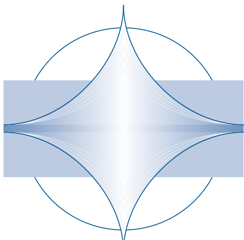

MacroMonitor Market Trends

November 2008

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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Tight Credit Markets Make Peer-to-Peer Lending an Attractive Option for Consumer Loans

The current financial marketplace is paralyzed in a liquidity crisis. Bad bets among many financial institutions in credit derivatives and mortgage-backed securities have led to the failure of a number of large and historically solid institutions. In this environment, interbank lending has become extraordinarily tight as the risks associated with lending money to other banking institutions have risen drastically. Even with the Federal Reserve Board's opening the flood gates on capital, Libor, the most widely used benchmark for short-term interest rates, recently hit an all-time high. To compound this crisis further, many shaken consumers and businesses are threatening to pull assets out of demand deposits, thereby lowering the reserves that banks hold to lend money against.

If this trend continues, less capital available to businesses will be a drag on the economy, leading to the closing of shops, factories, and service-based businesses—and, consequently, to rising unemployment. Furthermore, expansionary monetary policy implemented by the Fed runs the long-term risk of devaluing the dollar and leaving consumers paying more for less. We expect that times like today's will lead to consumers' retracting—putting more money away, spending less, and borrowing less.

Necessarily, though, some households will require access to cash; they will find many banks unwilling to lend. Now may be a good time for these consumers to look to peer-to-peer financing options such as Prosper, Zopa, and Circle Lending for the cash they need. The peer-to-peer financing market allows lenders (consumers who are looking for a return on their money) to provide needed cash to other consumers in the marketplace. In this market, the borrower offers an interest rate and the lender reviews the borrower's credit score, reason for borrowing, and other details in order to make a decision about which borrowers to invest in. This type of financing is in a position to thrive because the perceived security of lending cash to strangers for a return, relative to putting the cash in more traditional banking products, is on the rise

Declining Home Values May Mean Affluent-Market Contraction

During the past decade in the United States, the number of Affluent households (households with an income of $100,000 or more or total assets excluding the value of the primary home of $500,000 or more—all dollars indexed for inflation to 2006 dollars) has steadily increased, from nearly 7 million in 1996 to 28 million in 2006 (see Figure 1). According to the CFD Affluent segmentation that divides the Affluent American marketplace into seven mutually exclusive household types, one of the primary reasons for this substantial growth is an increase in the number of households in one segment in particular: Real Asset Builders. Real Asset Builders—Affluent households that invest primarily in real estate—have real estate assets whose value is $200,000 or more and financial assets of less than $300,000. As Figure 1 depicts, more than one in five Affluent households in 2006 are Real Asset Builders; only 15% were in this segment in 1996.

This growth in the number of Real Asset Builders is not surprising given the run-up of the housing market in recent years. Between 1996 and 2006, the median home value in the United States increased almost $70,000, from $115,640 to $185,000. With the recent bursting of the housing bubble and continued market corrections, however, we expect the soon-to-be-released **2008–09 MacroMonitor** data to show an end to the growth in the number of Real Asset Builders

