

The “New Normal”: *A Long-Range Economic Outlook Survey*

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March 2009

AlixPartners
When it really matters.

Presentation Contents

- Survey Overview
- How Americans Feel About the Economy
- Impact of the Economic Crisis
- America Post-Recession
- Expected Lifestyle Changes

Survey Construct

- Conducted February 19 – March 3, 2009
- 5,031 Americans surveyed
- People were asked to (1) provide feedback on current economic environment, (2) describe current spending patterns, and (3) estimate how their saving/spending habits will change once the recession ends.
- Respondent group was representative of the U.S population across all key demographics.

Executive Summary

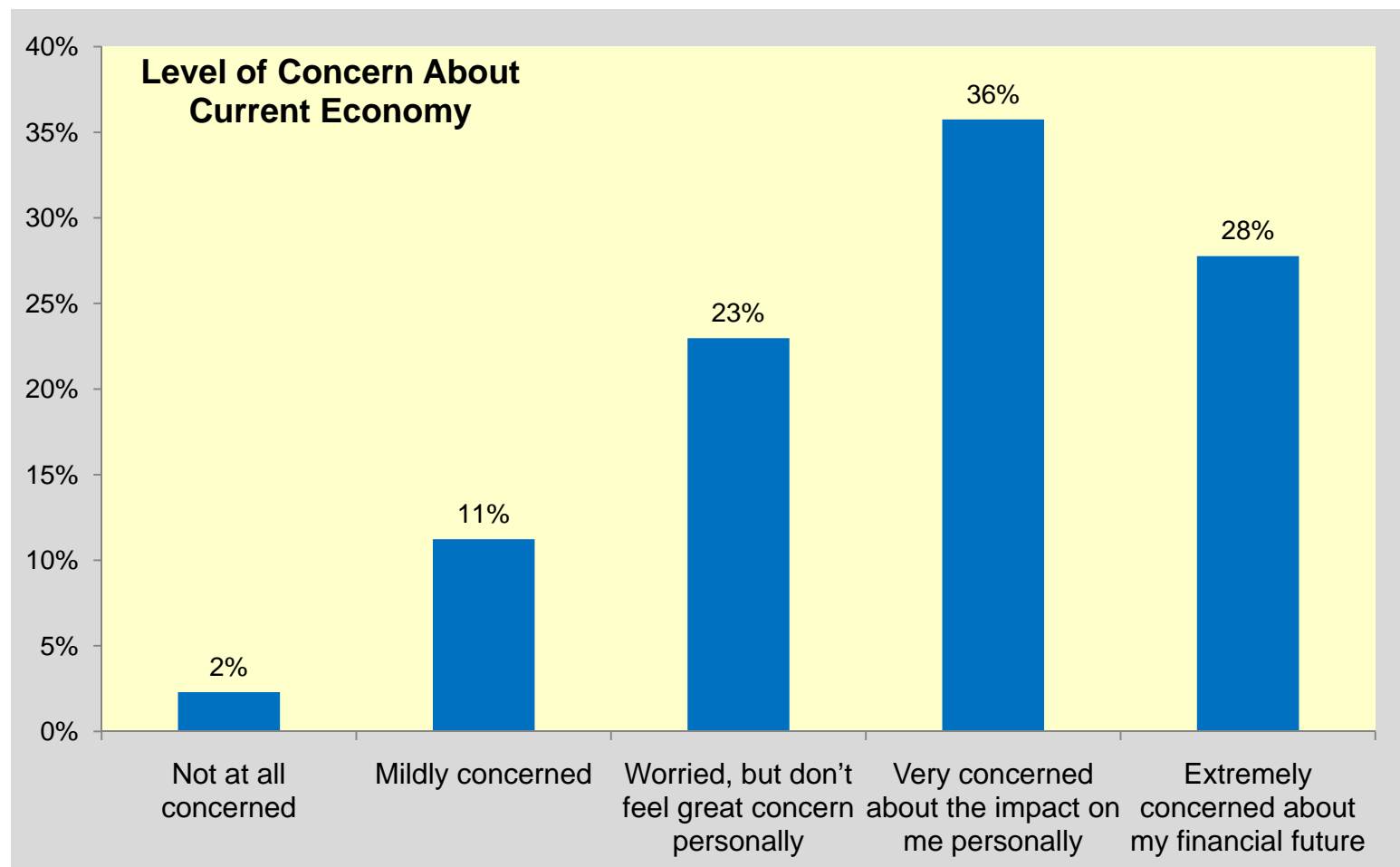
- Americans say their net worth will take almost 6 years before recovering to pre-recession levels
- They are pessimistic about a quick economic recovery
 - 61% feel the economy has yet to hit bottom
 - 85% feel it won't pick up this year
 - 67% feel it won't recover until 2011 or later
- Only 43% see the economy ever recovering to pre-recession levels
- Post-recession, Americans say they expect to save 14.3% of total income
 - i.e., even when the recession ends, the “new normal” with regard to spending will be ~86% of where we were pre-recession, say Americans

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Americans are clearly worried: 64% are “very” or “extremely” concerned about the current economic environment

