

Perceptions of the economy: Highlights of a consumer survey



Deloitte LLP

Conducted in June 2008

Table of contents

Executive summary	2
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Questions and key findings:

▪ Perception and behavior	3
▪ Obtaining credit	6
▪ Home purchases	7
▪ Credit cards	9
▪ Banking relationships	10
▪ Presidential politics	11
▪ Personal financial outlook	12

Survey overview	13
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Contacts	14
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Executive summary

Deloitte commissioned a survey from Harris Interactive, interviewing a nationwide sample of 2,019 U.S. adults from June 5 through 9, 2008 to gain a better understanding of consumers' perceptions of the economy and how the downturn had impacted their own situations. Key findings from the survey include:

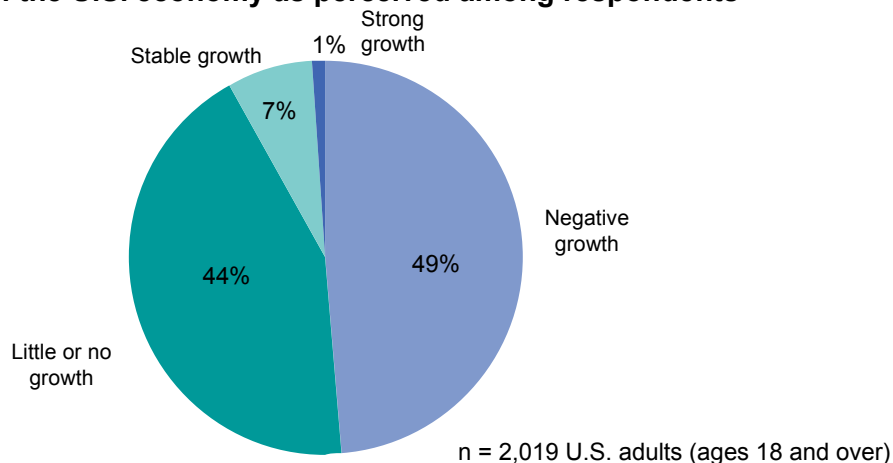
- **Perception and behavior:** 93% percent of respondents believe the U.S. economy is experiencing little, no or negative growth. Compared to one year ago, 60% of respondents are driving less, 56% are dining out less, 66% are purchasing fewer new cars, 63% are purchasing less electronics or other big-ticket items and 58% are spending less on entertainment
- **Obtaining credit:** When it comes to mortgages, home equity lines of credit (HELOCs) and personal loans, approximately 75% of respondents did not apply for these types of credit during the last year. Of those respondents who did apply for these types of credit, two in every three found it harder to get home mortgages and HELOCs, while one in every two found it harder to get auto loans
- **Home purchases:** 75% of respondents say they are not at all likely to buy a home in the next year, and 69% are not likely to refinance an existing home. Of respondents who have a mortgage on their primary residence, only 5% have an adjustable rate, and 91% have made their mortgage payments either early or on time
- **Credit cards:** Compared to past credit card usage, 40% of respondents reported spending less with their cards now. For those who reported spending more with their cards, they are often using them for essential purchases: 70% are using them more often for gas, while 67% are doing so for food/groceries, 24% for health care and 14% for utilities
- **Banking relationships:** Over the past year, 67% of respondents feel their relationship and their perception of their banking relationship have remained the same, while 15% have come to view their banking relationship more negatively over the past year
- **Presidential politics:** 80% of respondents say the presidential candidates have not sufficiently communicated how they will improve the economy, while 28% believe the next president should focus first on jobs to improve the economy, and 12% believe he should focus on foreign trade

Most respondents had a neutral to pessimistic outlook on the U.S. economy, which financially challenges them, discourages them from seeking credit for home and auto purchases and prompts them to curtail their overall spending.

Is the U.S. economy experiencing strong growth, stable growth, little or no growth or negative growth?

Nearly all of the respondents believe the U.S. economy is experiencing little to negative growth.

