

Briefing on the Economy and Charitable Giving
The Center on Philanthropy at Indiana University

REVISED AND UPDATED

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Summary

Changes in giving are linked to changes in the overall economy. During good economic times, giving tends to grow robustly. However, when the economy grows at a moderate or slow rate, philanthropy continues, although at a slower rate of growth. In general, during economic downturns, giving tends to decline, after adjusting for inflation.

Based on several indicators, the National Bureau of Economic Research announced on November 28, 2008 that the U.S. economy has been in recession since December 2007. During the third quarter of 2008, economic output contracted at an annual rate of 0.3 percent (Bureau of Economic Analysis, 2008). Certain segments of the economy, particularly those associated with giving such as stock market values and corporate profits, have declined to levels last seen in 2002 (Standard & Poor's 500 Index) or 2005 (corporate profits).

Giving USA Foundation's *Spotlight* newsletter for Fall 2008, written and researched by the Center on Philanthropy at Indiana University, analyzed trends over the last 40 years. It shows that giving fell, adjusted for inflation, an average of 1 percent in recession years. In years with 8 months or more of recession, giving declined at an average rate of 2.7 percent per year (adjusted for inflation). In the longest recession in the last half of the 20th century (1973-1975), giving fell 9.2 percent (adjusted for inflation) and by 5.4 percent in 1974 alone.

Most households continue to give during times of financial insecurity, although some give less compared to periods of economic prosperity and some donors become non-donors, especially those earning less than \$50,000 per year. The Center on Philanthropy Panel Study, for example, found that the average amount contributed by donor households in 2002 (a time of slow economic recovery after the recession of 2001) declined by 6.3 percent, after adjusting for inflation, compared with the average gift amount in 2000. Total giving from all households does not drop as fast as average giving per donor household, because there are more households, and a higher percentage of households gave in 2002 than did in 2000. Overall, Giving USA estimates that total household giving in 2001 (a recession year) fell by 1.3 percent adjusted for inflation. In 2002, the year that economic recovery began very slowly, household giving rose 0.3 percent adjusted for inflation.

By asking charitable organizations about their experiences, the Center on Philanthropy's Philanthropic Giving Index (PGI) gauges nonprofit fundraisers' confidence in the current climate for fundraising. Between June and December 2008, the PGI fell from 88.8 to 64.8 points. This is a decline of 27 percent and is the largest single drop since the PGI began in 1998. The prior worst-ever drop was in 2001, when the PGI fell by 9 percent. In that year, total giving dropped 2 percent (adjusted for inflation).

Nearly 94 percent of nonprofit fundraisers surveyed said the economy is currently having a negative (65.3 percent) or very negative (28.5 percent) effect on fundraising.

Some foundations have reported that they intend to maintain their giving in 2008. The Foundation Center and the Council on Foundations are both offering information resources for and about grantmakers responding to the economic crisis.

Giving and the economy

Giving has been between 1.7 percent and 2.4 percent of Gross Domestic Product (GDP) since 1955. In 2007, estimated total giving of \$306.39 billion was 2.1 percent of GDP, according to *Giving USA*.

Before adjusting for inflation, charitable giving has increased in all years except 1987 since 1956. The exception occurred because of a law announced in 1986 that changed the tax deductibility of gifts. Donors “pre-gave” in 1986 to qualify for deductions phased out in 1987. After adjusting for inflation, as reported by Giving USA Foundation, giving can decline in periods of recession and can decline considerably in long recessions.

Indicators used to estimate annual charitable giving include changes at year-end in:

- Standard & Poor’s 500 Index (affects individual giving, foundation grantmaking, and the value of bequests);
- Personal income (affects individual giving);
- Corporate income (affects corporate giving);
- Tax rates (individual tax rates for individual giving and corporate rates for corporate giving); and
- Prior levels of charitable giving (individual giving and corporate giving).

There is a connection between year-end stock market values and itemized deductions claimed for charitable contributions, as shown in the research of Deb et al. (*Nonprofit and Voluntary Sector Quarterly*, December 2003). If the Standard & Poor’s 500 Index ends 2008 at about where it was on December 16, 2008, the historical relationship between the stock market and individual itemized deductions for giving suggests that we would see a decrease of almost 5 percent in itemized charitable deductions claimed for 2008 (in current dollars).

This differs from a figure released in a November 2008 brief issued by the Center on Philanthropy. The new calculation uses data recently made available by the IRS and incorporated into the model.

