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.

IN THIS ISSUE:

- Credit-Card Use Shifting before Legislation Takes Effect
- Consumers' Cutting Back
- Socially Responsible Investing

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CREDIT-CARD USE SHIFTING BEFORE LEGISLATION TAKES EFFECT

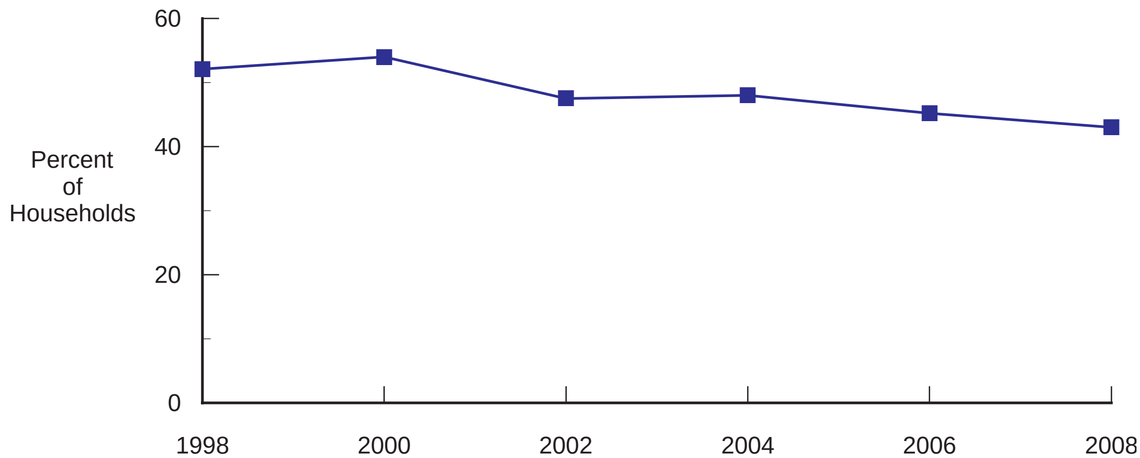
Legislators recently passed the Credit Cardholders' Bill of Rights Act of 2009 to bring relief to the many consumers who end up exacerbating their hefty credit-card balances with stiff penalty fees and interest rate hikes on the amounts that they owe. But the new law also aims to change consumer behavior toward credit-card use by making the cost of credit more transparent.

Many consumers, however, are not waiting for any legislation to save them from sinking into the abyss of credit-card debt. The results of the **2008–09 MacroMonitor** survey show evidence of a pullback in credit-card behavior by U.S. households even before the severe market retrenchment in the latter part of 2008.

- The incidence of households' maintaining a credit-card balance is on a downward trend: Fewer than half of credit-card owners (43%) now report revolving their credit balance, in comparison with a high incidence of 58% in 2000. (See Figure 1.)
- Credit-card owners are already increasing their monthly payments substantially (either voluntarily or because of stricter card-provider guidelines). The 2008 average monthly payments of $1,500 and a median of $700 reflect a 20% and 32% increase, respectively, from 2006 card payments.

The number of credit-card owners who use the credit card as a transaction service rather than as a ready source of credit will likely increase further with the onset of the new legislation. No doubt, other more radical changes are afoot in the credit-card industry. On the one hand, credit-card providers will likely be changing their business and marketing models (for example, by reinstating annual fees and paring back rewards programs) to maintain profitability in light of the new legislative restrictions. Consumers, on the other hand, will also be changing their credit-card–use behavior, especially as the new law essentially forces them to recognize the actual cost of using credit. This new credit-card industry landscape makes living within one's means all the more compelling for many U.S. households long after this current recession becomes history.

Figure 1
PERCENTAGE OF CREDIT-CARD OWNERS WHO TYPICALLY DO NOT PAY THEIR MONTHLY BALANCE IN FULL



Base: Household Has Credit Card

Source: **The MacroMonitor**

CONSUMERS' CUTTING BACK

How recent events have changed consumers' behaviors is one of the big questions emerging from the financial and economic crisis of the past nine months. A recent article in the *Gainesville Sun* indicates that GRU, a city-owned utility, is forecasting a $20 million shortfall in year-to-year revenues from the sale of electric power in the town that is home to the University of Florida and some 115,000 residents. In fact, according to our recent **2008–09 MacroMonitor Recontact** study, "conserving on utilities" was the most frequently mentioned of the "one or two most important things" households are doing now to save money that they were not doing before.

One in four households say that cutting back on utilities is one of their top-two ways to save. The percentage of households in each of six Life Stages indicates that households with no children are least likely to reduce utility consumption actively; the likelihood of utility conservation increases as the age of the oldest child in the household rises. Nearly one in three households (31%) with one or more dependent children over the age of 18 are pursing this means of conserving cash, in comparison with just 17% of households that have no children and whose primary head is younger than 45 years of age.