➤ *How concerned are you about the current economic situation?*

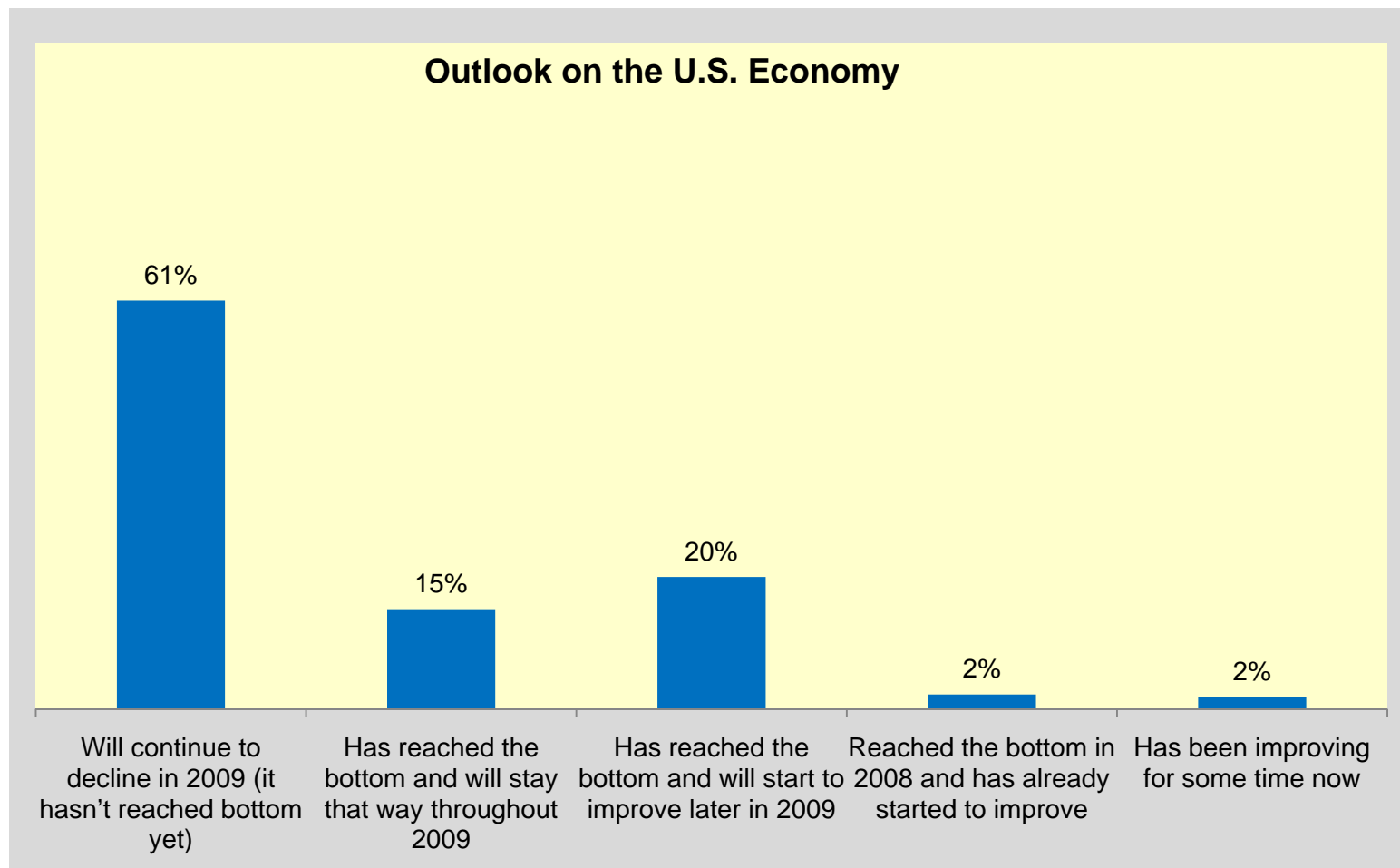


n = 5,031

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61% feel the economy has yet to hit bottom, and 76% feel it won't pick up this year

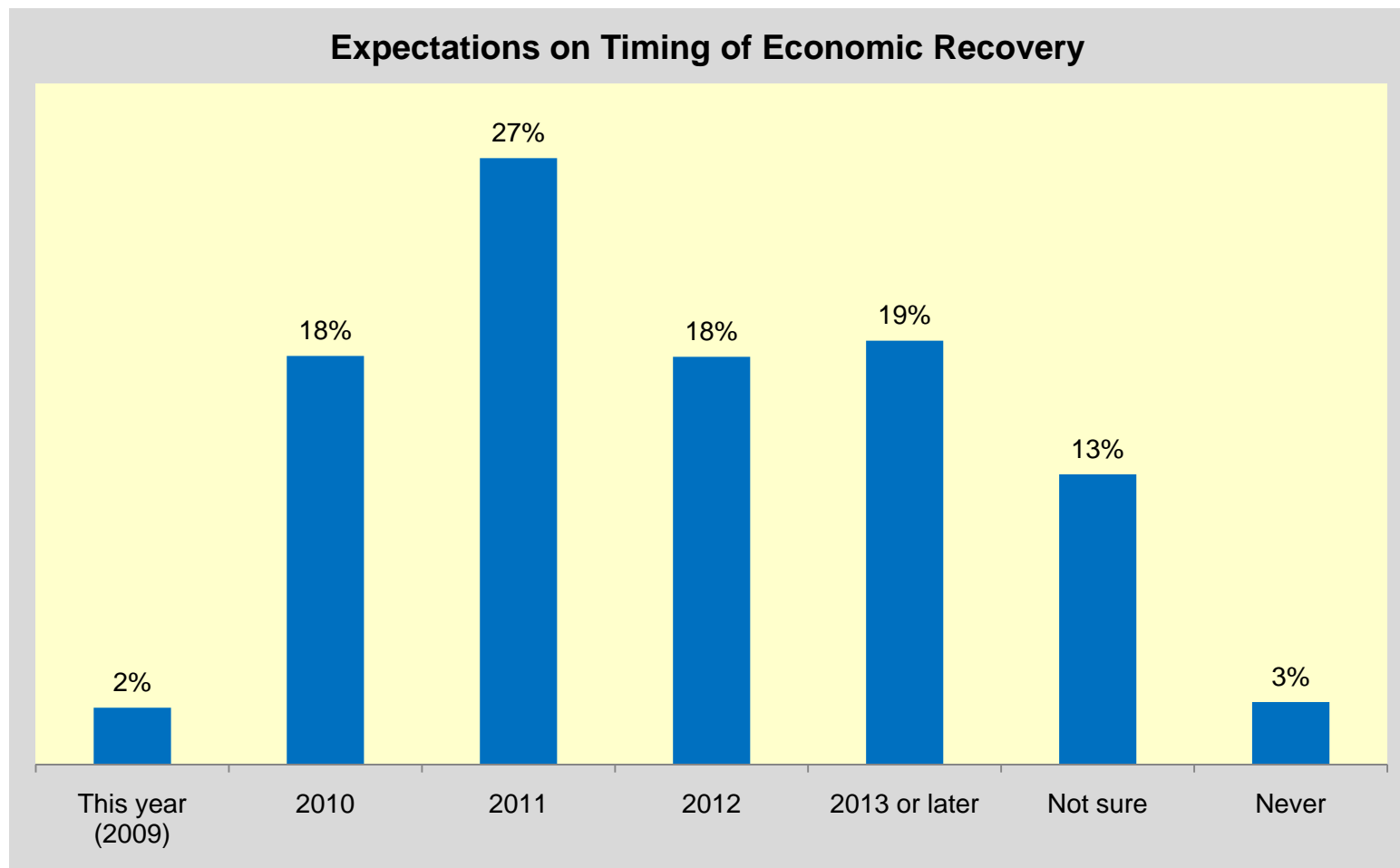
➤ Which statement best describes your thoughts on the current state of the U.S. economy?



n = 5,031

Only 2% see a recovery this year, while 67% don't see a recovery until 2011 at the earliest

➤ *When do you expect the U.S. economy to recover to what you consider "normal times"?*



