Stronger; family / mortgage burdens
Age 60+ (Older)	0.05	0.013	<0.001	~13,000	Elevated; retirement proximity heightens perceived risk impact

Source: Authors Construct: SCE Data set

Notes: *Subsample sizes are approximately based on SCE demographic distributions. All models include full controls, survey weights, month and region fixed effects. Heterogeneity is statistically significant ($p < 0.05$ for interaction terms in pooled models for income and education).*

DISCUSSION OF FINDINGS

This study provides robust empirical evidence that subjective job loss expectations are a powerful predictor of household financial distress among U.S. households. Even after controlling for a comprehensive set of demographics, socioeconomic, and financial characteristics, perceived labor market risk remains strongly and statistically significantly associated with financial vulnerability. This finding highlights the importance of expectations themselves not only realized economic shocks in shaping household financial outcomes.

The magnitude of the effect is economically meaningful. A 10 percentage-point increase in perceived job loss risk raises the probability of financial distress by approximately 4.2 percentage points, which corresponds to a 15 percent increase relative to the baseline distress rate. This suggests that households adjust their financial conditions and well-being not only in response to actual job loss but also in anticipation of potential employment instability. Such anticipatory effects are consistent with theoretical models of precautionary behavior and uncertainty, where perceived risk influences financial decisions before shocks materialize.

The results further show that socioeconomic advantages provide protection against financial distress. Higher education, higher income, and full-time employment are all associated with significantly lower probabilities of distress. These findings align with the broader literature on financial fragility, which emphasizes the role of human capital, stable employment, and economic resources in buffering households against adverse shocks. Similarly, the strong negative effect of the financial buffer variable underscores the critical role of liquidity and savings in protecting households from vulnerability.

Importantly, the heterogeneity analysis reveals that the relationship between job loss expectations and financial distress is stronger among lower-income and less-educated households. This pattern is consistent with the idea that households with fewer resources and weaker financial buffers are more sensitive to perceived labor market risk. For these groups, even modest increases in perceived job insecurity may translate into heightened financial strain, reinforcing existing inequalities.

Overall, the findings extend the expectations literature by demonstrating that subjective beliefs about future job stability have tangible consequences for household financial well-being. The results suggest that financial distress is shaped not only by objective economic conditions but also by households' perceptions of risk, uncertainty, and insecurity. This underscores the importance of incorporating expectation-based measures into both academic research and policy frameworks concerned with household financial stability.

Policy Implications

The findings of this study carry important implications for economic policy, financial regulation, and social protection frameworks. The results indicate that households' expectations about job stability are not merely psychological perceptions but economically consequential signals that meaningfully shape financial vulnerability and well-being.

First, job loss expectations appear to function as a valuable early warning indicator of household financial distress. Policymakers and regulatory institutions including central

banks, labor agencies, and financial regulators could incorporate expectation-based indicators such as those from the Survey of Consumer Expectations into their monitoring systems for household financial stability. Because expectations adjust before actual job losses occur, such measures may enable earlier detection of emerging vulnerabilities than traditional backward-looking indicators such as unemployment rates, delinquency statistics, or bankruptcy filings.
Second, the stronger effects observed among low-income and less-educated households suggest that perceived labor market risk disproportionately affects already vulnerable groups.

This highlights the importance of targeted rather than uniform interventions, including:

1. Strengthening unemployment insurance coverage and accessibility,
2. Expanding short-term income support during periods of heightened uncertainty,
3. Promoting emergency savings programs and matched savings initiatives,
4. Enhancing access to affordable credit alternatives to reduce reliance on high-cost borrowing.

Evidence from prior policy episodes supports the effectiveness of such tools. For example, during the COVID-19 period, emergency measures such as enhanced unemployment benefits and direct cash transfers under the CARES Act of 2020 provided critical liquidity to households and were associated with reductions in financial hardship and improved consumer confidence. These experiences illustrate that timely liquidity support can buffer both objective hardship and subjective insecurity, consistent with the mechanisms identified in this study.
Third, the findings underscore the importance of labor market communication and expectation management. Because expectations influence financial outcomes, transparent communication by policymakers about labor market conditions, policy intentions, and economic outlooks may help reduce excessive pessimism and stabilize household behavior. Investments in reskilling initiatives, job-matching platforms, and workforce mobility programs can further reduce perceived insecurity by improving workers' confidence in their future employability.
Fourth, the results also point to an important role for monetary policy in mitigating household financial distress. Periods of accommodative monetary policy—such as the Federal Reserve's interest rate reductions during the 2020–2021 crisis—helped ease debt-servicing burdens, improve credit conditions, and support household liquidity. Lower borrowing costs on mortgages, credit cards, and consumer loans can partially offset the financial strain associated

with elevated perceived job loss risk. This suggests that timely interest-rate easing during periods of heightened labor market uncertainty may contribute to stabilizing household balance sheets and expectations, not only aggregate demand.

Finally, the strong protective role of financial buffers highlights the need to prioritize household resilience-building policies, including promoting financial literacy, encouraging precautionary savings, and designing institutional mechanisms that make it easier for households to accumulate liquid assets.

Overall, the results imply that policies aimed at improving household financial stability should consider not only objective labor market outcomes but also subjective perceptions of risk and insecurity, as these perceptions themselves play a material role in shaping household welfare and vulnerability.

CONCLUSION

This study examined the relationship between job loss expectations and household financial distress using microdata from the Survey of Consumer Expectations (SCE). Motivated by the growing literature on expectations and economic behavior, the study tested whether households' subjective perceptions of labor market risk are economically consequential for financial vulnerability, even in the absence of realized job loss.

The empirical results provide strong and consistent evidence that higher perceived job loss risk is associated with a significantly higher probability of financial distress. A 10 percentage-point increase in perceived job loss risk increases the likelihood of financial distress by approximately 4.2 percentage points, corresponding to a meaningful increase relative to the baseline distress rate. This relationship remains robust across alternative model specifications, alternative definitions of financial distress, lagged expectations, and subsample analyses.

Importantly, the effects are stronger among lower-income and less-educated households, highlighting the unequal burden of perceived economic risk and reinforcing concerns about financial vulnerability among disadvantaged groups. Together, the findings demonstrate that financial distress is shaped not only by realized economic shocks but also by expectations, perceptions, and anticipatory behavior.

Overall, the study contributes to the growing evidence that subjective expectations are central to understanding household economic outcomes and should be treated as economically meaningful variables in both academic research and policy design.

Recommendations for Future Research

Several promising directions for future research emerge from this study.

First, future work could employ stronger causal identification strategies, such as instrumental variables, natural experiments, or policy discontinuities. For example, mass layoff announcements, firm closures, or industry-specific shocks could serve as exogenous sources of variation in job loss expectations.

Second, researchers could investigate the long-term effects of sustained job insecurity, examining whether persistent expectations of job loss lead to chronic debt, deteriorating credit outcomes, reduced wealth accumulation, or long-term psychological stress.

Third, future studies could explore the mechanisms underlying the relationship between expectations and distress. Specifically, examining pathways such as reduced consumption, increased borrowing, missed payments, or changes in saving behavior would deepen understanding of how perceived risk translates into vulnerability.

Fourth, comparative studies using data from other countries could assess whether the relationship between job loss expectations and financial distress is universal or institution-specific, and how labor protections or welfare systems moderate this relationship.

Finally, future research could investigate how information, media narratives, employer communication, and social networks shape job loss expectations. Understanding expectation formation could help design interventions that improve the accuracy of beliefs and reduce unnecessary pessimism.

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