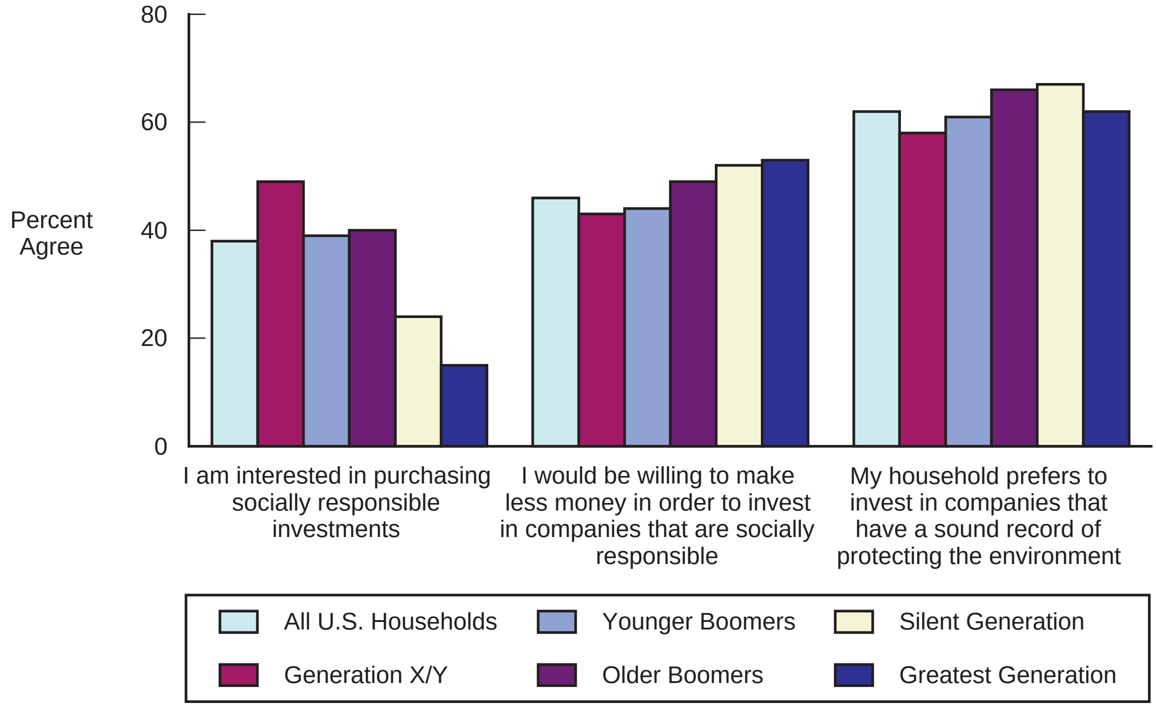
The diversity of the U.S. economy is ensuring that the impact of summer cutbacks spreads across many market sectors. If and when consumers will return to their former levels of spending on utilities, travel, dining out, shopping, and so on have profound implications for virtually every aspect of the economy and, at this point, are open to conjecture. Considering the level of emotional impact that the **2008–09 MacroMonitor Recontact** survey reveals, we believe that recovery is likely to be slow and that we will see new patterns of consumption emerge when robust economic expansion returns.

SOCIALLY RESPONSIBLE INVESTING

Data from the **2008–09 MacroMonitor** indicate that a substantial consumer bloc is interested in eco-friendly investing: In 2008, about two in five households (38%) agree that they are interested in purchasing socially responsible investments. Meanwhile, more than six in ten households (62%) prefer to invest in companies that have a sound record of protecting the environment. In light of the ongoing economic downturn, however, it is not surprising that although households express interest in the idea of green investing, they are not all willing to put their money where their mouths are: Only 60% of households interested in green investing would be willing to make less money in order to invest in companies that are socially responsible.

Some interesting differences in attitudes about green investing emerge from a segmentation by age cohort. Although about half of Gen X/Y households are interested in purchasing socially responsible investments (the highest incidence of any cohort), they are the least willing of any cohort to make less money in order to do so. In direct contrast, only 15% of Greatest Generation households indicate interest in green investing, but they are the most willing to forgo additional gains in order to make these types of investments (53% of the Greatest Generation is willing to make less money, in comparison with 43% of Gen X/Y). Thus, although Gen X/Yers are attracted to the concept of eco-friendly investing, they are apparently—perhaps by virtue of having higher household debt and being more likely to support dependent children—either unable or unwilling to part with the discretionary dollars to do so (on average, Gen X/Y has $746 in monthly discretionary income, in comparison with $818 for all U.S. households).

Figure 2
ATTITUDES ABOUT SOCIALLY RESPONSIBLE INVESTING BY AGE COHORT, 2008



Base: All U.S. Households

Source: **2008-09 MacroMonitor**

Many financial institutions have already recognized the green movement as a potentially profitable business opportunity and have begun to develop and launch products that enable consumers to invest in eco-friendly companies directly or through mutual funds. According to these data, institutions that offer these types of products may find a more receptive target among older, more established investors. Going forward, however, as Gen X/Y households move through the Life Stages and gain greater discretionary incomes, an opportunity may emerge among these young households because they already indicate a high level of interest in eco-friendly investing.

