MacroMonitor Market Trends

March 2008

MacroMonitor Market Trends highlights topical news and trends of interest to you and your colleagues. If you would like more information about the following points 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.

IN THIS ISSUE:

Higher gasoline prices, dropping home values, and tightening credit requirements all portend a continuing rough ride for the American consumer. CFD highlights three indicators of U.S. households' financial circumstances and what they might mean in the looming economic slowdown.

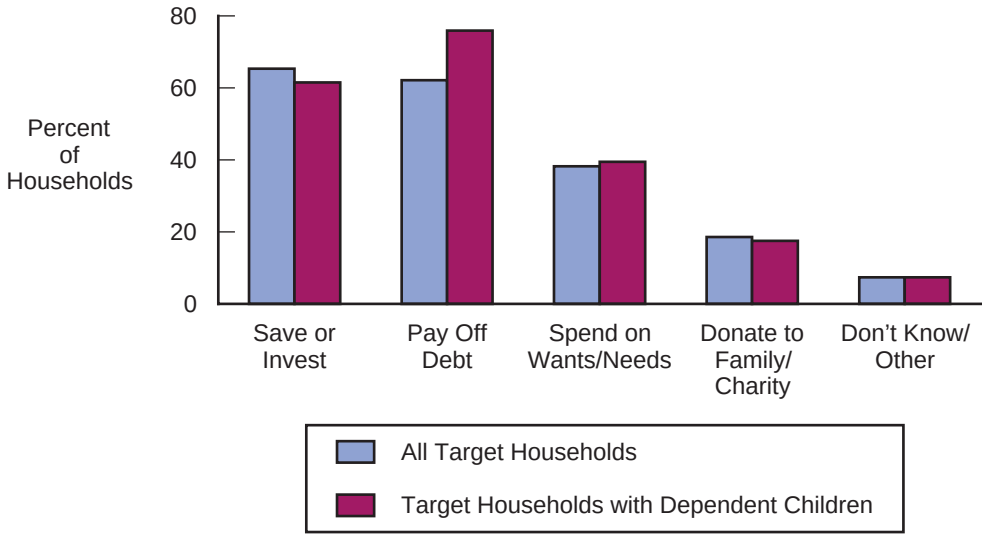
- Households Unlikely to Go on a Spending Spree with Their Tax Rebate
- Mass Affluent Vulnerable to High-Credit-Card–Debt Malaise
- No Savings Cushion for Nearly Three in Ten U.S. Households

HOUSEHOLDS UNLIKELY TO GO ON A SPENDING SPREE WITH THEIR TAX REBATE

Recently Congress passed and President Bush signed a stimulus package to provide a quick boost to the U.S. economy by encouraging consumers to spend. The plan will give a tax rebate of up to $600 to wage earners, up to $1,200 to couples filing jointly, and an additional payment of $300 per child. By looking at responses to the **2006–07 MacroMonitor's** "windfall" question (it asked respondents "If your household somehow were to get an unexpected $25,000 in the next few weeks, what would it do with the money?"), we gained some insight into how consumers might behave in response to this stimulus package.

Households with children will potentially receive the largest amount of money from the stimulus package. As Figure 1 shows, these households are much more likely to use a $25,000 windfall to pay off debt (76%) than to save or invest (62%)—a strong indicator of the enormity of this segment's debt situation. Only 40% would spend the windfall on what the household wants or needs. Target households overall are about equally likely (65% and 62%, respectively) to spend or invest a windfall or to use it to pay off debt. The current recessionary mood increases the possibility that households will not likely go on a spending spree with any amount of received "windfall," potentially negating the intended goal of the stimulus package.

Figure 1
WHAT HOUSEHOLDS WOULD DO WITH A $25,000 WINDFALL



Base: All Target Households

Note: Target households include single-head households with income of less than $75,000 or dual-head households with income of less than $150,000.

Source: **2006–07 MacroMonitor**

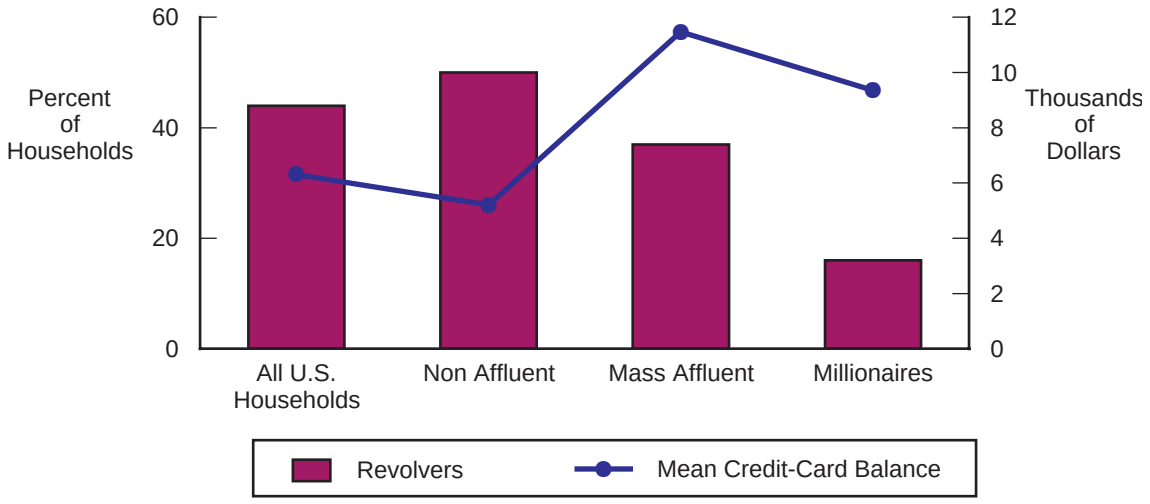
MASS AFFLUENT VULNERABLE TO HIGH-CREDIT-CARD–DEBT MALAISE

In 2006, 44% of all credit-card owners indicate that they are revolvers (that is, they pay more than their minimum but less than their full credit-card balance, pay just the minimum due, or sometimes skip a monthly payment). The average credit-card balance outstanding among all credit-card revolvers is about $6,000. Among non-Affluent credit-card owners, half are revolvers with an average credit-card balance of roughly $5,000.

