Consumer Sentiment

Is the Economic Storm Over? Consumers Weigh in on the "New Frugality"

October 2009

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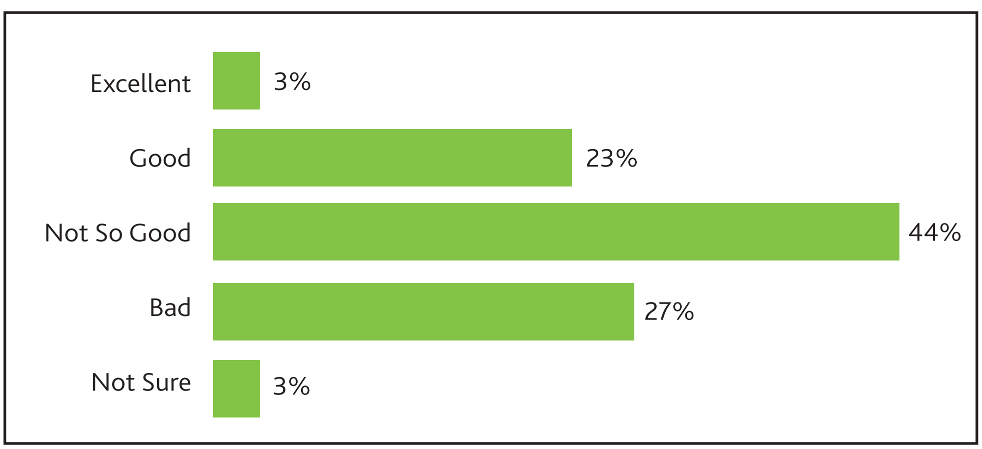
For the past six months we've seen and heard about the recovery of the U.S. market: the DOW has ticked up and the Fed chair has said the recession is "likely over." But ultimately, the consumer will determine when our economy is back on track when you consider that consumer spending accounts for roughly 70 percent of U.S. economic activity. Until the consumer starts spending again, the recovery is likely to be slow and it may feel like we're in a weak economy for some time. To get a closer look at the consumer's financial outlook and their going-forward intent, Nielsen Claritas surveyed more than 2,500 consumers, including 500 households that saw their personal financial institution impacted by a takeover or acquisition. What we found was that while the intensity of the economic panic had subsided since 2008, concerns persist and new habits in spending and saving are solidifying.

The new frugality

Similar to what we're seeing with the outlook to the upcoming holiday season, the majority of consumers are saying this is just not the time to buy. When posed with a very simple fill-in-the-blank prompt: "At this moment, the time to buy the things you want and need is…" the panel responded heavily with "not so good." Combine that with those who said the timing was downright "bad," and you're looking at 71% of respondents telling us they are no position to buy right now.

These responses underscore the consumer confidence index which began to drop in May and continued to drop through much of the summer. Even back-to-school shopping was lackluster despite a slight rise in that sector in August. The prevailing mood could likely be summed up by one respondent who noted bluntly: "I will not be making any large-item purchases for a long while."

At This Moment the Time to Buy the Things You Want and Need is…



Spending and saving less

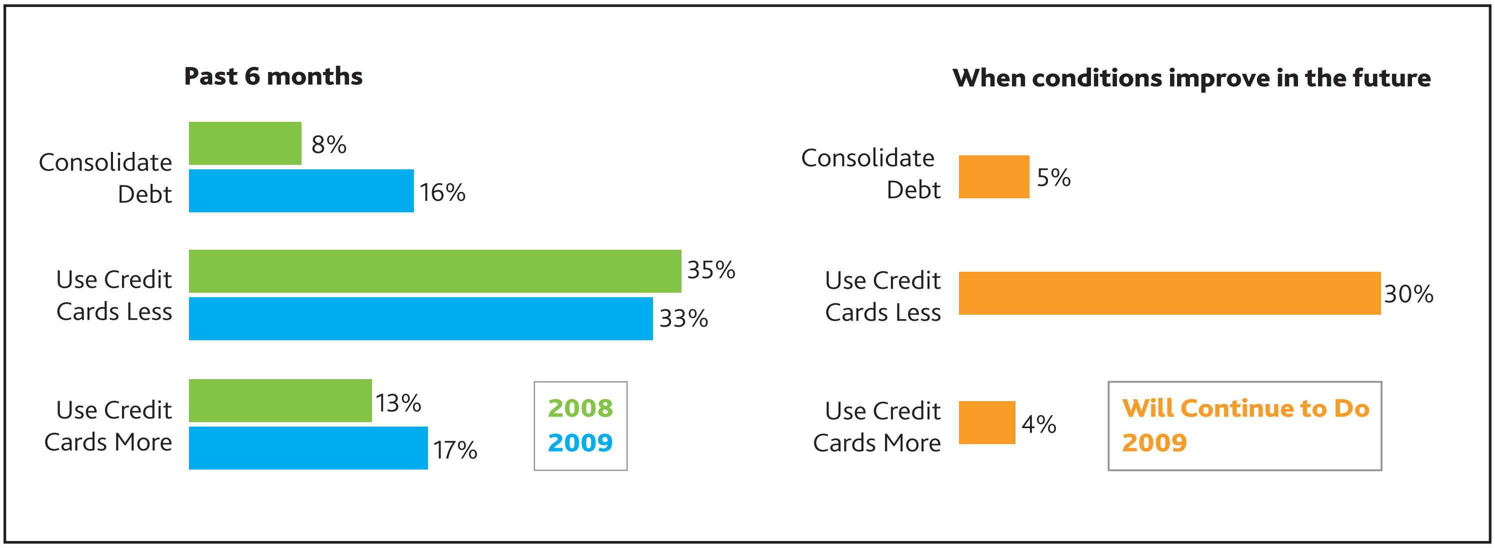
Between pulling back on spending and working to consolidate debt, the average consumer is getting squeezed.

