MacroMonitor Market Trends

January 2010

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, Chris Taylor, or Karen Montecuollo at +1 609 734 2048.

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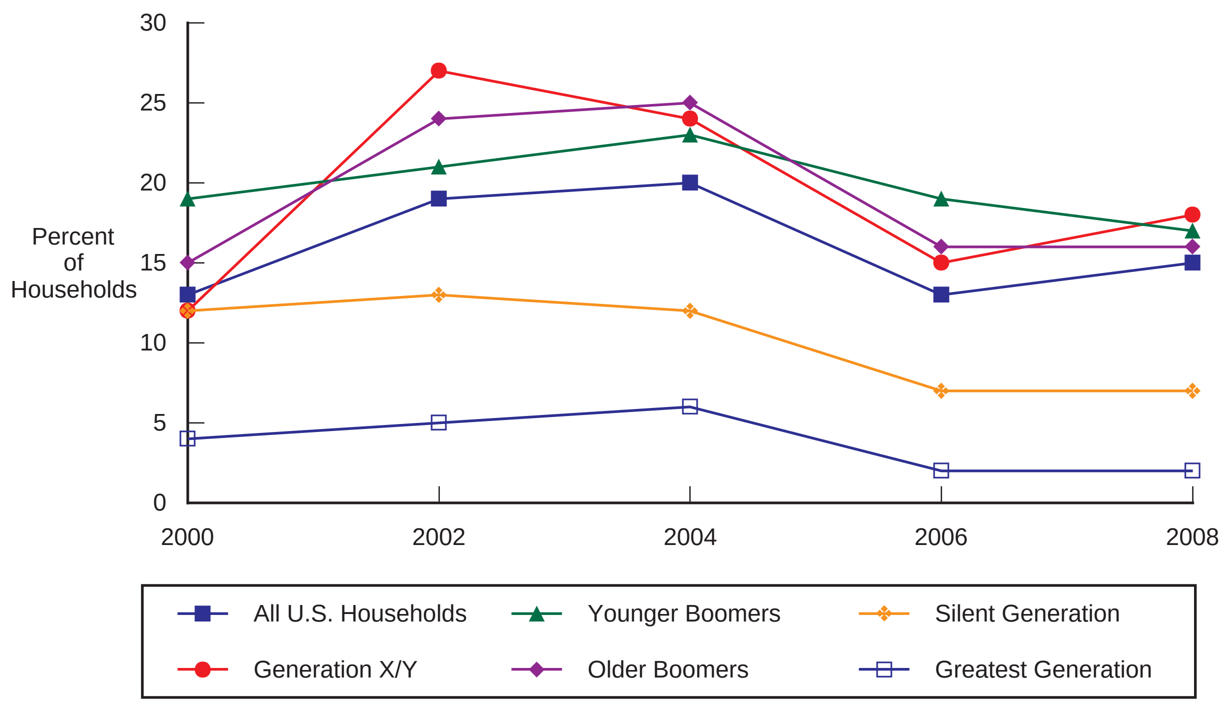
ONLINE INVESTING 2.0

The pace of technological innovation and consumer adoption of technology requires marketers to be increasingly aware of changes to product-acquisition channels and the way consumers gather and use information. Although the online channel for consumers' investing behavior appeared to plateau between 2002 and 2004, demographics and consumer preferences imply that that we are on the verge of another surge in penetration in the online channel. The figure below shows the trend in online investing in the past eight years, by generational cohort.

Figure 1
PERCENTAGE OF HOUSEHOLDS INVESTING ONLINE, BY AGE COHORT



Base: All U.S. Households

Source: **The MacroMonitor**

Apparently, although overall incidence of online investing dropped off in 2006, it rebounded a bit in 2008. Changing demographics could potentially drive this rebound up sharply for quite some time: Greatest Generation and Silent Generation households will continue to decline in numbers, and we consider the market of online investors to be fairly mature among Boomer households. However, Gen X/Y households, which now constitute close to 50% of all adult households, could drive a significant spike in the overall trend. These households are now accumulating significant assets and are moving into Life Stages in which households' financial focus typically shifts from managing debt and transactions to investing, retiring, and building wealth. These younger households have grown up in a digital world and are significantly more likely to be comfortable using the Internet—both for gathering information and for conducting financial business. In 2008, 61% of Gen X/Y households—in comparison with 41% of non–Gen X/Y households—believe that the Internet is a good tool for finding financial information, and