State of the U.S. economy as perceived among respondents



Key findings

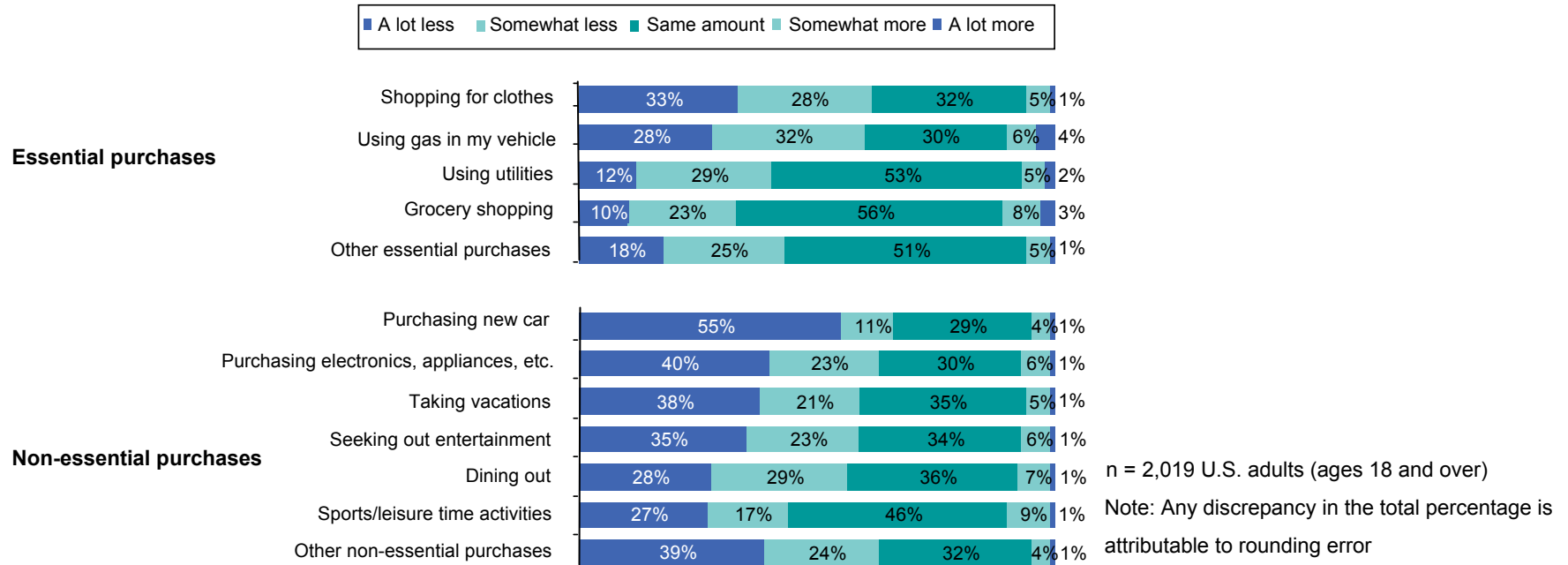
- 49% of the respondents believe the U.S. economy is experiencing negative growth, and 44% perceived little to no growth. Only 8% indicated strong/stable growth
- More respondents living in the West indicated the economy is experiencing negative growth (58% compared to 49% in the Northeast and Midwest, and 43% in the South)
- Those respondents who are employed full time or part time nearly equally see the economy as experiencing negative growth (employed full time – 48%, employed part time – 45%) or little to no growth (employed full time – 45%, employed part time – 50%)
- Those respondents with greater educational achievement were less pessimistic about the economy: 44% of those with at least a four-year degree feel the economy is experiencing negative growth, compared to 48% of those with some college experience and 52% with no college experience
- Women respondents reported the economy is experiencing negative growth more so than men respondents (53% versus 45%, respectively), while men reported the economy is experiencing little or no growth more so than women respondents (47% versus 41%)
- Respondents aged 35-54 (54%) reported the economy is experiencing negative growth more so than their younger or older counterparts (47% in both the 18-34 and 55 years and older groups)

Survey question: Currently, would you say the U.S. economy is experiencing...?

Compared to one year ago, how have you changed your purchasing behavior?

Most respondents are cutting back on essential and non-essential purchases, with big-ticket items being the hardest hit.