Nearly four in ten Mass Affluent households are revolvers, and these households maintain the highest average credit-card balance: $11,500. In comparison, 16% of Millionaires households with credit cards say that they revolve their credit-card debt and their average balance outstanding is just more than $9,000.

Responding to market conditions and following a risk-based pricing policy, credit-card companies are raising their customers' interest rates (even as the Federal Reserve has been cutting short-term interest rates to stimulate the economy). Most credit-card owners whose overall debt has increased or whose credit scores have dropped have recently seen the interest rates on their credit cards skyrocket. Given their higher-than-average credit-card balances, many Mass Affluent revolvers could potentially find themselves sunk in credit-card debt should they experience a setback such as a job loss, significant medical expenses, or a divorce—circumstances that can hit just about anybody at any time.

Figure 2
CREDIT-CARD REVOLVERS: INCIDENCES AND BALANCES OUTSTANDING



Base: All U.S. Households

Note: The **MacroMonitor** defines the non Affluent as households with a household income of less than $100,000 and a net worth of less than $1 million, the Mass Affluent as households with a household income of $100,000 or more or a net worth excluding their home of less than $1 million, and Millionaires as households with a net worth of $1 million or more. Revolvers are households with credit cards that pay more than their minimum but less than their full credit-card balance each month, pay just the minimum due, or sometimes skip a monthly payment.

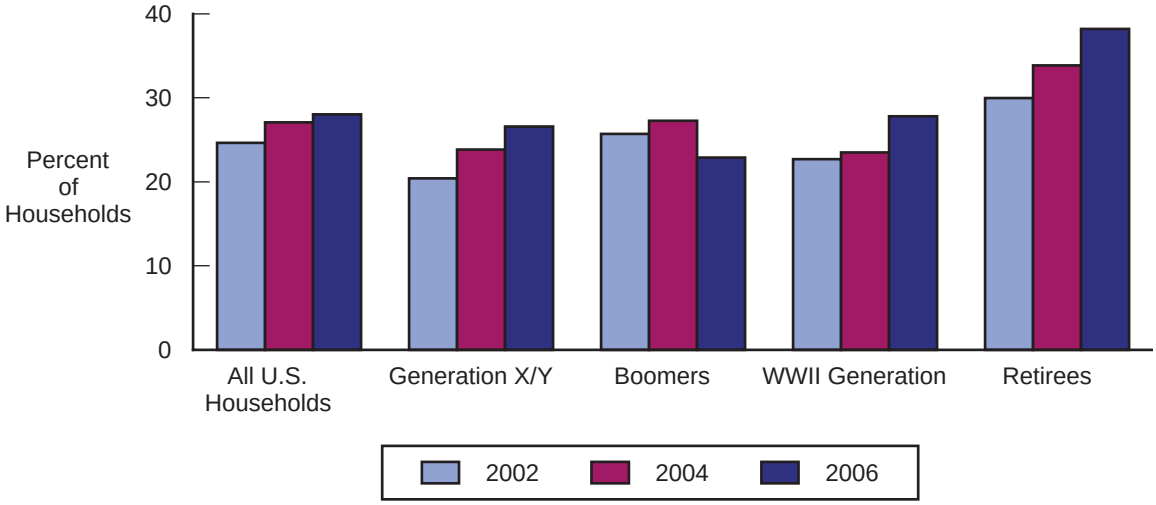
Source: **2006–07 MacroMonitor**

NO SAVINGS CUSHION FOR NEARLY THREE IN TEN U.S. HOUSEHOLDS

In the past three survey years, the **MacroMonitor** has asked respondents, "From your typical monthly income, how much money does your household have remaining, on average, after paying all its basic and necessary expenses such as food, clothing, shelter, utilities?" The resulting data indicate that many households, particularly Retirees, will have difficulty weathering an impending inflationary environment.

In 2006, nearly three in ten households overall (28%) indicated that they have zero or negative money remaining at the end of an average month—a percentage that has steadily increased since 2002. The Retirees segment has the highest percentage of vulnerable households. During the 2002–06 period, the percentage of Retirees households with no savings cushion increased from 30% to 38%. Gen X/Y households roughly mirror the overall household trend: 27% of these young working households have zero or negative leftover monthly income in 2006, in comparison with 20% in 2002. Bucking the trend are working Boomers households. In 2006, a smaller percentage of these households (23%) have no savings cushion at the end of an average month than did in the previous two survey years.

Figure 3
HOUSEHOLDS WITH ZERO OR NEGATIVE AMOUNT REMAINING OF AVERAGE MONTHLY INCOME AFTER PAYING BASIC AND NECESSARY EXPENSES



Base: All U.S. Households

Note: The **MacroMonitor** defines Generation X/Y, Boomers, and WWII Generation households on the basis of the age of the primary head of household and having at least one head of household in the workforce. Retirees are households with no head of household working 20 hours or more per week, regardless of the age of the primary head.

Source: The **MacroMonitor**