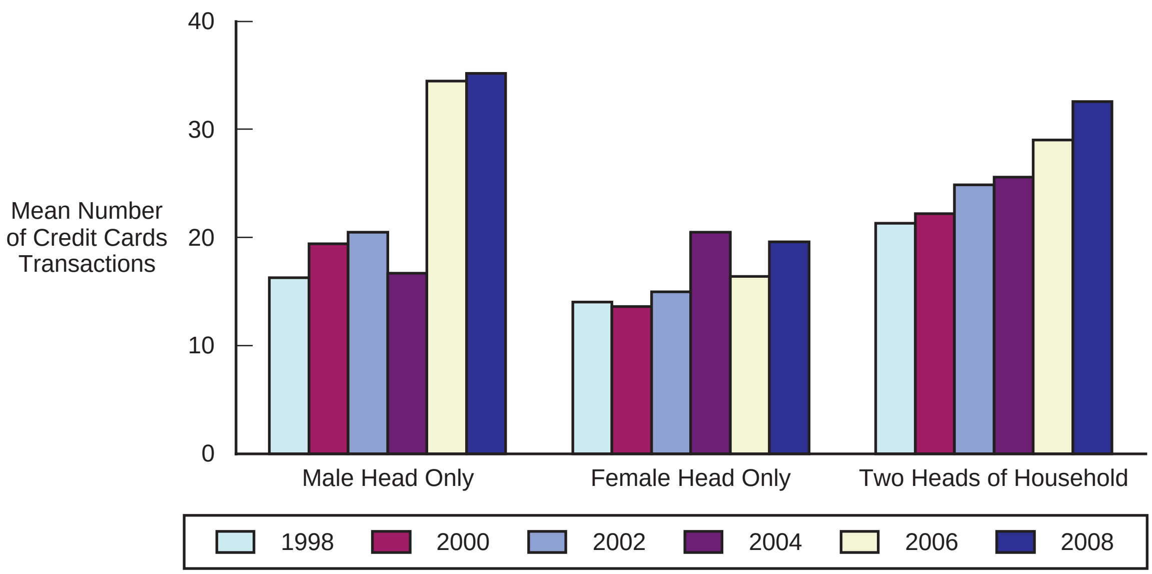
41% of Gen X/Y households—in comparison with 28% of non–Gen X/Y households—would rather use an automatic teller machine, personal computer, the telephone, or mail than face representatives of financial institutions.

THE NEW BATTLE OF THE SEXES: CREDIT CARDS

Historically, **MacroMonitor** data have shown marked differences between men and women financial-decision makers. For example, women financial-decision makers tend to be more conservative investors, to favor depository institutions rather than brokerages, and to be less confident in their prospects for retirement. Among the growing list of differences between the sexes is the way in which each uses its credit card. **MacroMonitor** data show that male-only household heads have substantially increased their credit-card use for means of transacting—using their credit cards frequently and paying their balances off in full each month—whereas women-only household heads tend to use their credit cards as an unsecured line of credit by revolving monthly balances.

As Figure 2 shows, the average number of credit-card transactions made during the past three months by male-only heads of household more than doubled during the past decade—from 16 in 1998 to 35 in 2008. Coinciding with this increased use is the growing incidence of male-only heads' paying their credit-card balance off in full: In 2008, more than four in five male-only heads pay their credit-card balance off in full each month in comparison with fewer than half in 1998 (see Figure 3). Female-only heads of household, on the other hand, use their credit card less often, but carry much higher monthly credit-card balances. In 2008, household with only a female head used their credit cards about 20 times in three months and less than half (45%) paid their balance off in full. On average, female-only heads of household carry a monthly credit-card balance of $3,106, in comparison with $1,975 for male-only heads of household.

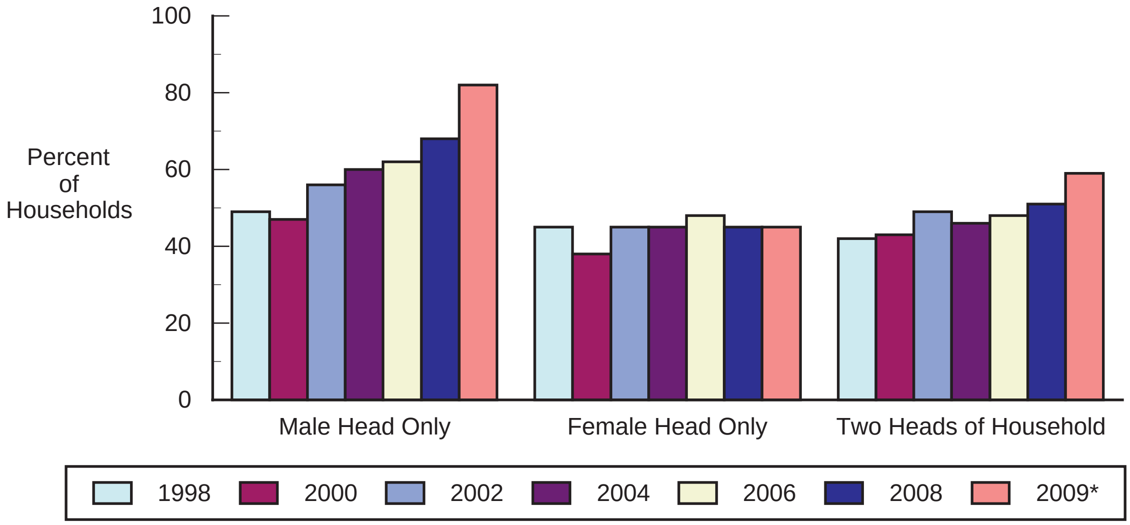
Figure 2
AVERAGE NUMBER OF CREDIT-CARD TRANSACTIONS IN THE PAST THREE MONTHS



Base: All U.S. Households

Source: **The MacroMonitor**

Figure 3
INCIDENCE OF PAYING CREDIT-CARD BALANCE IN FULL EACH MONTH



* Data reflect responses to the **2008–09 MacroMonitor Recontact** survey that we fielded in February 2009.