n = 5,031

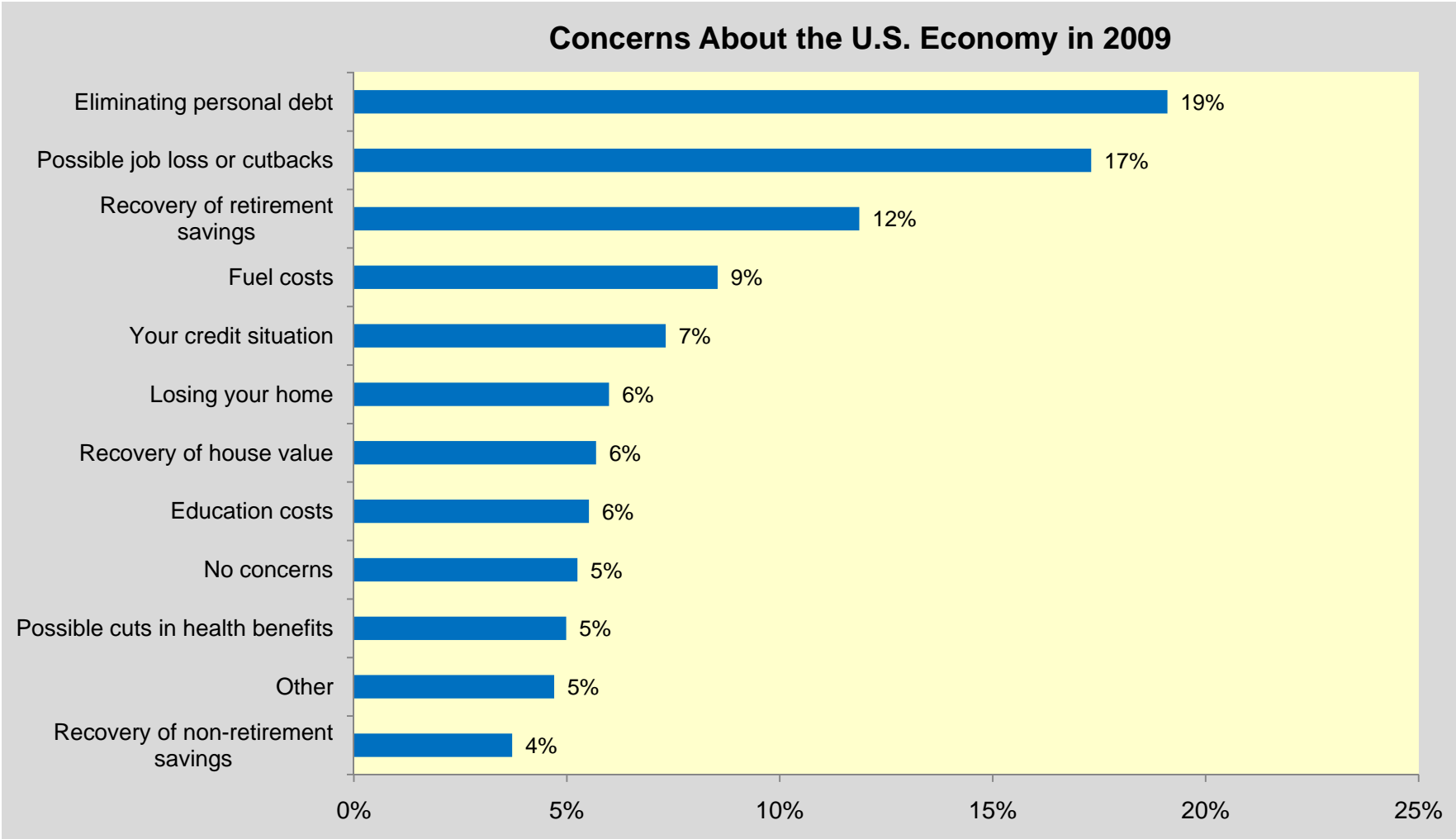
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Biggest short-term personal concerns for Americans: Eliminating personal debt (19%) and potential job loss (17%)

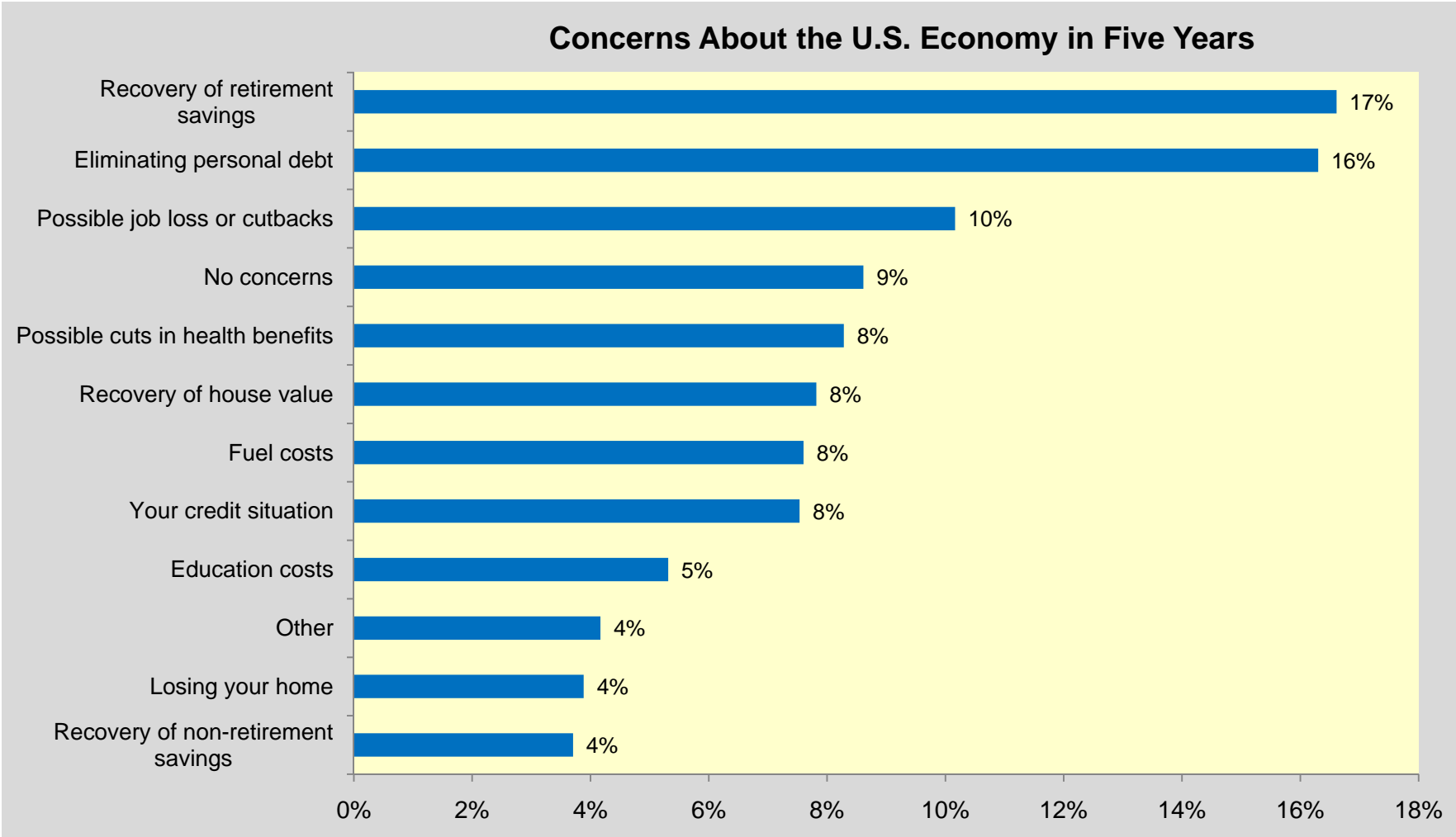
➤ *What is your biggest concern regarding your economic situation THIS YEAR?*



n = 5,031

Biggest longer-term personal concerns: Recovery of retirement savings (17%) and eliminating personal debt (16%)