Essential and non-essential purchasing behaviors compared to one year ago



Key findings

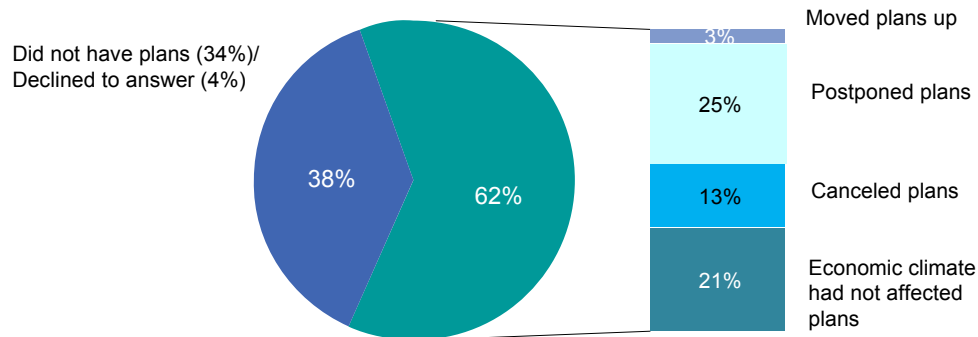
- Respondents reported fewer essential and non-essential purchases than one year ago. Big-ticket items (e.g., new cars, electronics and appliances) appear to be hit hardest, following by taking vacations
- Shopping for clothes and using gasoline were reported as the essential purchases that declined the most, while seeking out entertainment and dining out were also reduced by more than half of the respondents
- 44% of the respondents indicated they are participating less in sports or other leisure time hobbies and activities – perhaps demonstrating low- or no-cost hobbies and activities were being impacted less than other non-essential activities
- Utilities and grocery shopping were least hit of all, but even for those essential categories, one-third (grocery shopping) to two-fifths (using utilities) of the respondents indicated they were doing these less than they were a year ago. These findings suggest consumers are making behavioral changes in food and utility consumption to reduce spending in these areas

Survey question: Compared to one year ago, are you doing less, more or the same amount of each of the following?

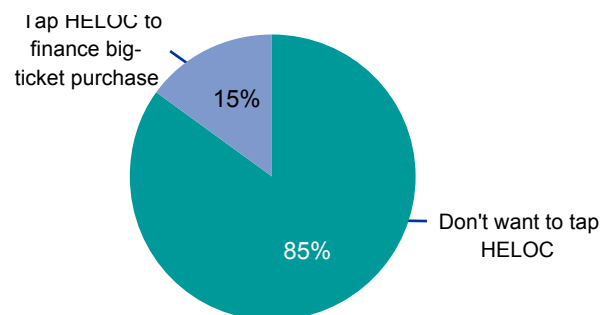
How has the current economic climate affected your big-ticket purchases?

Respondents reported they are restricting their spending and putting off large purchases. For those people who are planning to make big-ticket purchases, only 15% indicated they were willing to tap into their HELOC to finance it.

Effect of the economy on plans regarding big-ticket purchases



n = 2,019 U.S. adults (ages 18 and over)



