

MacroMonitor Market Trends

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

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“RETIRED” WORKERS SEEK EMPLOYMENT

Although the recent market downturn has affected households across Life Stages, it has not done so uniformly. The **MacroMonitor Market Trends** newsletter gives a brief overview of the effect of the market downturn on households in various Life Stages and the implications for providers of financial goods and services.

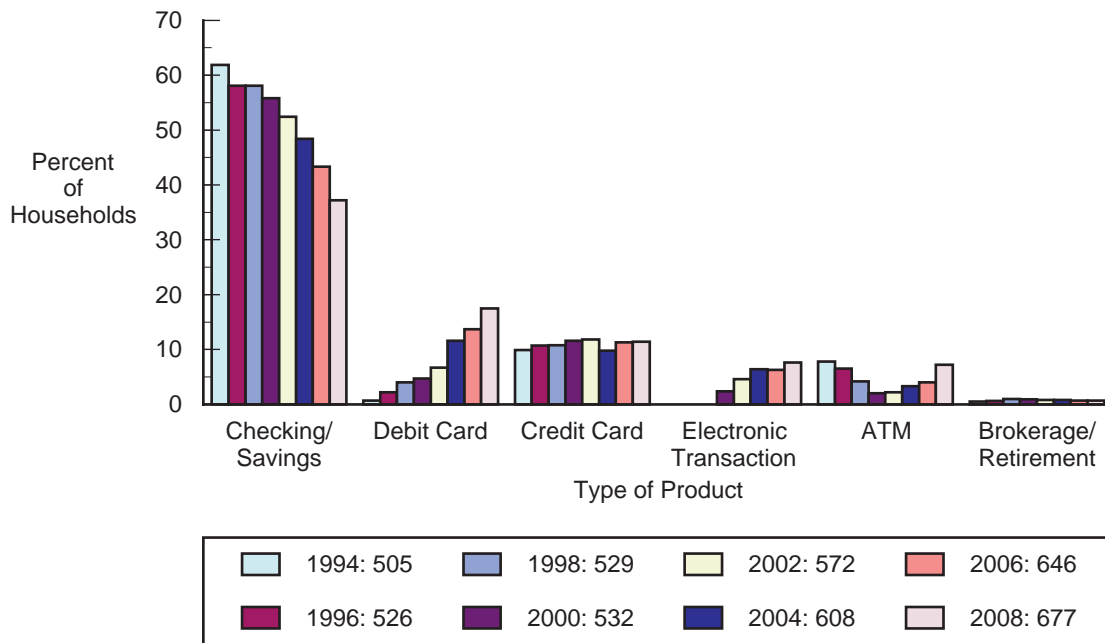
Arguably, one of the segments hit the hardest by the market downturn has been Retirees—especially those households that hoped to make up for a shortage of retirement funds by staying aggressively invested well into their golden years. The **2008–09 MacroMonitor Recontact Study** highlights this point: 59% of Retirees have lost value in their savings and investments since September 2008, in comparison with 55% of total U.S. households. And of these households, 44% have reported losses of 30% or more! These struggling households have few options: a complete modification of retirement plans, a reduction in the amount of assets to leave to heirs (this option is for the lucky ones!), or a return to the workforce. A return to the workforce gives households an insurance policy against a prolonged life and further market misbehavior. We expect that for people who are physically and mentally able, this option may be the most likely.

Financial-services providers will need to be ready to prepare these older households for meeting and resetting goals. Advice and product offerings for this cohort require reconsideration. New goals and ways of thinking about retirement, income in retirement, and possibly new streams of income from a return to the workforce will redefine ways that these households save, invest, and access their retirement funds.

CREDIT CARDS REMAIN ESSENTIAL

As part of the mixture of financial-transaction products, credit cards have achieved near-universal household penetration (75%), surpassed only by checking accounts and cash. However, credit cards are unique among almost all financial-transaction media because in addition to being in use for financial-transactions they also are in use as an unsecured form of credit. Consumers view credit cards—because of their frequent use and the fact that this use is on a discretionary basis—as a product over which they can exercise more control than they can over mortgages or vehicle or education loans. After the recent impact of devalued real estate on mortgage securitization, many people are concerned that credit cards have the potential to aggravate the delicate condition of the economy. That concern may be why some institutions are so worried about the impact of the Credit Card Accountability, Responsibility, and Disclosure Act of May 2009. Their concern is that the constraints on fees (such as the charge for exceeding a credit limit) or on increases in rate following a missed payment that this act institutes may have a negative impact on “reasonable” profitability. Therefore, institutions will have to increase fees, charges, and rates on all cardholders, making their cards less competitive in the marketplace.