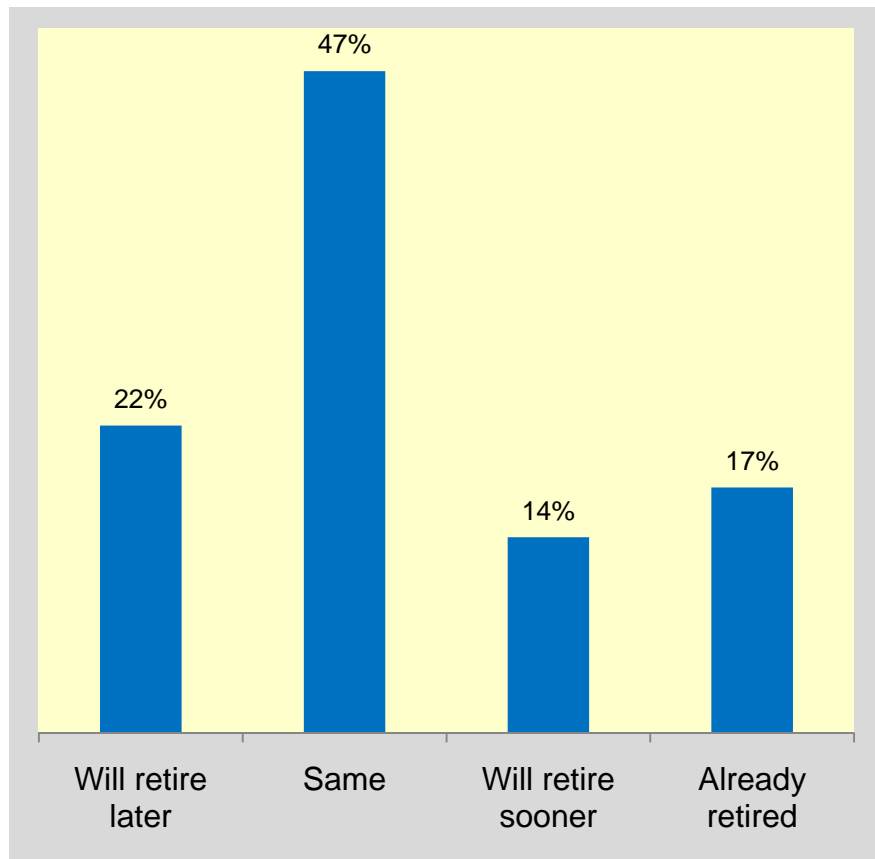
➤ *What do you think will be your biggest economic concern FIVE years from now?*



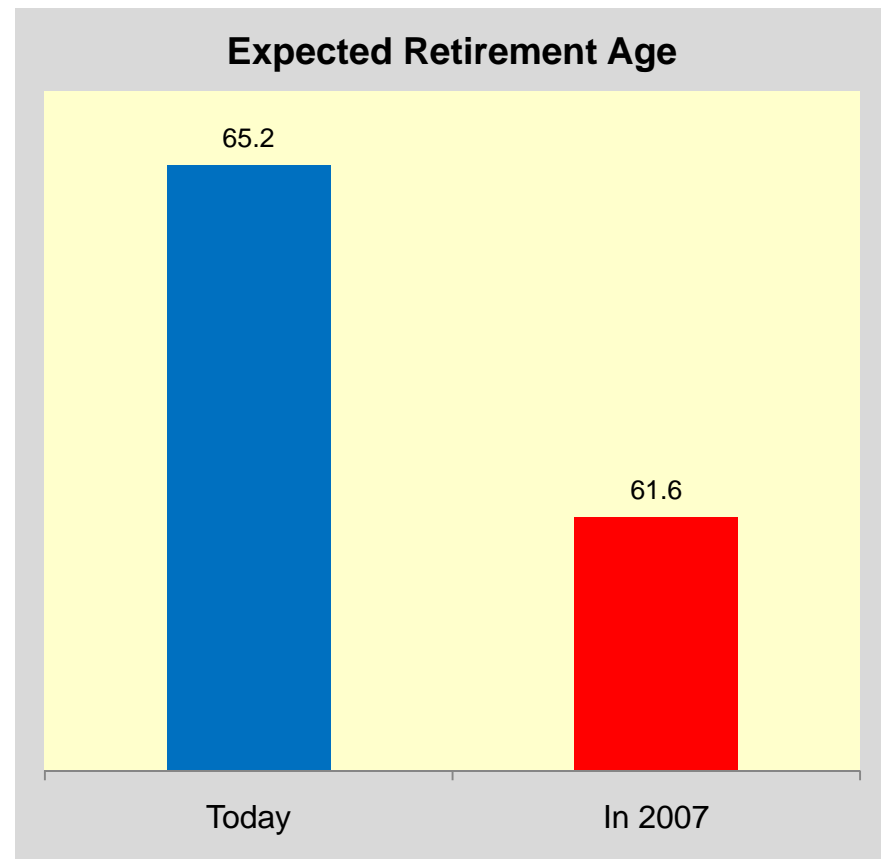
n = 5,031

22% say they now plan to retire later than previously expected, with expected retirement age jumping up 3.6 years vs. earlier expectations

➤ Over the last 12 months how has your planned retirement age changed?



➤ At what age do you expect to retire?