Table 1 shows the change since October 2007 in the four primary economic indicators used in estimating charitable giving. The percentages reported include unadjusted dollars (current dollars) which are more commonly used in nonprofit organizations for management purposes and inflation-adjusted values, which is the comparison used by business and economics.

Table 1
Percentage change, October 2007 to Fall 2008 for economic indicators
for economic indicators important in predicting giving

	Current dollars percentage change	Inflation-adjusted percentage change
Gross Domestic Product	3.4	-1.3
Personal income	4.2	-0.6
Standard & Poor’s 500	-37.8	-40.6
Corporate Income	-8.3	-12.5

Data: Bureau of Economic Analysis, Release of October 30, 2008 for GDP, personal income, and Corporate income through September 2008.

Standard & Poor’s 500 from Standard & Poor’s, page for S&P 500, filtered by date, December 31, 2007 and December 16, 2008, at <http://www2.standardandpoors.com>

Many economic indicators are available daily, monthly or quarterly, which is useful for monitoring the health of the economy. However, the indicators for prior levels of charitable giving are updated annually, not quarterly.

Giving and recessions – overall giving

Giving USA Foundation released a *Spotlight* newsletter in Fall 2008, written and researched by the Center on Philanthropy, that shows:

- An average annual increase in charitable giving for all years from 1967 to 2007 of 2.8 percent (adjusted for inflation).
- When there is no recession, giving grows at an annual average rate of 4.3 percent (adjusted for inflation).
- In years with a recession, the average annual change is a decline in total giving of 1 percent (adjusted for inflation)
- In years with 8 months or more of a recession, the average annual decline in total giving is 2.7 percent (adjusted for inflation).

The period 1973 to 1975 was the longest period of continuous recession since the Great Depression. During the calendar year 1974, all 12 months of which were in a recession period, giving declined 5.4 percent (adjusted for inflation). This is the worst decline in giving on record for a single year. Cumulatively, during the 1973-1975 recession, giving dropped 9.2 percent (adjusted for inflation).

Each subsector of the nonprofit sector (health, education, arts, etc.) sees a slightly different pattern of changes in giving during recessions. The two that on average see a decline in giving are education (a drop of more than 1 percent adjusted for inflation) and religion (a drop of less than 1 percent, adjusted for inflation). Other subsectors see a slower rate of growth, but on average, see inflation-adjusted increases in giving during recessions. The complete issue of the *Spotlight* includes tables and graphs that show changes during recessions for all subsectors. This work is researched and written at the Center on Philanthropy. It is available from Giving USA Foundation, www.givingusa.org.

Household giving

The U.S. economy in 2002 was in a phase of “slow recovery” after a recession in 2001 and the trauma of the attacks of September 11, 2001. The Standard & Poor’s 500 Index in 2002 ended the year at 879.8, after a drop of 24 percent (adjusted for inflation) from 2001. Personal income in 2002 rose by 0.4 percent (adjusted for inflation) compared to the prior year.

The Center on Philanthropy Panel Study (COPPS) surveys the same households every two years and has been conducted since 2001. Data from that research show that average total household giving in 2002 was 6.3 percent lower (adjusted for inflation) than the average for 2000 and 2004. This result is consistent with the finding that giving is affected by the overall economy.

Table 2 shows the average total household giving for 2000, 2002, and 2004 and the percentage of households reporting that they made charitable gifts of \$25 or more in the year. Surveys are conducted in odd-numbered years and ask about giving and other financial transactions in the prior year.

Table 2

Average total household giving, before and after the recession of 2001

(Dollar values adjusted for inflation to 2007 dollars.)

Year asked about in the survey	Percentage of households giving	Average total giving	Change in average total giving from prior period
2000	66.8	\$2,281	
2002	68.5	\$2,146	-6.3 % *
2004	70.2	\$2,247	4.5 %

Data: Center on Philanthropy Panel Study, waves of 2001, 2003, and 2005

* While the average gift amount reported here declined 6.3 percent, the combined effect of having a larger population and a larger share of the population giving led to a much smaller drop in total individual (or household) giving. The decline in total giving by households estimated for individual or household contributions in 2002 based on this data is a drop of 1.7 percent (adjusted for inflation). This corresponds closely with findings from *Giving USA* for 2002 for household (individual) giving, which show an inflation-adjusted drop of 1.3 percent.

Donor's stability in giving over time

Using COPPS data, Patrick Rooney, Ke (Samuel) Wu, and Melissa Brown (all researchers at the Center on Philanthropy at Indiana University) have found that the majority of donors continue to give over time. Specifically:

- 56 percent of households gave in each year of three years studied;
- 29 percent gave in one or two years but not all three; and
- 15 percent never gave.

