MacroMonitor Market Trends

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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, please contact Larry Cohen, Jon Gray, or Chris Taylor at +1 609 734 2048.

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DEBT-FREE HOUSEHOLDS REPRESENT AN OVERLOOKED MARKETING OPPORTUNITY

The devastating effects of the current financial and economic crisis are well known, and mainstream news sources broadcast them daily. Newspaper headlines continuously report the record numbers of home foreclosures and credit-card delinquencies, as well as plummeting stock market valuations. Although the effects of the economic downturn are indeed far-reaching, a lesser-known subset of financial consumers has managed to remain relatively unscathed: the debt-free households. As Table 1 portrays, **2008–09 MacroMonitor** data indicate that in 2008 more than 33 million households (26% of all U.S. households) are completely free of debt (including real estate, vehicle, and consumer debt and life-insurance policy loans and credit-card balances). Although debt-free households tend to have lower median incomes, investable assets, and savings balances ($22,000, $3,475, and $5,800, respectively) than those of households overall ($49,000, $19,773, and $13,500, respectively), they are in a unique position—by virtue of their having no liabilities—to weather the current bear economy better than households burdened with debt.

Table 1
HOUSEHOLD PROFILE

Category	Debt-Free Households	All U.S. Households
Number of households	33,082,000	125,481,000
Median age of primary head*	57	51
Incidence of home ownership (percent)	47	70
Median home-equity value (dollars)	125,000	88,000
Median annual household income (dollars)	22,000	49,000
Median value of investable assets (dollars)	3,475	19,773
Median value of savings (dollars)	5,800	13,500

* *Primary head* is the head of household with the greater contribution to household income.

Base: All U.S. Households

Source: **2008–09 MacroMonitor**

Debt-free households are particularly well positioned to handle the ongoing real estate meltdown. Although the primary head of a debt-free household tends to be older than the primary head of households overall (median age of 57 versus 51, respectively), nearly 32% of all debt-free households have a Generation X/Y primary head. Because Generation X/Y households are just starting out financially and are the least likely of any generational cohort to own their own home, these young, debt-free households have a distinct opportunity to take advantage of sinking real estate prices and become first-time homeowners. The 50% of debt-free households that own their home are also well equipped to survive the real estate downturn because they have little risk of losing their homes to foreclosure. Moreover, debt-free households overall have a higher

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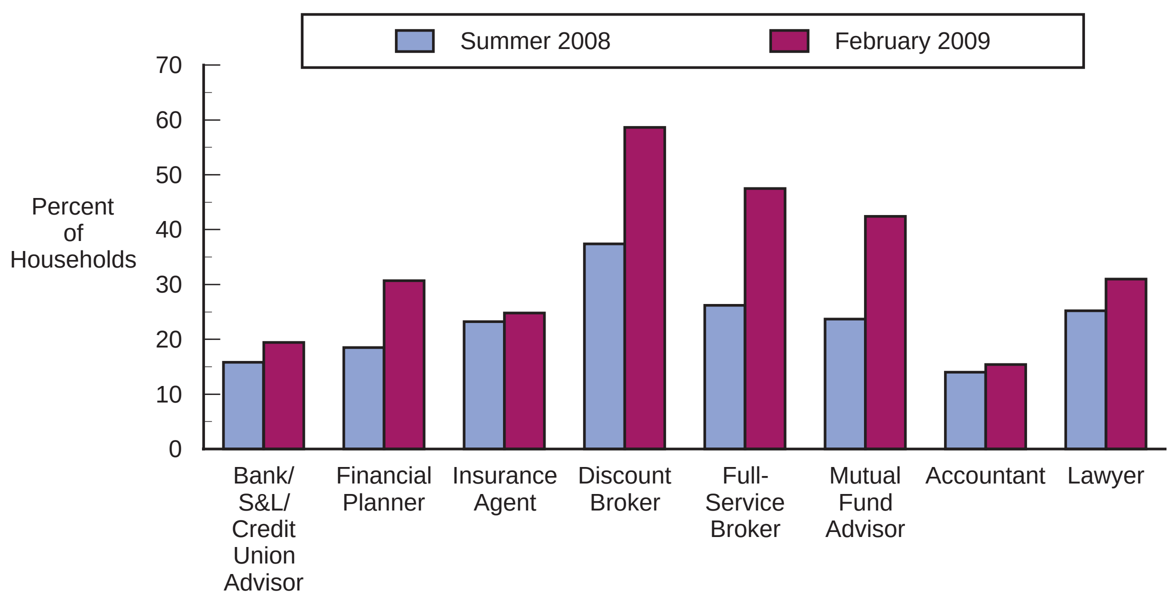
median home equity ($125,000) than do households overall ($88,000). Thus, even though debt-free households have a lower median annual household income and a lower balance in investable assets than U.S. households overall, when home equity is in the mix, they are relatively secure financially.

Historically, financial institutions have preferred to focus their marketing attention on sophisticated affluent investors. However, because many of these trophy customers had invested heavily in the stock markets and many borrowed heavily during the boom, they now face depleted assets and high household debt. Debt-free households, by contrast, although not particularly affluent, are solid, creditworthy financial consumers. Thus, facing a shrinking marketplace, financial-services providers should consider debt-free households as a potentially profitable marketing opportunity.