Break-down of those who had plans for big-ticket purchase

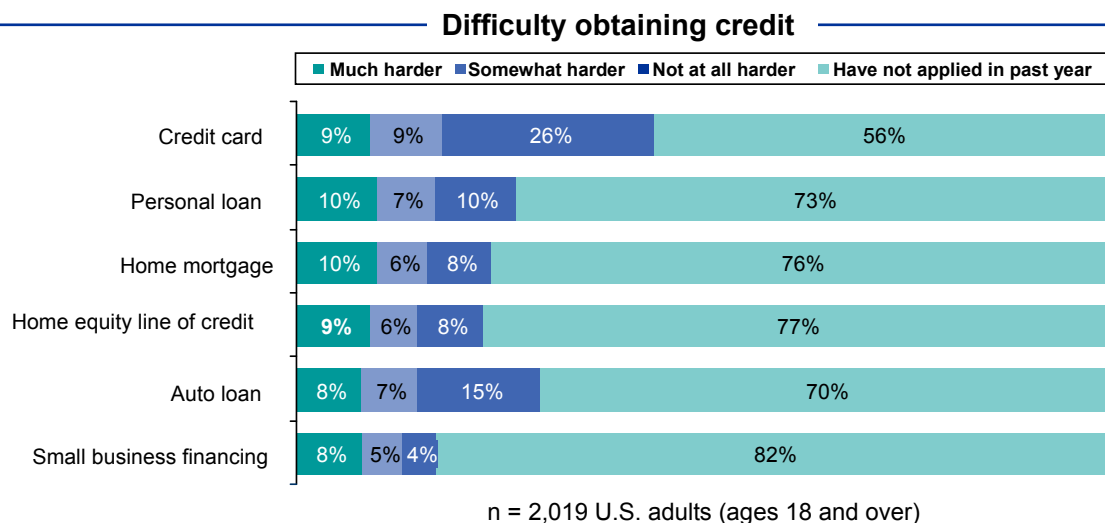
Key findings

- Sixty-two percent of respondents indicated they had plans for big-ticket purchases. Of those respondents, 38% reported that concerns about the economy caused them to postpone or cancel such plans
- 56% of respondents indicated they have a HELOC, but only 15% of the group indicated they had or were planning to use it for big-ticket purchases, including:
 - Home improvements (9%)
 - Vacation/travel (4%)
 - Automobiles (4%)
 - Home electronics (3%)
 - Major appliances (3%)
 - Essential day-to-day items (3%)
 - Education expenses (2%)
 - Medical/healthcare expenses (2%)
 - Furniture (2%)

Survey questions: How, if at all, has the current economic climate affected your plans regarding big-ticket purchases (e.g., car, furniture, home improvements, travel, etc.?) For which of the following big-ticket purchases, if any, have you used or do you plan to use your Home Equity Line of Credit?

Compared to one year ago, how hard is it to obtain credit?

For those respondents who tried to obtain credit, it is more difficult, except for auto loans and credit cards.



Key findings

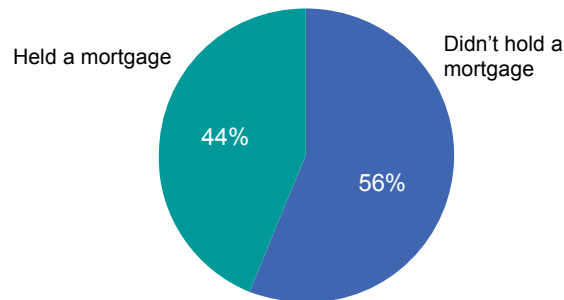
- Of those respondents who applied for a home mortgage, 67% found it more difficult to obtain one; for a HELOC, that number was 65%. Respondents who were personal loan applicants did not fare much better, with 62% finding it harder to get credit
- More than three-quarters (76%) of those respondents who applied for small business financing found it more difficult, compared to one year ago
- More respondents living in households with lower total incomes indicated it is much/somewhat harder to obtain each of these types of credit than for those respondents living in households with higher total incomes
- More respondents living in households with children under 18 also indicated it is much/somewhat harder to obtain each of these types of credit than those respondents living in households without children under 18

Survey question: Compared to one year ago, how hard is it to obtain the following kinds of credit?

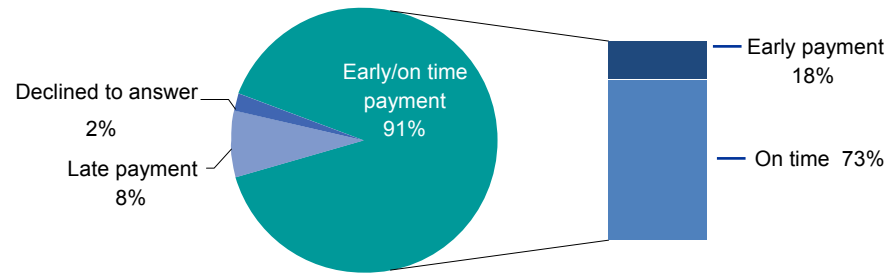
What type of mortgage do you have, and how timely have your payments been?

Three out of every seven respondents hold a mortgage, and the majority have fixed rate mortgages. Just 8% of respondents indicated they had made late or delinquent payments, or were in foreclosure.