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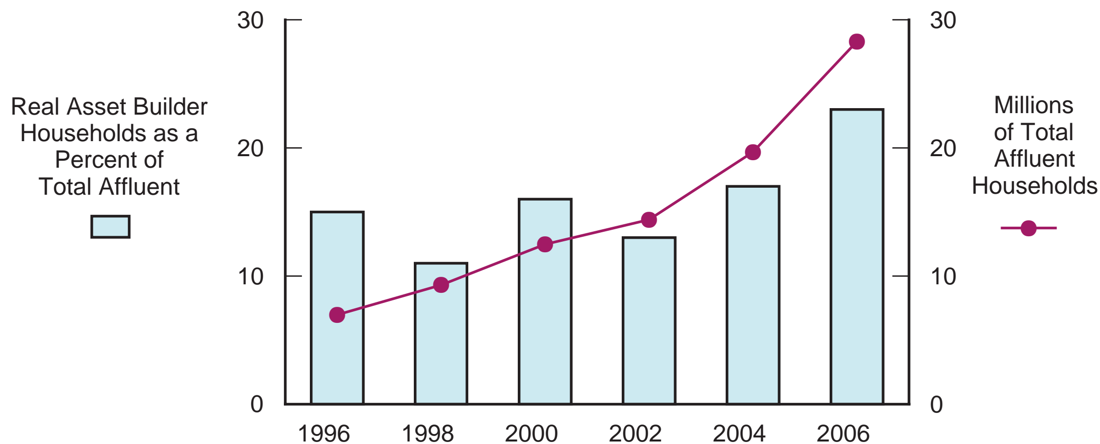
and a contraction of the Affluent market overall. Thus, financial institutions may find one of their primary marketing targets—Affluent households—shrinking in the coming years.

Figure 1
REAL ASSET BUILDER HOUSEHOLDS AS A PERCENT OF AFFLUENT HOUSEHOLDS



Note: *Affluent households* are households with an income of $100,000 or more or total assets excluding the primary home of $500,000 or more—all dollars indexed for inflation to 2006 dollars.

Base: Affluent Households

CFD Captures Consumer Sentiments during These Challenging Financial Times

The current financial times are interesting and challenging for financial consumers as well as for financial marketers, researchers, and advisors. The October 2008 *Market Trends Newsletter* highlights the difficulties that consumers who plan to rely on the equity in their homes to fund their retirement will face as a result of the housing downturn and falling home values. Consumers did not have long to adjust to the housing downturn before the next shoe dropped: The precipitous decline of the financial markets now has taken a toll on their investment and retirement accounts (an event that many pundits are likening to the market crash of 1929).

Coinciding with the current financial market turmoil is the release of the **2008–09 MacroMonitor** survey data, due in mid-November. The **MacroMonitor** has provided a consistent measure of consumers' financial behavior and attitudes for the past 30 years. We fielded this most recent survey between 15 April and 1 September 2008; it promises to provide a solid measure of the direction in which consumers are moving with regard to every aspect of their financial lives.

Given the significance of the recent economic events, however, we are proposing to do what we have never done before: to recontact respondents who participated in our most recent survey to hear their reactions to the financial-market crisis. Because we have already collected and processed detailed demographic, financial, and attitudinal information related to these survey participants, we are in an optimum position to gather additional and comparative information.

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The key elements of our proposed survey effort are:

- *Recontact* of the 4,100 **2008–09 MacroMonitor** survey participants by telephone
- *Administration* of a 5- to 8-minute questionnaire
- *Content* (approximately 25 questions) based on input from sponsors
- *Timing* of the phone calling determined by a consensus of sponsoring organizations but likely to take place in January 2009
- An anticipated *1,200 completed surveys* (actual number may be somewhat more or less)
- *Data* weighted to the U.S. national economic household population—using the same U.S. Census parameters as those for our **2008–09 MacroMonitor** survey data—and containing eight previously collected key demographic and financial variables
- *Deliverables* that include a top-line response incidence report, crosstabulations, and standardized PowerPoint slides
- *Cost* of $10,000 per sponsor based on the participation of a minimum of ten sponsoring organizations.

We believe that the timing of our surveys (the **2008–09 MacroMonitor** and follow-up telephone survey) relative to current market events will provide sponsoring organizations a tremendous opportunity to gain insight into the long-term intentions and near-term reactions of a cross section of consumers. Our **2008–09 MacroMonitor** clients that sponsor this follow-up survey will have the added opportunity of analyzing the merged data for pre- and postcrisis responses to key consumer attitudes in relation to recent and unprecedented events. If you would like to sponsor this study or would like further information, contact us at +1 609 734 2048.

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