Figure 1
PROPORTION OF HOUSEHOLDS' ANNUAL NONCASH TRANSACTIONS USING VARIOUS TYPES OF FINANCIAL PRODUCTS



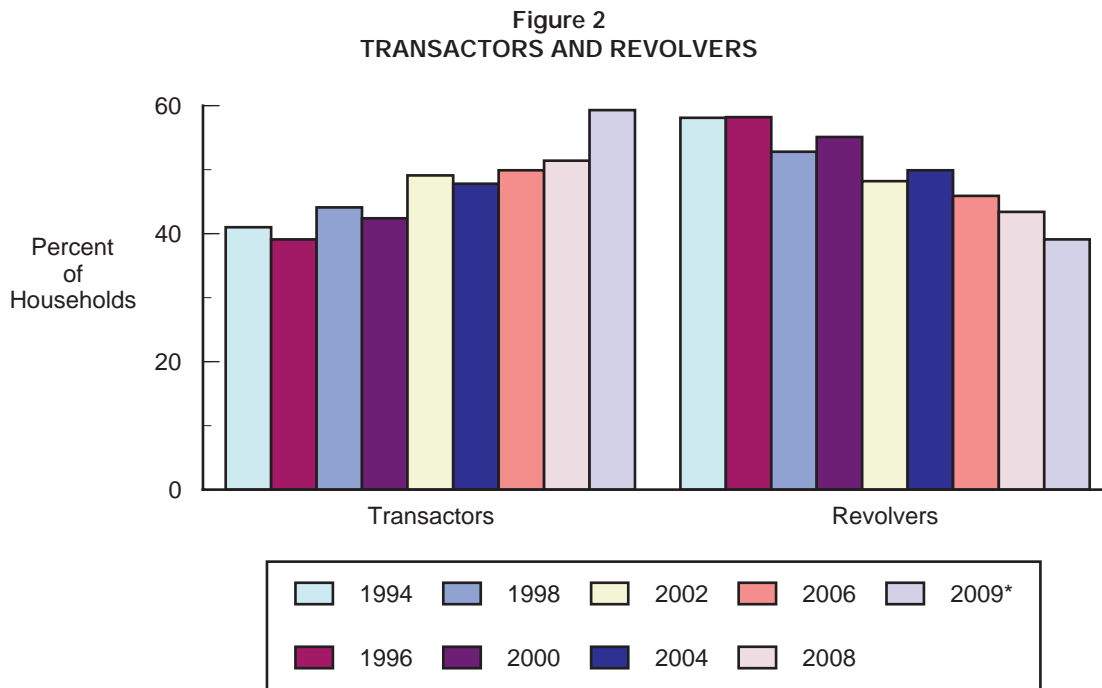
Note: ACH, transfers, insurance, loan payments, and the like are not in this figure. The legend just above shows the total annual noncash transactions per household.

Base: All U.S. Households

Source: **The MacroMonitor**

First, the overall number of transactions that financial products capture is larger than in the past. Although we’re still a long way away from being a cashless society, significantly fewer transactions today use cash than was the case in the past. (Whether this decrease will continue once electronic person-to-person transactions become widely available—by means of either smart phones or other devices—remains a question and is probably at least several years away.) As cash shrinks from being the 800-pound gorilla of transactions (to only 500 pounds), electronic transactions are increasing in number not only because the number of people who make these transactions is increasing, but also because of the amount of transactions that they make. Even with the current shift from conspicuous consumption to conspicuous conservation, we are seeing the growth of micropurchases: For example, people buy individual songs instead of albums.

Checking and savings once accounted for more than half of all financial transactions; they now account for slightly more than a third. Debit cards, ATMs, and other forms of electronic transactions (including online purchases and banking) have all increased during the same time frame, especially since 2000. Credit-card transactions during this period have remained basically stable. (Remember that “remaining stable” means that although the absolute number of transactions is increasing, the proportion of credit-card transactions among all financial transactions remains about the same.)



* Data reflect response rates to the 2008-09 MacroMonitor Recontact survey that we fielded in February 2009.

Base: All U.S. Households

Source: **The MacroMonitor**

The question is, in light of the significant changes in the economic situation that have occurred in the past year, what are the trends now for credit cards? As Figure 2 shows, even before 2009 the trend was toward using credit cards for transacting and away from revolving. In other words, consumers were trying to shift their emphasis from using their credit cards to meet their credit needs to using credit cards to meet their transaction needs. As consumers react to the recent economic situation by trying to spend less, save more, and regain control over their finances and their transactions in particular, this trend will probably increase. And the numbers for 2009 suggest that this shift will accelerate.

For the proportionate trade-off among financial-transaction media, this shift means even less check writing and even greater use of debit, ATM, and electronic transactions. Because the impact of the current economic situation on consumers' transactions suggests that maintaining the same proportion of transactions using credit cards might continue, it is more likely that this proportion might shrink. More important, the split between Transactors and Revolvers among credit-card users will likely trend more strongly toward the Transactors. And this shift means that the impact of the Credit Card Disclosure Act may be somewhat muted. In other words, we will see even more Transactors (who are not likely to be affected by the new Disclosure Act) and fewer Revolvers. Credit-card providers that can be profitable with a preponderance of Transactors will do well, but those that depend on Revolvers will find the number of these consumers and the number of transactions that they make shifting to other media. No one is suggesting that credit cards are going to fade away. They remain an essential part of the transaction options that consumers have available. However, the impact of some long-term

trends—with the shifts aggravated by the recent economic situation—is leading to a significant shifting among the various financial media while the overall number of noncash financial transactions continues to increase.