In the past six months…

- One third say they have used credit less
- Only 13% say they have used credit more
- Consumers indicate they have controlled spending by using cash, debit and check as methods of payment
- 27% say they have saved less
- 22% say they have been able to save more
- 16% say they contributed less to retirement over the last 6 months

Even when conditions improve in the future, consumers are viewing the use of credit cautiously, with 30% saying they'll use credit less. Savings will also continue to be a struggle as only 19% say they will be able to save more even when the economic storm clears.

Lifestyle Changes—Use of Credit



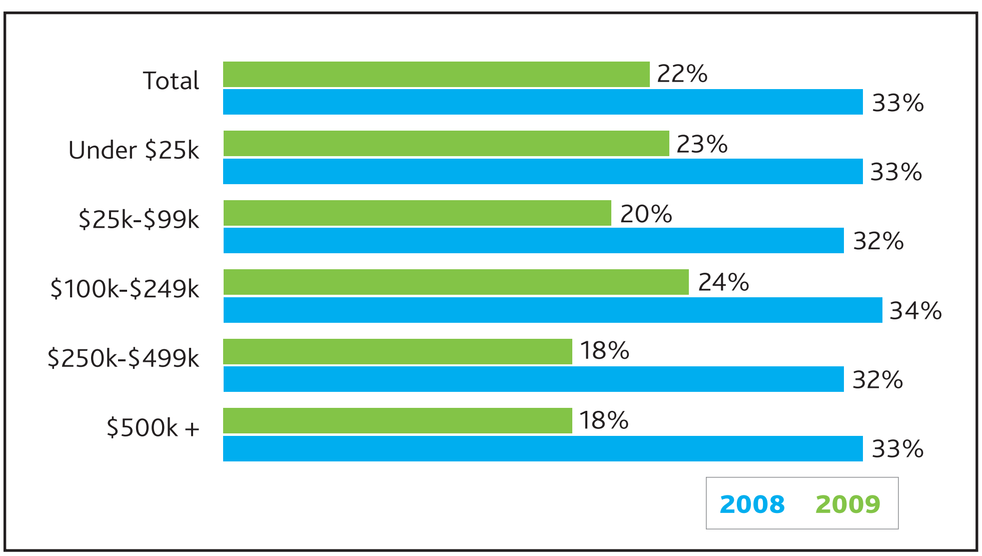
The middle still feeling the pressure

In October 2008, concern about the economy was felt equally across the board, regardless of household net worth. Now, however, the higher net worth households seem to be faring better with their extreme concern almost cut in half. The two highest net worth brackets showed a noticeable drop in extreme concern compared to the lower three brackets, perhaps because homeowners with higher equity are less affected by recent drops in home values.

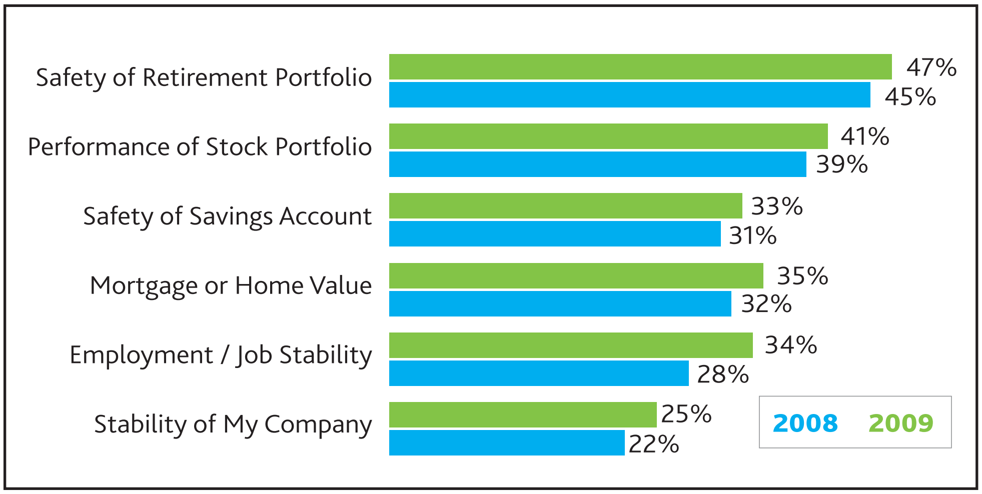
What's interesting is the comparable concern in the middle and lower two brackets. In fact, the middle bracket (those with a $100-249K net worth) expressed the highest amount of concern in 2008 and 2009, evidence that this is not a "poor man's recession." If anything, those in the middle are feeling the most pressure. These mid-net worth households are likely comprised of recent first time home buyers who traded up at the peak of the market, or took equity out of their homes to fund other lifestyle choices.

Adding to that middle-class worry are growing concerns about personal finance matters at the heart of the American dream.

Percent of Extreme Level of Concern



Specific Concerns in Personal Financial Situation



More than one third of consumers continue to be concerned about their mortgage or home value—not surprising given that recent data shows that one in eight mortgages is delinquent or in foreclosure—and the median sales price of existing home sales is down 16.8% over this time last year according to an economic snapshot at the time the survey was fielded. But the greatest concerns are around investments—specifically retirement portfolios as total family wealth has decreased since its peak in June 2007. So while there may be less panic about the economy in general, these personal factors underscore what we're hearing: the recovery for the consumer will be a longer, and more personal road back.

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