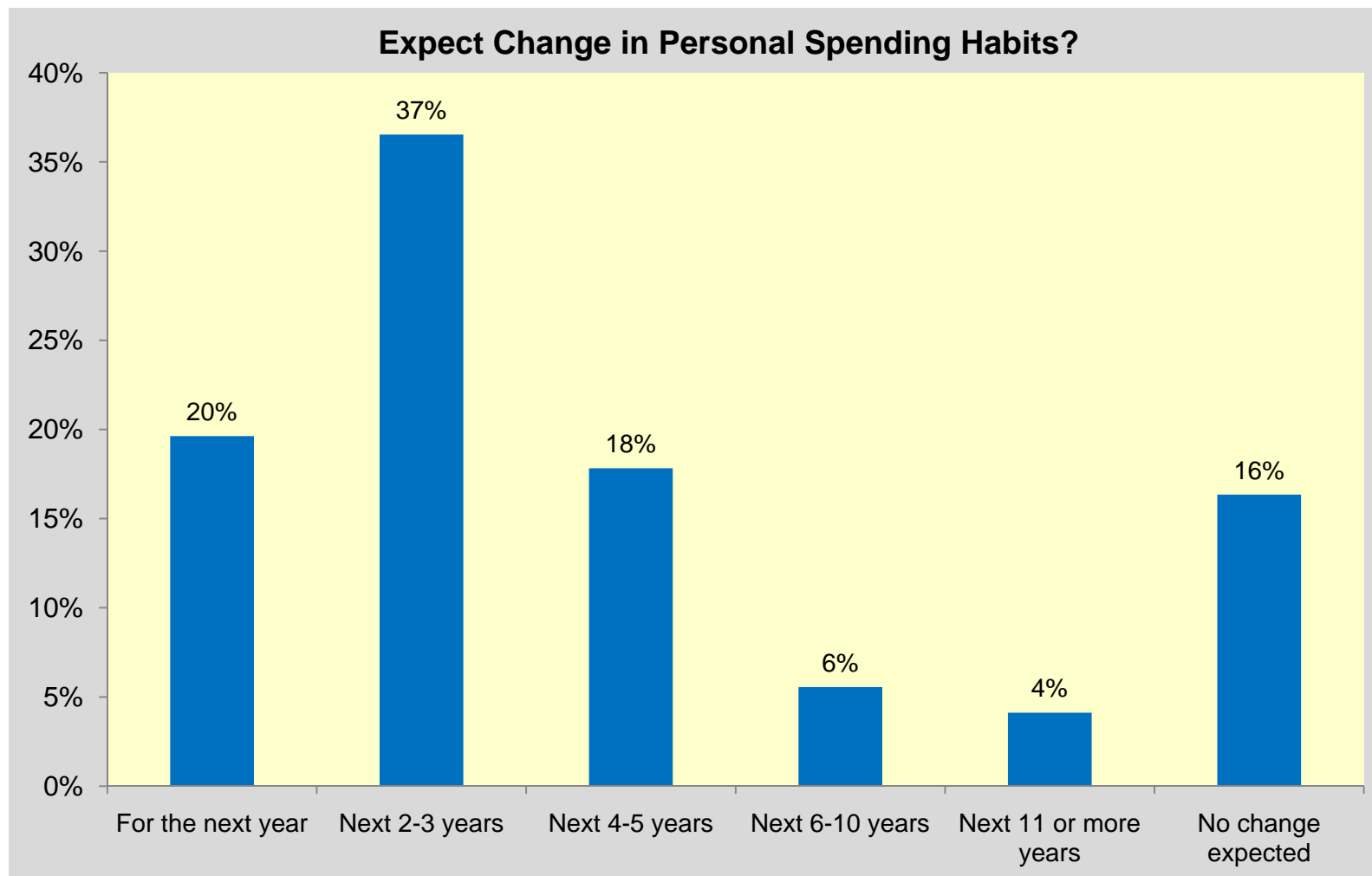


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65% of Americans plan to modify their spending behavior beyond just this year

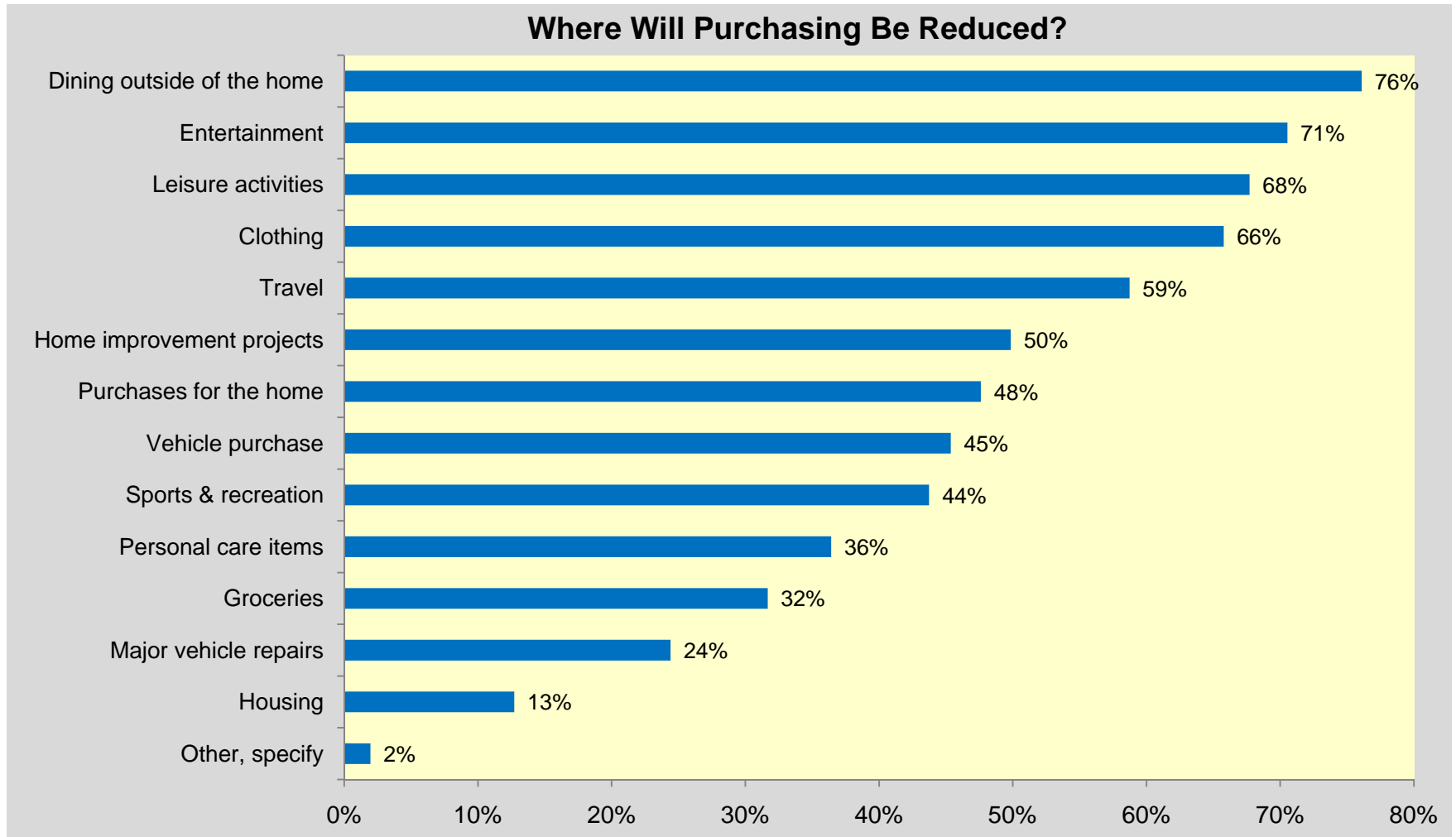
➤ *Do you expect your overall spending behavior to change in the future and for how long?*



n = 5,031

Spending reductions will continue the most in the discretionary categories -- eating out, entertainment, clothing, vehicles, etc.

