

# MacroMonitor Market Trends

February 2009

**MacroMonitor Market Trends** is a monthly newsletter from the Consumer Financial Decisions group that highlights topical news and trends of interest to you and your colleagues. If you would like more information about the items in the newsletter or would like to discuss other ways that we can assist you in your research and marketing efforts, contact Larry Cohen, Jon Gray, or Chris Taylor at +1 609 734 2048.

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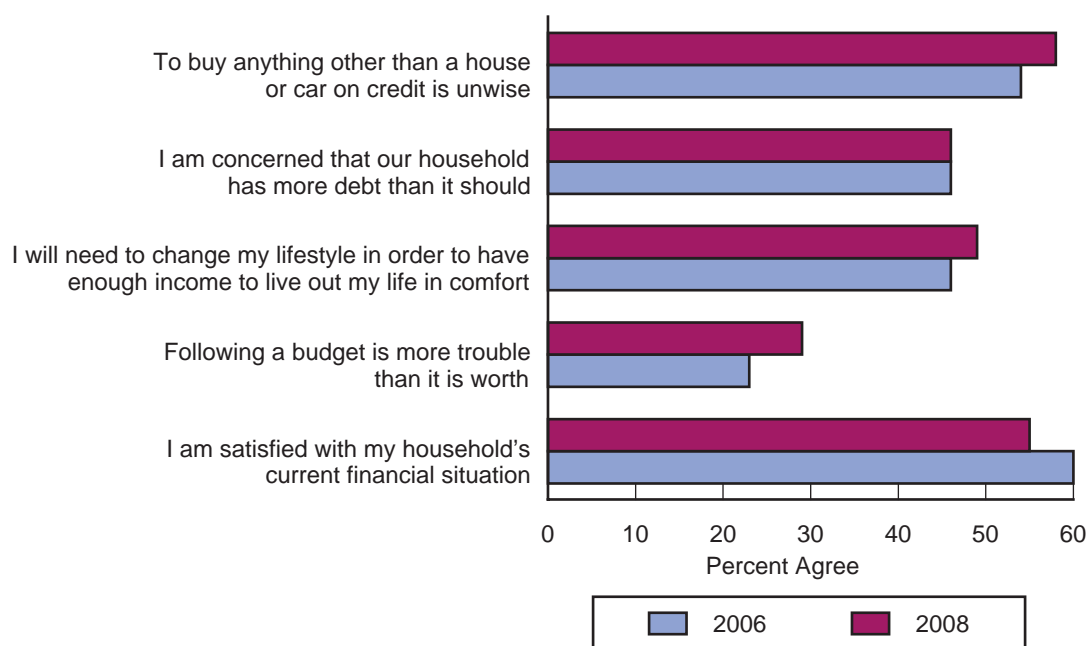
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## Shifting Focus to the New Consumer

Given the events of the past six months, financial marketers and researchers must accept that, for the majority of consumers, their resource level, attitudes, and overall financial worldview have changed. For the past decade, U.S. consumers have been just that: consumers. Savings rates have trended downward and been incredibly low in comparison with rates in Japan and in Europe. U.S. households were able to maintain financial peace of mind even as debt levels rose because of the upward movement in the values of real estate and equities. Of course, the past year (and especially the past six months) has shaken this *modus vivendi* to its knees. People who must understand consumers in order to develop relevant financial products, increase market share, and dispense advice must first understand that, although almost everyone has been affected by this economic downturn, the effects have not been uniform. It is imperative that researchers conduct analysis that focuses on consumers' life stage, attitudes, wealth level, asset diversification, choice of firms for most of their assets (using CFD's Affluent Core Customers segmentation), product use, and preferred advice channel—and find how they have recently changed.

Currently, CFD is fielding the **2008–09 MacroMonitor Recontact** study. The purpose of the study is to measure the change in the financial-consumer landscape since we fielded the **2008–09 MacroMonitor** in the summer of 2008. In the **Recontact** study, we asked the same respondents to respond to a number of the attitudes that we asked about previously. Figure 1 shows some of the same attitudes with response rates from the **2006–07 MacroMonitor** survey (fielded in the summer of 2006), in comparison with those of the **2008–09 MacroMonitor** survey (fielded in the summer of 2008). Although it was clear that attitudes were shifting in summer 2008, we expect to see an even greater drift in the upcoming data.