Base: All U.S. Households

Source: **The MacroMonitor**

These **MacroMonitor** findings suggest that the Credit Card Accountability, Responsibility, and Disclosure Act may affect men and women differently. The new rules, which go into effect in February 2010, will require more disclosure on monthly credit-card statements, limit some fees, and prohibit institutions from raising interest rates on outstanding balances that are less than 60 days past due. Because significantly more female-only households carry balances, these new regulations could help this group rein in their growing credit-card debt. The effects on most male-only heads who use their credit cards to transact would be minimal. However, some financial institutions argue that the Disclosure Act will negatively affect all credit-card holders: New constraints would negatively affect "reasonable" profitability, which in turn would force institutions to raise fees, charges, and rates on credit cards. Credit-card providers must be careful not to alienate their core customers. Male-only heads of household are the most likely segment to use their credit. Faced with higher fees and rates, however, this group may turn to other financial media—such as debit cards—to meet their transaction needs.

THE NEW NORMAL

Consumers' use of financial services do not operate in a vacuum; household changes in one area bleed into others and vice versa. Changes in the past 18 months have clearly occurred in investing, real estate, and borrowing, but the impact extends to saving, spending, retirement, and even transacting and insurance. The underlying shifts in attitudes for many of these changes were evident before the events of the past 18 months. This fact, along with the depth, pervasiveness, and dramatic strength of the changes, strongly suggest that the shifts in behavior will not snap back once life returns to normal. The question is, "What is the new normal?"

- *Owning real estate.* Values are down and borrowing has dropped off a cliff. Yet, the home is still the largest part of most households' balance sheet—as an asset and as a debt. Does pent-up demand exist among Extended Adolescents and others? Has the American Dream of owning one's home taken a hit?
- *Doing secondary borrowing.* Whether it is collateralized or not, whether it is a loan or a credit line, borrowing is tracking down. Are the attitudinal shifts toward borrowing going to change consumers' behaviors in the near term? Have priorities changed?
- *Saving, investing, speculating.* The real cost of taking on risk is now painfully apparent. But "safe" harbors yield next to nothing. How much risk will investors be comfortable taking on now? Will uncertainty and the lack of a safe return lead people to continue to pay off their debt? Where will people go to find information and advice? Whom do they trust now?
- *Redefining retirement*. Boomers' dreams of retirement have crashed into the reality of insufficient savings, extended longevity, and delusions of grandeur. How will Boomers redefine retirement? How will other cohorts alter their views of retirements and what they are doing now to prepare?
- *Making transactions.* Financial-transaction media have proliferated and new ones (such as mobile banking) are in the offing. Some of these shifts cannibalize older media; others capture cash transactions. But recently these shifts are driven by (attitudinal) changes to gain awareness, control, and simplify lives.
- *Finding information and advice*. Consumer engagement has eroded in the past decade after growing for the prior two. The current uncertainty suggests that the need for advice has never been greater. How will consumers resolve the disconnect between their informational need and eroded trust in providers?

Households' resources (time, effort, income, assets, credit, and so on) are limited, and the events of the past 18 months have made matters worse. Households' attitudes toward their financial needs have been shifting since Y2K. The events of the past 18 months have encouraged them to take action. Households do not look at their financial needs in a vacuum—that is, by product silo. When they make changes to their priorities, they shift the financial products they use regardless of silo. The interconnectedness of households' financial needs is painfully evident now by the changes they are making across the spectrum of products and services.

Significant opportunities exist for financial institutions, provided they understand the connections, trade-offs, substitutions, and priorities and can craft solutions to households' financial needs. The **MacroMonitor** is in a unique position to provide what other research into the New Normal cannot.

- The **MacroMonitor** has more information than any other program about households' complete financial services, so all the products, services, channels, intermediaries, financials, attitudes, and demographics for all areas are in one integrated database.
- The **MacroMonitor** has trends—that is, multiple "before" and even one "after" measurement. Given a stable benchmark against which to make a comparison, one can say how much change has occurred.

- The **MacroMonitor**'s breadth, depth, scope, and coverage ensures that all the connections with other products, services, attitudes and—most important—the underlying financial needs are in one's understanding of consumers' financial decisions.

We presented some of this learning in our first- ever Webinar: **The New Normal: Implications for Financial Providers**. Copies of this presentation are available for viewing. For more information, contact Kathryn Spring at +1 540 737 4440 or kspring@sbi-i.com .