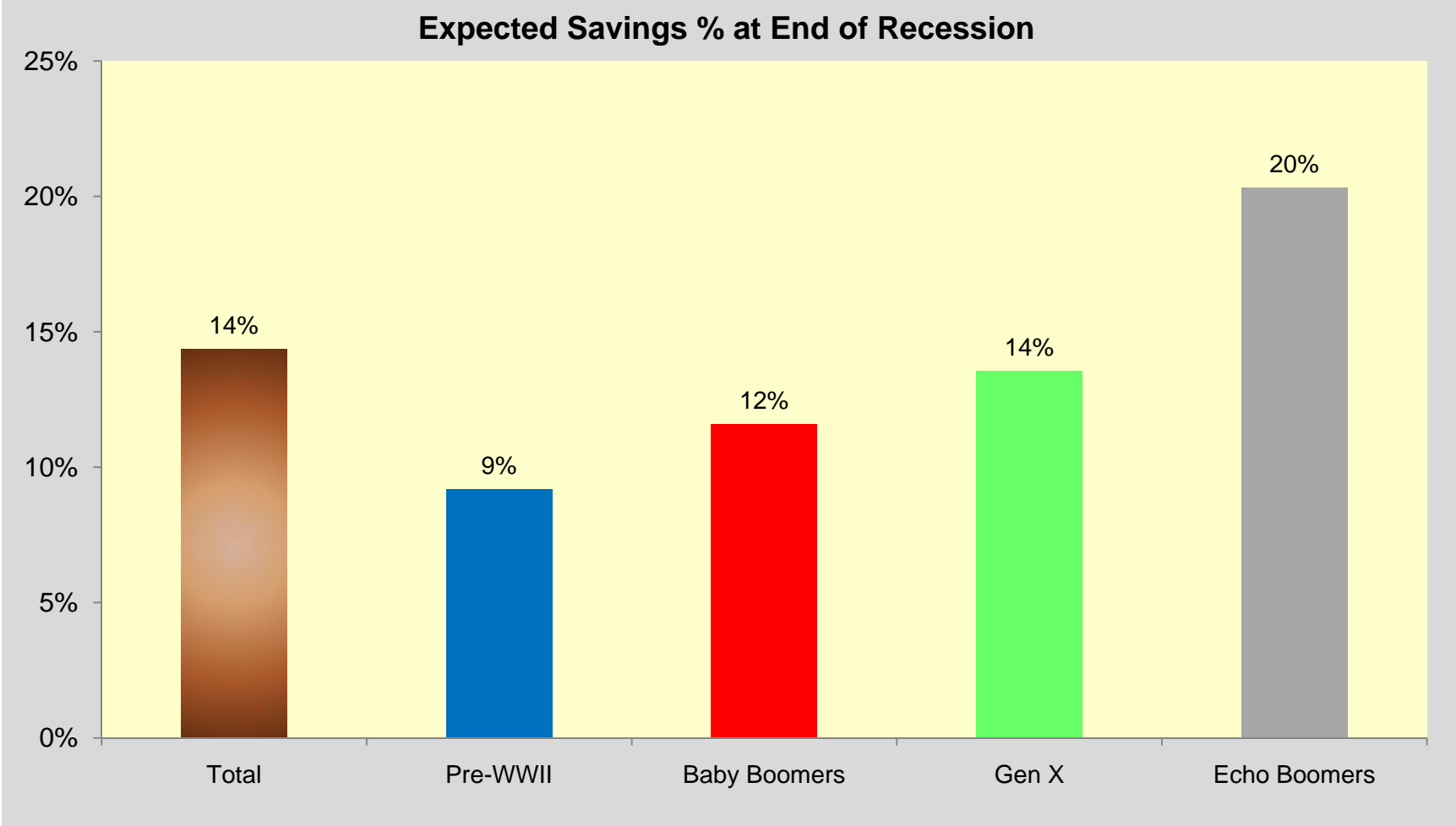
➤ *In what areas do you expect to reduce your overall spending?*



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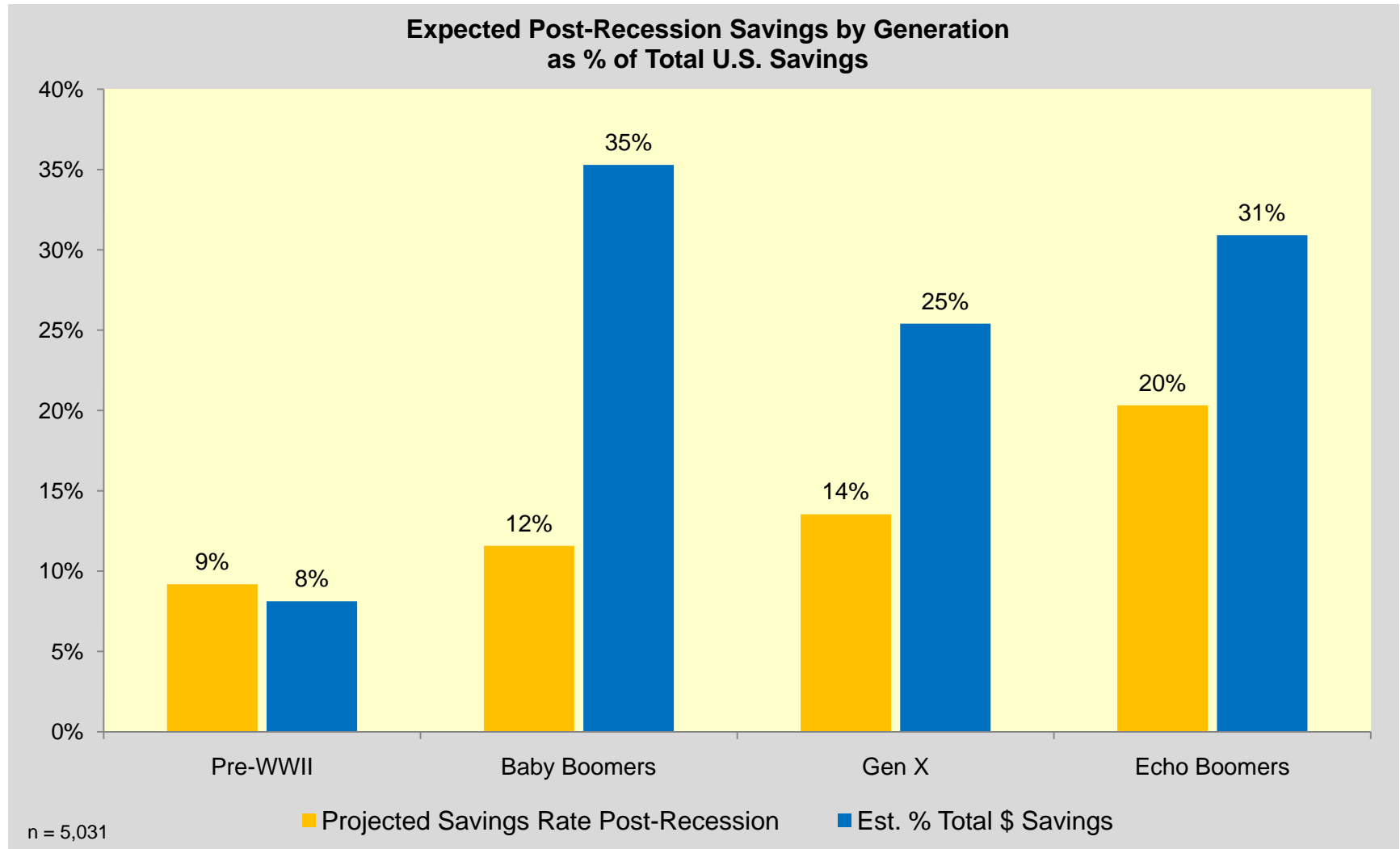
Post-recession, Americans say they expect to save 14.3% of total income

➤ *As a % of your total income, how much are you planning to save/invest at the end of the current recession?*



n = 5,031

At the rates projected, Baby Boomers would account for over 1/3 of total \$ saved by Americans post-recession