Figure 1  
CHANGES IN FINANCIAL ATTITUDES FROM 2006 TO 2008



Base: All U.S. Households

Source: **The MacroMonitor**

## Glancing at the 2008–09 Affluent Core Customers Segments

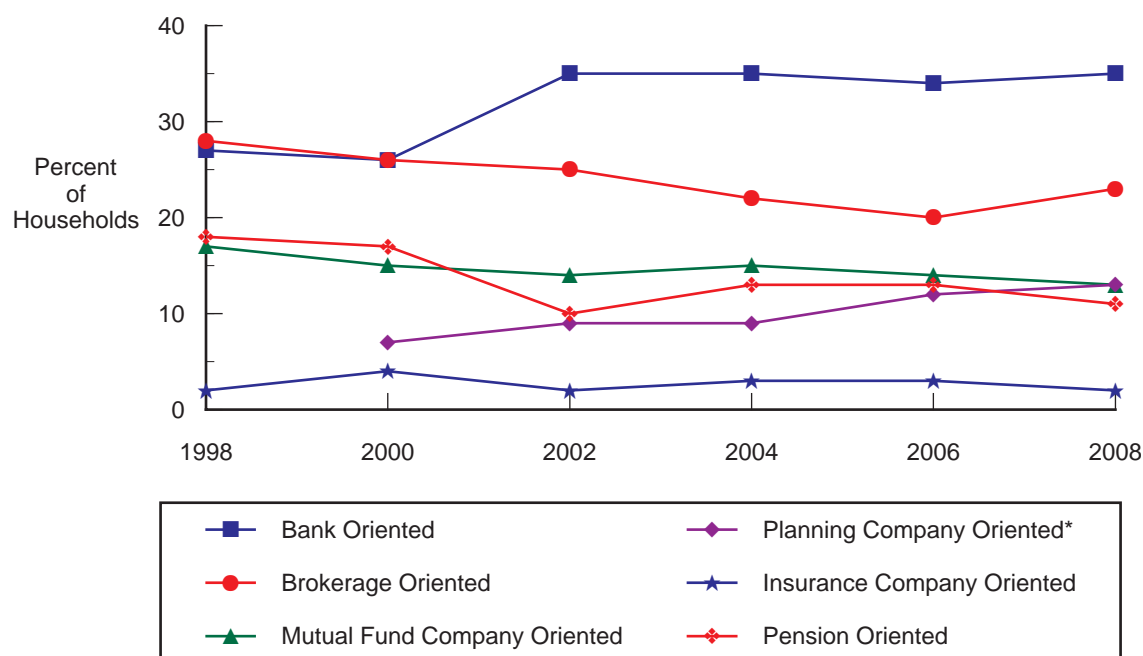
During these uncertain economic times, it has become more critical than ever before for financial institutions to gain insight into their most loyal Affluent customers. Using CFD's Affluent Core Customers segmentation, which classifies Affluent households—households with a household income of \$100,000 or more or total assets excluding the value of the primary home of \$500,000 or more—on the basis of the type of financial institution to which they choose to entrust the greatest percentage of their savings and investments, we see that banks once again are the most prominent institution. As Figure 2 depicts, in 2008 the percentage of Bank-oriented households—Affluent households that choose to keep the majority of their savings and investment dollars with a depository institution—continues a decade-long climb, from 27% of households in 1998 to 35% in 2008. Meanwhile, after years of falling steadily, the percentage of Brokerage-oriented households increased slightly from 2006 to 2008, from 20% of Affluent households to 23% currently. This return to brokerages is likely a reflection of the optimism felt by investors when the stock markets hit record heights in October 2007. Finally, while financial-planning companies continue to gain popularity among the Affluent, the percentages of Affluent households among the Mutual Fund Company-oriented, Pension-oriented, and Insurance-oriented Core Customers segments have fallen slightly during the past two years.

Because of the financial crisis and severe stock market downturn of September 2008, we will likely see Affluent households once again retreat from brokerages and mutual fund companies in favor of the more conservative depository institutions and financial-planning companies in the

near future. As Figure 2 shows, a similar decline occurred after the dot-com bust at the beginning of the millennium. In view of the shrinking Affluent market overall, financial institutions may find it more important than ever to target the Affluent effectively. In the race to maintain and win Affluent customers' savings and investment dollars, financial-services providers must make a concerted effort to understand what motivates the customers' choice of primary financial institution. Through an understanding provided by analyses of CFD's Affluent Core Customers segments, financial institutions will be better prepared to survive this economic crisis and meet the changing financial needs of Affluent households. (For more information about our Affluent Core Customers segmentation, see

**2006–07 MacroMonitor Marketing Reports** *Segmenting Financial Institutions' Most Dedicated Customers and Bank-Oriented Core Customers: Can Banks Keep Them and Gain More?* at <http://src-bi.com/CFD/MR.shtml>.)

Figure 2  
TRENDS IN PERCENTAGES OF AFFLUENT HOUSEHOLDS, BY CORE CUSTOMERS SEGMENTATION



Base: Affluent Households

\* Financial-planning company was not a response category before the 2000–01 survey.