HOUSEHOLDS' MISTRUST OF INVESTMENT PROFESSIONALS HAS INCREASED

The current economic situation has affected virtually every part of the financial-services industry. Nowhere has the current meltdown had a greater impact than on the investment industry. Independent wire houses have disappeared, converted into banks, or been absorbed. Trading by individual investors has dropped off to just the hard-core active traders, and even they are trading less. Assets under management have shrunk everywhere, severely cutting revenues. At these levels of trading and assets, overcapacity in the investment industry is significant, portending considerable consolidation in the offing. To add insult to injury in this depressed environment, findings from our just-completed Recontact Study highlight how household mistrust of investment financial professionals (financial planners, mutual fund advisors, and discount and full-service brokers) has increased significantly in little more than a half year.

Figure 1
HOUSEHOLD HAS HARDLY ANY TRUST IN FINANCIAL PROFESSIONAL



Base: All U.S. Households

Source: **2008–09 MacroMonitor** and **2008–09 MacroMonitor Recontact Study**

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These findings challenge financial institutions to meet the new needs of all consumers, but especially investors, in the current environment. Although consumers' goals have not changed, their focus, motivation, and preferred methods of investing are shifting as their tolerance for risk, need for control, expectation of convenience, and desire for simplicity have become paramount. Professionals who do not take into account consumers' changing psychology, especially their lower levels of trust, when attempting to inform and motivate them, will prove ineffective.

DOWN MARKET CREATES OPPORTUNITY FOR CONSUMER-ORIENTED FIRMS

The times today are inauspicious, indeed, for consumer-oriented financial institutions. Consumers' net worth has taken a sharp drop—losses in retirement accounts and other investments have been compounded by real estate losses—for many if not most households. Households' squeamishness about the economy and the financial markets has forced consumer dollars into deposit products and cash equivalents. The personal-savings rate has recently risen to 5%, its highest level since March 1995.

Despite the economic downturn, a lot of opportunity exists for firms to connect with consumers and position their value proposition. Consumers are now at a turning point in their financial lives. In the recently fielded **2008–09 MacroMonitor Recontact** study, almost half of all U.S. households admitted that the current economic situation has affected their outlook on retirement, and 38% told us that they will change the way they invest in the next 12 months. Clearly, households are using the economic downturn to refocus their retirement strategies and change the ways in which they save and invest. This consumer shift gives opportunistic firms the ability to win over new consumers and gain market share.

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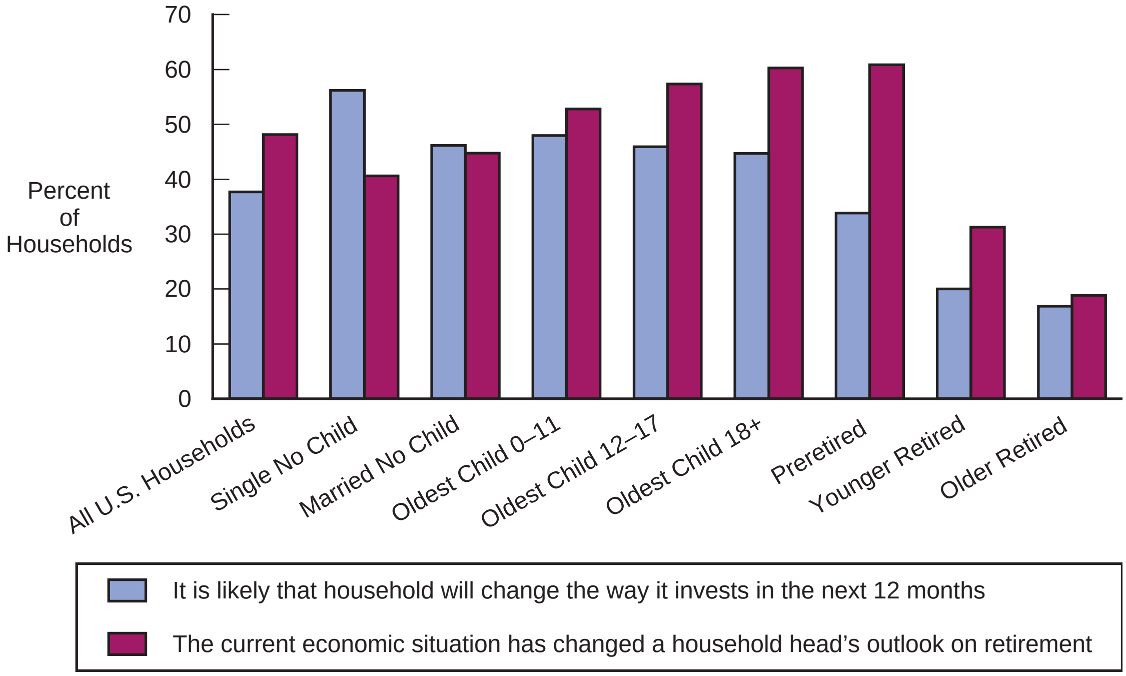
Figure 2
EFFECT OF CURRENT ECONOMIC SITUATION ON HOUSEHOLDS' INVESTMENT HABITS AND RETIREMENT OUTLOOK, BY LIFE STAGE (FEBRUARY 2009)



Base: All U.S. Households

Source: **2008–09 MacroMonitor Recontact Study**

The **2008–09 MacroMonitor Recontact** study highlights the consumer churn: While 18% of households have stopped doing business with one or more financial institutions, 18% have started doing business with one or more new financial institutions. Those institutions that drill down and create multiple targets focusing on consumers' refocused and diverse needs and objectives stand to build extremely important consumer relationships in a downtrodden financial marketplace.

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