Sources: U.S. Census Bureau, Current Population Survey, 2008 Annual Social and Economic Supplement, U.S. Census Nov. 2008 population estimates, AlixPartners Research & Analysis

Therefore, even when this recession ends, Americans' spending could plateau at ~86% of pre-recession levels – the “new normal”

➤ Implications:

- Potential GDP impact of over \$1 trillion annually
- “Permanent” GDP down ~10% from pre-recession levels (14% x 70%* = 10%)

*Personal spending = ~70% of GDP

| Personal Earnings & Savings Total U.S. Population (\$B) | | | | |
|--|-----------------|-----------------------------------|------------------------|---------------|
| Year | Personal Income | Personal Consumption Expenditures | Savings % total income | Total Savings |
| 2006 | \$ 10,994 | \$ 9,207 | 0.6% | \$ 71 |
| 2007 | \$ 11,663 | \$ 9,710 | 0.5% | \$ 57 |
| 2008 | \$ 12,107 | \$ 10,057 | 1.6% | \$ 193 |
| 2009 (proj) ¹ | \$ 12,470 | \$ 9,810 | 4.4% | \$ 548 |
| 2010 (proj) ² | \$ 12,844 | \$ 8,833 | 14.3% | \$ 1,837 |

Personal Consumption Spending Impact 2010 projected savings vs. 2007 & 2008 actual savings rate

2010 projection - 14.3% savings rate vs. 2007 rate of .5%: \$ (1,774)

2010 projection - 14.3% savings rate vs. 2008 rate of 1.6%: \$ (1,632)

note: current GDP stands at approx. \$14.2 trillion

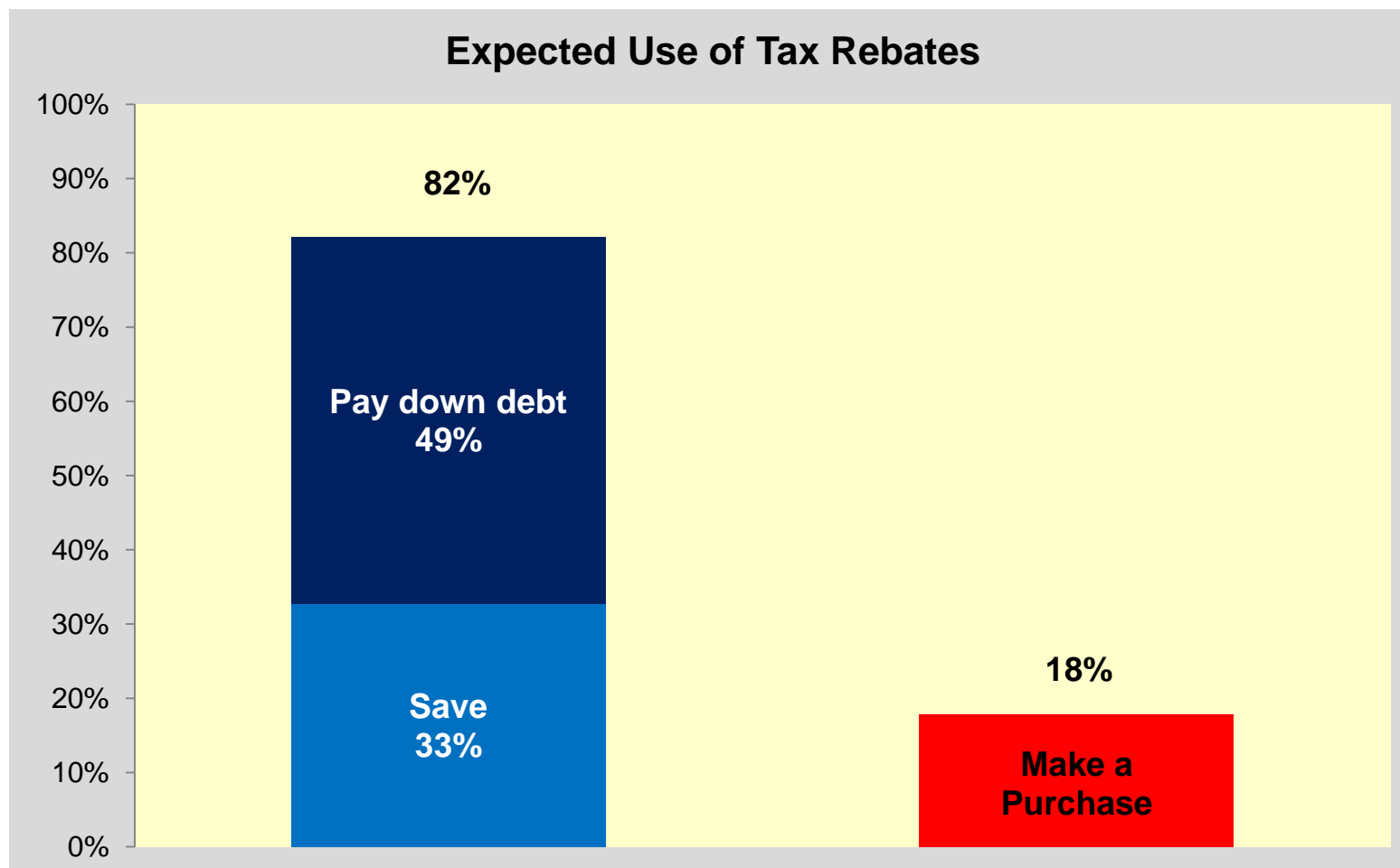
Source: U.S. Bureau of Economic Analysis, AlixPartners consumer research

1 – assumes 3% income increase yearly from 2008 and personal savings rate = 4.4% of total earnings for 2009

2 – assumes 3% income increases yearly from 2008 and 14.3% savings as % of total earnings for 2010

82% say they will use any U.S. “stimulus” tax rebates not for spending, but for saving or to pay down debt

➤ How would you use any tax rebates that may be given by the U.S. Government in 2009?