Mortgage holders and timeliness of payments



n = 2,019 U.S. adults (ages 18 and over)



Break-down of those who held mortgages

Key findings

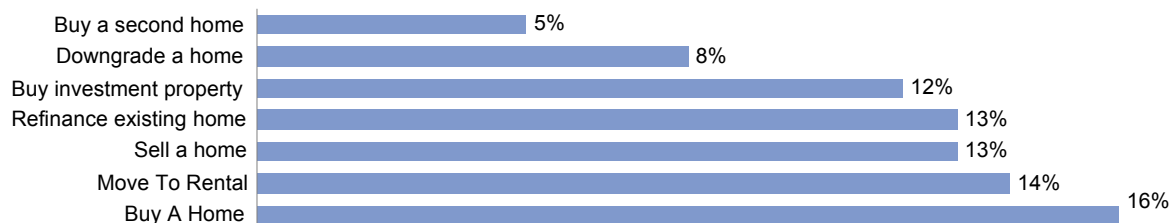
- 44% of respondents indicated they had a mortgage
 - Respondents aged 35-54 were more likely to have a mortgage (56%, compared to 34% of those respondents aged 18-34 and 40% of those respondents aged 55 years and older)
 - Respondents with higher levels of education were more likely to have a mortgage (56% of the respondents who indicated they had a mortgage had at least a four-year degree, compared to 48% of with some college experience and 35% with no college experience)
 - More respondents with a higher annual household income (HHI) have a mortgage (65% of the respondents who indicated they have a mortgage had an HHI of \$75,000 or higher, vs. 53% with an HHI of \$50,000-\$74,999, 41% with an HHI of \$35,000-\$49,999 and 24% with an HHI of less than \$35,000)
 - Respondents with children under 18 in their household were also more likely to have a mortgage (53%, compared to 40% for those respondents with no children under 18 in household)
- By far, fixed-rate mortgages were the most-often held (36% of the respondents – 82% of those respondents who indicated having mortgages)
- 91% of those respondents who indicated having mortgages reported that within the prior year their mortgage payments were generally early (18%) or on time (73%). Just eight percent of the respondents indicated they had late or delinquent payments, or were in foreclosure
- Among respondents who were employed full time or part time, 53% indicated they had a mortgage – a substantially higher proportion than within the general population. Fixed-rate mortgages were held by 45% of these respondents, and 92% of those respondents indicated their mortgage payments during the prior year had generally been early (18%) or on time (74%)

Survey questions: If you currently have a mortgage on your primary residence, is it a...? Within the past year, have your mortgage payments generally been...?

How likely are you to buy, refinance or sell a home in the next year?

The majority of respondents said they are not likely to buy, refinance or sell a home in the next year.

Likelihood of doing the following in the next year



n = 2,019 U.S. adults (ages 18 and over)

Key findings

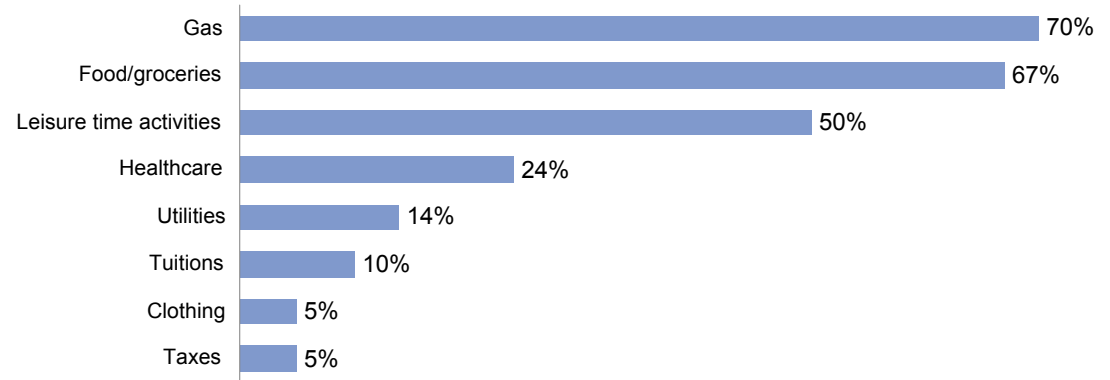
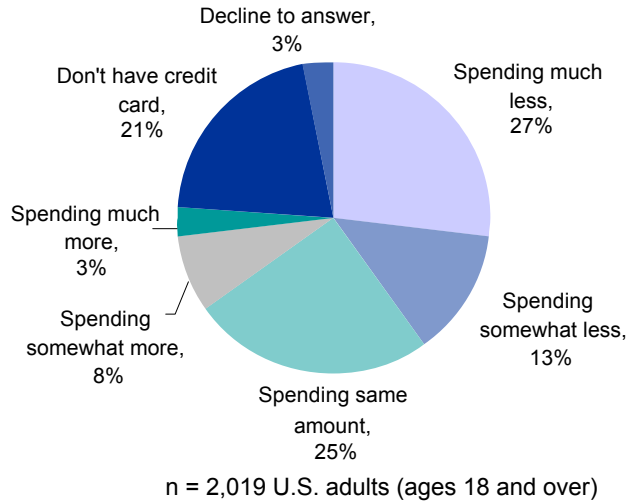
- Three out of four respondents indicated they are not likely to buy a home in the next year, given the current economic environment, and 69% of the respondents are not at all likely to refinance an existing home
- 69% of respondents are not at all likely to sell a home; this finding, coupled with the one above, potentially points to a continued stagnation in the housing market with both buyers and sellers reluctant to make a move
- One in six respondents (16%) indicated they were at least somewhat likely to buy a home in the next year
 - More younger indicated being at least somewhat likely to do this (25% of those respondents aged 18-34, compared to 18% of those aged 35-44, 14% of those aged 45-54 and 7% of those aged 55 years and older)
 - More respondents with higher levels of educational achievement indicated being at least somewhat likely to do this (22% of those respondents with at least a 4-year degree indicated this, compared to 18% of those with some college and 11% of those with no college experience)
 - More respondents with children under 18 in their household indicated being at least somewhat likely to do this (22%, vs. 13% of those respondents with no children under 18 in their household)
- 13% of respondents indicated they were at least somewhat likely sell a home within the next year
- 13% of respondents indicated they were at least somewhat likely to refinance their existing home
- 14% of respondents indicated they were at least somewhat likely to move to a rental