The December 2008 Philanthropic Giving Index

Nonprofit professionals reported the lowest overall level of confidence in the fundraising climate for U.S. charities in over a decade, according to the Philanthropic Giving Index (PGI) report released December 18 by the Center on Philanthropy at Indiana University.

The PGI, similar to a Consumer Confidence Index for charitable giving, is now 64.8, a 21.7 percent decrease from just six months ago and a 27 percent decrease since December of 2007. In the 10 years since the study began in 1998, the overall PGI has ranged from a previous low of 72.3 in summer 2003 to a high of 94.6 in December 1999.

The PGI report includes three indexes on a scale from 0 to 100, based on a semiannual national survey of nonprofit fundraising professionals. The Present Situation Index (PSI) gauges the current giving environment. The Expectations Index (EI) assesses the climate for the next six months, and the overall PGI is an average of the current and future indexes. Higher scores indicate more positive or optimistic attitudes about the climate for fundraising.

In the latest survey, all three of the main indexes fell dramatically from their previous levels. In addition to the PGI's historic drop, the PSI fell to 63.6, its lowest level since the summer of 2003. The PSI is nearly 28 percent lower than one year ago. The EI is 66.1, a 21.2 percent decrease from six months ago and more than 26 percent lower than last year at this time.

The full PGI report, including results by organization size, location of donor support and subsector (e.g., arts, environment, etc.), is available to premium services members of the Center's Web site (www.philanthropy.iupui.edu).

Fundraisers' comments about expectations for 2009

Nonprofit organization fundraisers responding to the anonymous survey for the Philanthropic Giving Index, replied as follows when asked how the economy will affect giving in 2009:

Those who are willing to give, still will give. It might be an elongated process versus a one-time commitment.

Although the economic downturn has impacted the amount of contributions received, we have experienced an increase in the number of individual donors.

One thing that we have noticed is that as people are considering their charitable priorities, they are trying to slightly increase what and where they can to those priorities and then cutting back or not giving to the bottom tier.

Modest gifts will decrease in the coming year, while major individual gifts (including planned gifts), will increase; special events will yield very modest returns but offer important face-to-face time for major and prospective major donors. Estate planning will be a major focus.

We are seeing donors not anxious to make major multi-year pledges at this time--they want to give, they just want to see how things will be with the economy, new administration etc.

Foundation Center report about recessions and grantmaking

Available at http://foundationcenter.org/gainknowledge/research/econ_outlook.html

The Foundation Center released a research advisory in October 2008 that reports,

...just after the most recent recession [in 2001], foundation giving did decline from \$30.5 billion in 2001 to \$30.4 billion in 2002 to \$30.3 billion in 2003 — the first consecutive years of decreased foundation giving tracked by the Center. **Yet this marginal 0.6 percent reduction (4.4 percent after inflation) was quite modest compared to the inflation-adjusted 16 percent drop in foundation assets we recorded between 2000 and 2002.** [emphasis added]

Foundation assets grew faster than inflation between 2003 and 2007, which enabled grantmakers to replenish their endowments after the downturn of the early 2000s. For foundations that determine their annual grants budgets based on a rolling average of their asset values, this growth should help to mediate the impact of possible asset losses in 2008 on their giving in 2009.

The Foundation Center cautions that grantmaking is closely tied to asset values. While there has been recent growth in the number of foundations and gifts to foundations, a prolonged period of low stock market values will affect grantmaking.

The Council on Foundations has opened a forum called Economic XChange (XChange@cof.org) to help funders and nonprofit organizations share stories, learn the latest, and distribute information and resources.

Conclusion

Many nonprofits are concerned that current economic and financial conditions will severely impact charitable donations in 2008 and 2009. The overall picture that emerges from research conducted at the Center on Philanthropy at Indiana University is that economic and financial uncertainty does shape charitable giving. In a recession, giving has fallen, on average, 1 percent adjusted for inflation. In years with more than 8 months in a recession, giving has declined an average of 2.7 percent. Longer recessions do drive down giving; the worst period on record was a drop of 9.2 percent between 1972 and 1975.

To mitigate the impact of an economy in recession, nonprofit organizations should assess their individual situations, prepare contingency plans, make a compelling case for the needs their organizations meet, and continue fundraising efforts. Nonprofit leaders who understand their organization's costs and, where appropriate, raise funds for specific cost items, who communicate clearly and honestly with stakeholders (including board members and staff), and who recognize that the economy will improve in time are likely to be well-prepared for this challenging time.