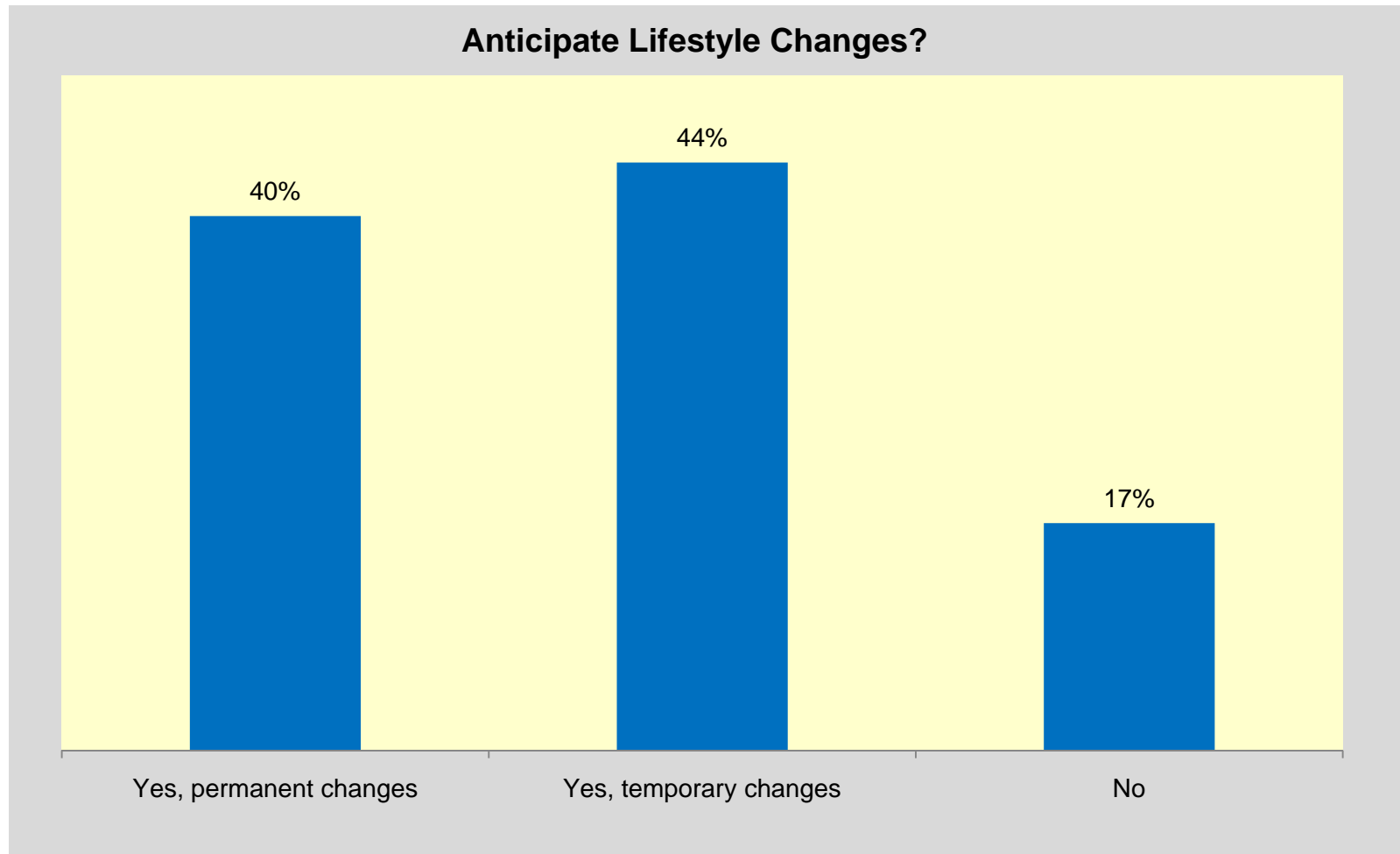
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Over 40% of Americans anticipate a permanent change in their lifestyle due to the current economic situation

- *Have you made or do you anticipate making any changes to your lifestyle as a result of the current economic situation?*

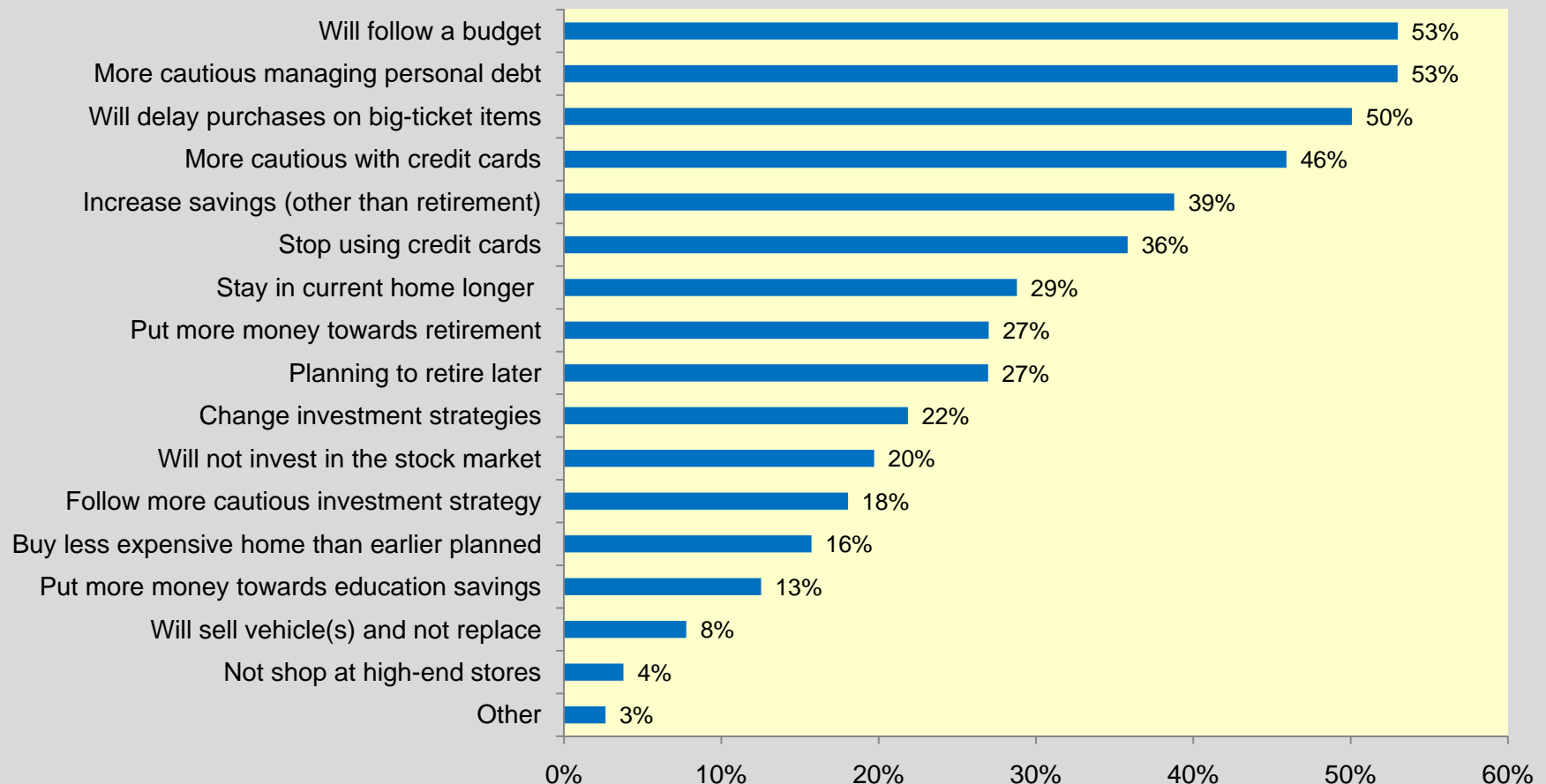


n = 5,031

The most likely changes: More caution in expanding debt, buying big-ticket items, following a budget, handling credit cards

- *What changes have you made or do you anticipate making to your lifestyle as a result of the current economic situation?*

Expected Lifestyle/Spending Changes



For a complete version of the long range economic study report, or to discuss the impact of our findings on your business, please contact us at:

<http://www.alixpartners.com/>

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