Survey question: Given the current economic environment, how likely are you to do each of the following in the next year?

How does your current spending behavior on your credit card(s) compare to your past spending behavior?

40% of the respondents have reduced their credit card spending. Of those respondents using their cards more than in the past, the majority are using them for essential items such as gas (70%) and food/groceries (67%).

Credit card spending behavior compared to past spending



Usage break-up of respondents who indicated higher credit card usage

Key findings

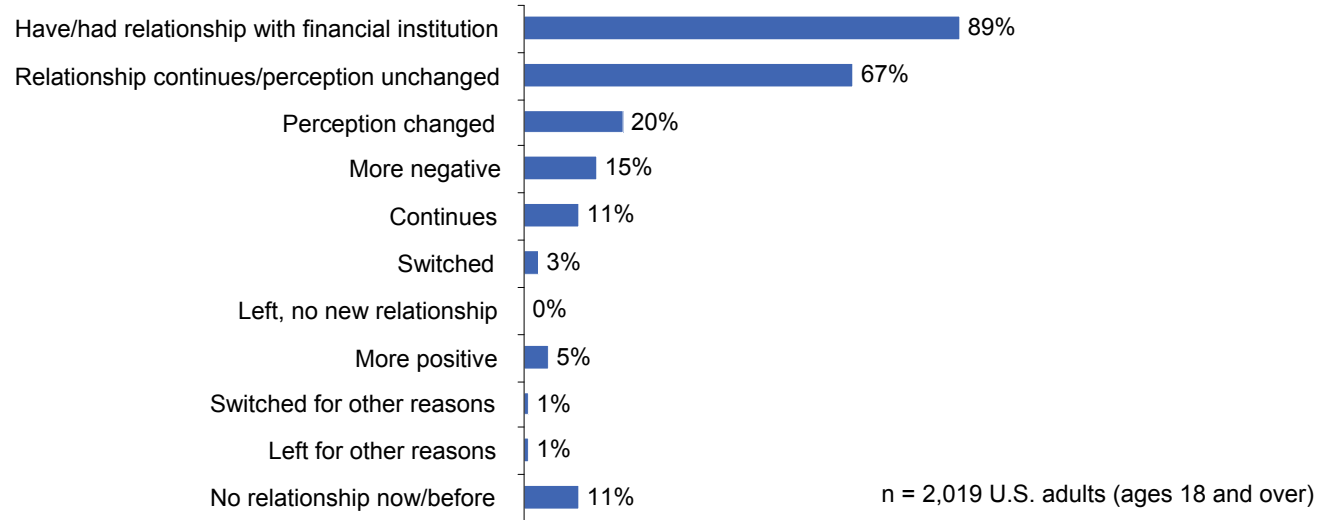
- 40% of the respondents reported they were spending much less or somewhat less money on their credit cards, compared to past behavior
- 25% of the respondents indicated they were spending the same, and just 11% indicated they were spending much more or somewhat more
- Among those respondents who indicated using their credit cards more than in the past, the kinds of items/occasions that they were using their credit cards more for included:
 - Gas (70%)
 - Food/groceries (67%)
 - Clothing (5%)
 - Leisure time activities (50%)
 - Healthcare (24%)
 - Utilities (14%)
 - Tuition (10%)
 - Taxes (5%)
 - Mortgage/other loan payments (2%)
 - Other (12%)