Source: **The MacroMonitor**

## Reacting to the Financial Crisis: Younger Households Quicker to Face the Music

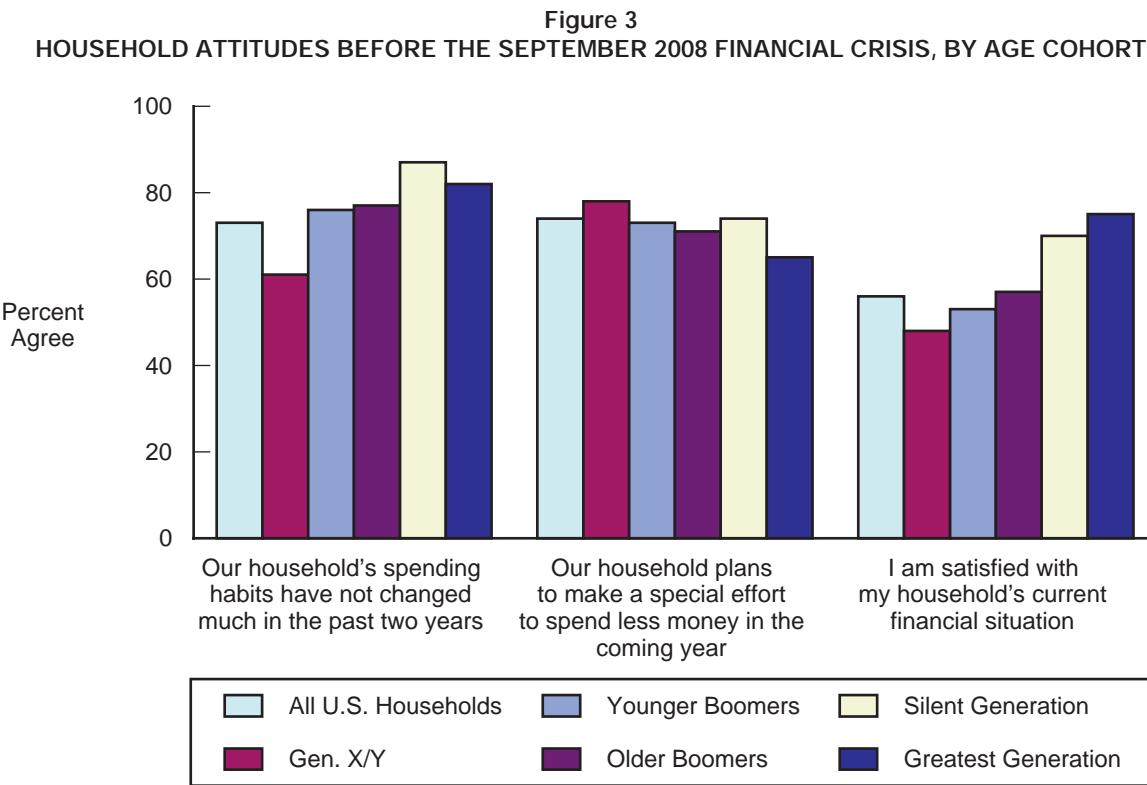
Nobody knows when and how the current financial crisis will end. But one highly likely impact of this turmoil is the beginning of the end of the living-beyond-your-means-lifestyle that has long

defined most Americans' spending behavior. The **2008–09 MacroMonitor** survey of consumers' household finances provides interesting observations about how the economic downturn that preceded the financial crisis may have affected households' expectations and lifestyles. At the time of the survey fielding in the summer of 2008, the economy had already deteriorated, but the precipitous decline in the financial markets of September 2008 had yet to occur.

Younger U.S. households—the GenX/Y Age Cohort—appear to have been quicker to face the reality of the situation than their older cohorts. Although nearly nine in ten Silent Generation households and nearly eight in ten Boomers say that they have not changed their household's spending habits, only 61% of GenX/Y households say that they have not. More important, nearly eight in ten of this younger Age Cohort say that their households plan to make a special effort to spend less money in the coming year—the highest incidence among all the Age Cohort segments.

Not surprisingly, of all the Age Cohorts, these young households are the least satisfied with their current financial situation: Just 48% say that they are satisfied, in comparison with more than seven in ten Silent Generation and Greatest Generation households, 53% of Younger Boomers, and 57% of Older Boomers.

Financial attitudes generally serve as a fair bellwether of future financial behavior. In terms of households' going back to the basics of living within their means and saving for a rainy day (rather than running up credit), GenX/Y households are likely to be at the forefront of this new consumer lifestyle—presenting an opportune target for financial providers to step in with assistance.



Base: All U.S. Households

Note: Definition of Age Cohort Segments:  
*Generation X/Y* includes households whose primary head was born after 1962.  
*Younger Boomers* include households whose primary head was born between 1954 and 1962.  
*Older Boomers* include households whose primary head was born between 1946 and 1953.  
*Silent Generation* includes households whose primary head was born between 1930 and 1945.  
*Greatest Generation* includes households whose primary head was born before 1930.

Source: **2008–09 MacroMonitor**