MANY HOUSEHOLDS FACE DUELING SAVINGS GOALS

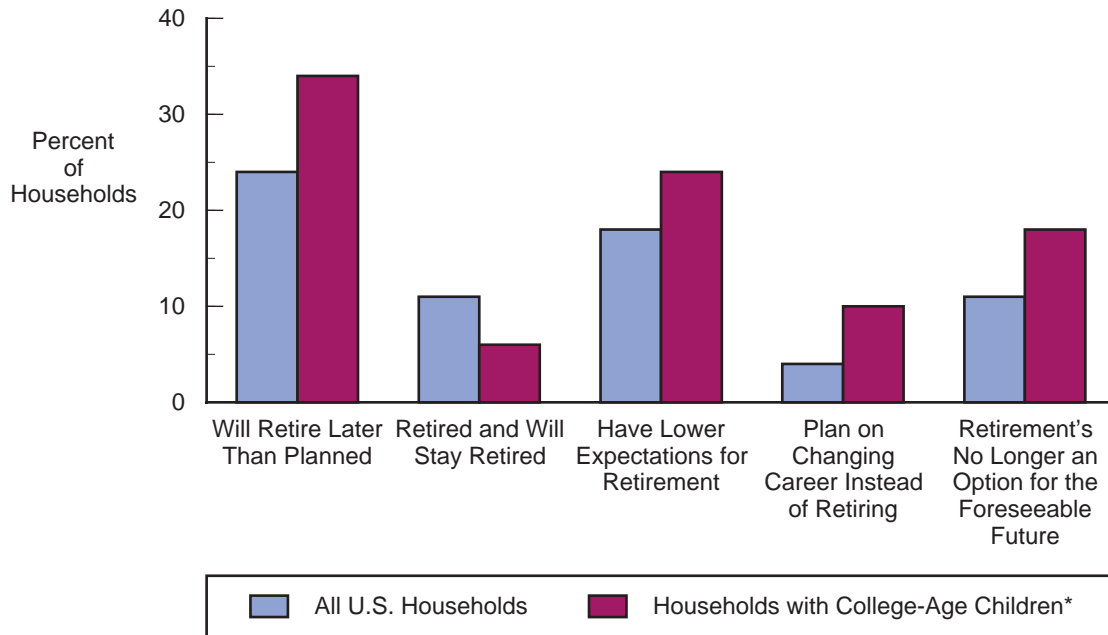
Many households with dependent children face dueling savings goals: saving for retirement and saving to pay for a child's education. According to **MacroMonitor** data from the summer of 2008, 74% of households in CFD's Oldest Child 0–17 Life Stage segment (households that support at least one dependent child, the oldest of whom is younger than age 18) are saving for retirement, and 62% are also saving for education (in comparison with 66% and 27%, respectively, of all U.S. households). However, in light of the ongoing economic and financial crisis, many heads of household are having to choose between their own retirement and funding for their child's education. A recent article from the May 2009 COUNTRY College Funding survey indicates that 61% of parents are not letting the recession change their plans for their children's education; 47% say that college plans are a higher priority than retirement savings (in comparison with only 41% who indicate that saving for retirement is a higher priority than saving for college).

Data from the **2008–09 MacroMonitor Recontact** survey also point to a similar conclusion that education takes precedence over retirement. In February 2009, 62% of households with college-age children have changed their outlook about retirement since September 2008, in comparison with only 48% of all U.S. households. As Figure 3 portrays:

- 34% of households with college-age children indicate that they will retire later than they planned—ten percentage points higher than the incidence for all U.S. households (24% overall).
- 24% of households with college-age children have lower expectations for retirement as a result of the crisis, in comparison with just 18% of all U.S. households.
- Households with college-age children are more than twice as likely as all U.S. households to plan on changing their career instead of retiring as a result of the ongoing crisis (10% and 4%, respectively).
- For almost one in five households with college-age children (18%), retirement is no longer an option for the foreseeable future, versus only 11% of all U.S. households.

In addition to changing their retirement plans, households with college-age children are also choosing to save less through their retirement accounts. Of the 16% of households with college-age children that made a change to their retirement account since September 2008, a quarter stopped contributing into their retirement accounts altogether (in comparison with just 17% of all U.S. households)—perhaps a reflection of their more immediate need for money to pay for an education. Thus, tough times have forced parents to reprioritize their savings goals and put their children's education ahead of their own golden years.

Figure 3
WAYS IN WHICH EITHER HEAD OF HOUSEHOLD'S OUTLOOK ABOUT RETIREMENT HAVE CHANGED AS A RESULT OF THE CURRENT ECONOMIC SITUATION



* Households that had a child enter college during the past two years or households that expect a child to enter college in the next 12 months or households that support at least one dependent child between the ages of 12 and 17.

Base: All U.S. Households

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