Survey questions: Which phrase best completes the statement: Compared to my past spending behavior on my credit card(s), I am...? What kinds of items or occasions are you using your credit card(s) for now more than you would have in the past?

How would you describe your sentiment with your primary financial institution?

Respondents reported their relationships with banks have mostly remained unchanged, despite industry turmoil.

Relationship with primary financial institution



Key findings

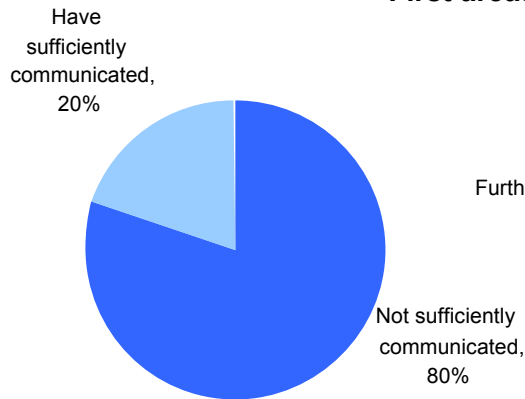
- 89% of respondents indicated they have/had a relationship with a financial institution
- 67% of respondents indicated having an on-going relationship with their primary financial institution, and that their perception of that financial institution has remained unchanged
- Of the 15% of the respondents whose perceptions had become more negative, 11% indicated they were still with their same institution, while 3% had switched to another
- 5% of the respondents indicated their relationship had become more positive

Survey question: Thinking about your relationship with your primary financial institution over the past year, which of the following best describes your sentiment?

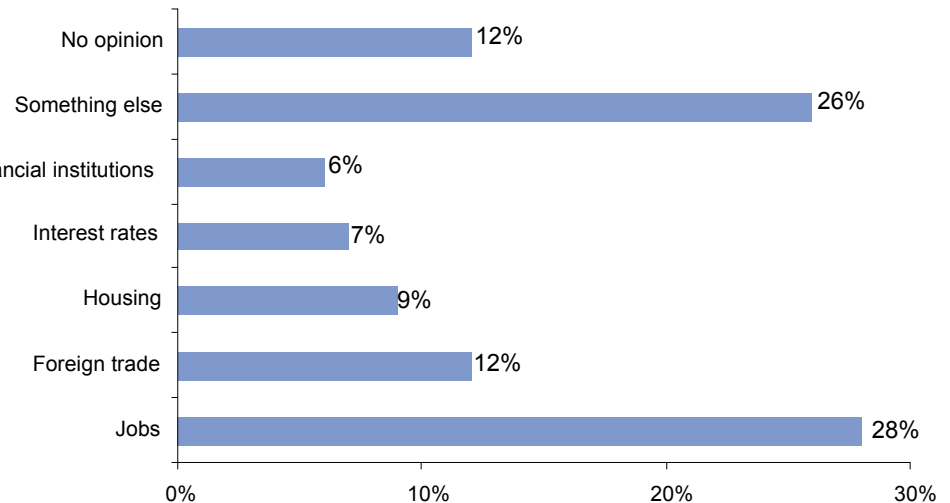
Have the presidential candidates sufficiently communicated how they will improve the economy, and what should the next president focus on first?

80% of respondents believe that the candidates have not sufficiently communicated how they will improve the economy. Most of the respondents believe the next president should focus first on jobs.

