

# Chapter 4

## Understanding Consumers' Behaviour Change in Uncertainty Conditions: A Psychological Perspective

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### ABSTRACT

*An economic crisis is an uncertainty situation with negative economic evolutions like unemployment, inflation rate increasing, freezing or decreasing of the wages, purchasing power decrease, investments value reduction, fluctuations in consumer prices, restrictions in accessing loans, and fluctuations in currency exchange rate that represent economic shocks hitting most of the consumers to some extent. During economic turbulent times, consumers are highly exposed to such risks. The present chapter is intended to explain the consumers' behaviour alteration and spending patterns in recession conditions dealing with the panic mechanism that shapes the consumers' behaviour in this particular context, analyzing it from an economic and psychological perspective. The chapter is organized in two complementary parts in an attempt to present a comprehensive picture of consumers' behaviour change in uncertainty conditions. Readers can find answers to the "HOW" question and also to the "WHY" question placed behind consumers' behaviour alterations during recession.*

### INTRODUCTION

Since 2007, the global economy has entered a period of profound restructuring, the world facing one of the worst economic crisis in its history. It is amazing how fast the financial crisis that started in the U.S. turned into an economic global crisis. The rapid expansion of the economic

crisis worldwide, confirms the acceleration of the globalization process and the interdependencies existing between national economies at present. The current economic crisis is considered an unprecedented event for the world, its unique character being supported by several aspects, including its severity and global nature. If the confidence crisis that followed the financial crisis played an

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important role in turning the financial crisis into an economic one, the acceleration of economic globalization and increasing interdependence in economy have contributed significantly to the expansion of global economic crisis by domino and contagion effects.

Throughout the time, analysts and researches identified different causes for each important economic crisis episode, a common point being the emotion. At the conference "Crisis of Confidence. The Recession and the Economy of Fear" held in 2009, sponsored by the University of Pennsylvania's Department of Psychiatry and the Psychoanalytic Center, there was emphasized the following aspect: "The emotion not only led America into the present economic crisis but it could also keep it there." David M. Sachs, training and supervising analyst at Psychoanalytic Center of Philadelphia stated that "the economic crisis is not one of concern but one of confidence." In this respect, Nobel economist Stiglitz (2008) claimed that the financial crisis emerged from a catastrophic collapse of confidence. At the same time, Ron Anderson (2009) asked some questions in an article posted on his blog: "Have you noticed that in general, people provide only economic explanations to the present crisis? Have you noticed the majority arguments are built on economic and political elements and only on a small scale on psychological ones?." Generally, recessions lead to unemployment problems, therefore, incomes fall, consumer confidence decreases, and all these lead to a raise in uncertainty about the future (Kay, 2010).

Looking at the present global economic turmoil, the transformation mechanism of the financial crisis in an economic one spread worldwide is based on the fact that a certain type of crisis generated the emergence of another type of crisis, the key driver to this emergence being the emotion. The core mechanism of this phenomenon is considered the "economy of fear." Due to the exposure to the uncertainty and economic shocks the emotional response of consumers to the effects

of the financial crisis determined the decrease of their confidence in brands, companies, sectors of activity, and in the anti-crisis measures taken by governments. In other words, the negative emotional response determined the appearance of confidence crisis which is associated with the alteration of consumption and spending allocation, people considering savings as a proper reaction to the uncertainty of their existence. Fear of the future, unfavorable changes in price elasticity, hard value and cost benefits gain in importance, compressed time preference, financing becomes more important and safety becomes a higher priority. Consumers choose saving their money instead of spending it (Simon, 2009). The fall in consumer spending leads to a decrease in aggregate demand and therefore lower economic growth. The fall in consumer spending leads to a decrease in aggregate demand and therefore, lowers economic growth. This had as a consequence market contractions and their structure alterations, generating the classical overproduction crisis, but also the prologue of the economic crisis. Thus, the new market situation is characterized as the "age of thrift" which has radically changed customer purchase behaviour providing an environment dominated by public skepticism and lack of trust in business and in marketing offers (Piercy et al., 2010). This is supported by the evolution of Consumer Confidence Index (CCI) which, according to Nielsen Global Confidence Index Report 2008 has experienced significant decreases in all national markets in which it was measured, in some national markets taping an absolute record of decrease. In the first half of 2009, CCI continued to decline in 48 of the 50 monitored countries (see Box 1).

In this context, important drivers of the individuals' behaviour changes are emotions and psychological factors. Confronted with economic shocks, consumers adapt themselves to the situation through adjustment of purchase behaviour and spending allocation. Actually, during the last few years consumers "learnt" how to live from "adjustment to adjustment" on all national mar-

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