First areas of focus for the president to help the economy



n = 2,019 U.S. adults (ages 18 and over)



Key findings

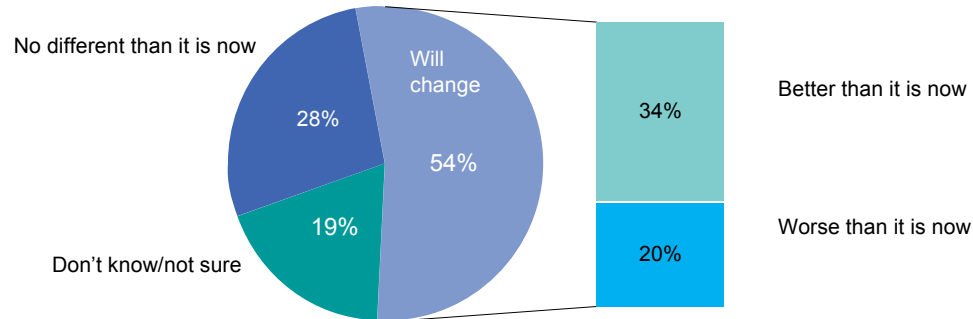
- 80% of respondents believe that the presidential candidates have not sufficiently communicated to them how they will improve the economy
- The most often mentioned response for the first order of business to improve the economy was jobs (28%); the next most often mentioned item was foreign trade (12%)
- Jobs was also the most often mentioned first area of focus among:
 - Those respondents who are employed full time or part time (28%)
 - Foreign trade was second for this group of respondents (13%); no other area of focus was mentioned by more than 8%
 - Those respondents who reside in California, Arizona, Nevada or Florida — states hardest hit by the mortgage crisis (29%)
 - Housing was second for this group (16%); no other area of focus was mentioned by more than 7%
 - Those respondents who are employed full time or part time and reside in California, Arizona, Nevada or Florida (34%)
 - Housing was second for this group (11%); no other area of focus was mentioned by more than 9%

Survey questions: Have the presidential candidates sufficiently communicated to you how they will improve the economy? In your opinion, what do you believe the next president should focus on first to improve the economy?

Looking ahead one year, do you think your financial situation will change?

Half of the respondents believe their financial situation will change, with one-third expecting a positive change in the coming year.

Whether/how financial situation may change



n = 2,019 U.S. adults (ages 18 and over)

Note: Any discrepancy in the total percentage is attributable to rounding error

Key findings

- 28% of respondents thought their financial situation would not change over the coming year. 54% of respondents thought their situation would change, with 34% thinking it would get better; only one in five respondents thought their financial situation would worsen
- Younger adults were the most optimistic respondents by age, with 42% of 18-34 year-old respondents indicating they thought their financial situation would be better, compared to 37% of those respondents aged 35-44, 35% of those aged 45-54, and 23% of those aged 55 years and older
- Those respondents with higher levels of educational achievement were also more optimistic: 40% of those respondents with at least a four-year degree indicated they thought their financial situation would be better, compared to 36% of those respondents with some college experience and 29% of those with no college at all

Survey question: Looking ahead one year, do you think your financial situation will be...?

Survey overview

Background/Objectives

- The objective of this survey was to gain a better understanding of a select group of U.S. adult consumer's concerns about the current U.S. economy
- Specifically, we wanted to better understand:
 - Their opinion on the current state of the U.S. economy
 - How their spending on essentials and on non-essentials has changed compared to one year ago
 - The effect of the economy on their plans regarding big ticket purchases
 - The types of mortgages they hold, and whether their payments have been on time
 - How their housing might change over the coming year
 - Whether and how they think their financial situation will change in the coming year
 - Their level of difficulty in obtaining various types of credit compared to one year ago
 - Whether and how their credit card use has changed
 - How their relationships with their primary financial institutions have changed
 - What their primary financial institutions could do right now to help them
 - Whether they feel the presidential candidates have sufficiently communicated how they will improve the economy
 - What they feel the next president should focus on first to help improve the economy

Methodology

- At Deloitte's request, Harris Interactive® conducted the survey from June 5-9, 2008, via its QuickQuerySM online omnibus service. A nationwide sample of 2,019 U.S. adults (ages 18 and over) were interviewed. Data were weighted to be representative of the total U.S. adult population on the basis of region, age within gender, education, household income, race/ethnicity and propensity to be online. No estimates of theoretical sampling error can be calculated. A full methodology is available upon request

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