ABSOLUTE STRATEGY RESEARCH
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ASR's Survey of U.S. Household Finances – Part 1

ASR's biannual proprietary survey *provides unique insights into U.S. households' saving and investment behaviour. This is the seventh "wave" of the survey, which we first launched in June 2009. The fieldwork for this wave was conducted between August 2-20, 2012, and drew on a panel of 1,004 U.S. adults aged between 25 and 65. This is the first of a three-part release of the main findings.*

U.S. Households Still in the Grip of Deleveraging …

Americans are still in the process of reducing their borrowings. For the first time in our survey, a full half of respondents do not have a mortgage. The percentage with a mortgage now stands 10% points lower than the peak level of 59% recorded in January 2010. This reduction in mortgage debt has been mirrored by an even greater decline in non-mortgage borrowings: the percentage of our panel with debt other than a mortgage has now fallen to 54% from a peak of 67% in June 2010. The percentage with no debt has risen a full 10% points, from 19% in June 2010 to 29% just two years later.

Of those with debt, 44% still feel that their level of debt relative to their income is too high, while 21% are having difficulty servicing their debt. The financial crisis has had a major impact on attitudes to debt: 32% of those polled are planning to reduce their debt levels over the next 12 months. 38% have decided not to take on any further debt.

It is just as well that people do not want to borrow more as the supply of credit remains severely constrained. 57% of our panel report that it is hard to get a loan while only 22% report that it is relatively "easy". If QE was meant to increase the supply of credit, then it failed.

… But First Signs That Housing May Be Turning the Corner

One of the major reasons for deleveraging is that asset prices have been falling. 37% of our panel reported that house prices in their area have fallen over the past 12 months. 33% of homeowners believed that their house is worth less they paid for it, and they are sitting on an unrealised capital loss. 27% of those with a mortgage believe that their house is worth less than the mortgage outstanding. And 20% are in the worse possible scenario, not only with a capital loss but also "underwater" on their mortgage (i.e. their house is worth less than their mortgage).

Although the percentage of the panel who think that this is a good time to buy real estate has declined steadily over the past 3 years (from 74% in June 2009 to 56% in August 2012), the recent improvement in house prices expectations could change all that. At 17%, the net balance of our panel that think house prices could be higher in 12 months' time is the most positive since June 2010. This could put a brake on deleveraging.

Global Alert

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ASR Survey: Housing and Credit

Why House Prices Could now Hold the Key

Many with debt still feel that they have borrowed too much relative to their income.

Americans continue to hunker down for multi-year deleveraging. That *could* be the depressing conclusion from ASR's latest survey of household finances. Many with debt still feel that they have borrowed too much relative to their income, and invested in an asset – housing – whose value has declined in recent years. The "silver lining" to this otherwise "cloudy" picture is that for the second survey in a row, confidence in the outlook for house prices has improved – a trend that is now evident in the traditional data.

However for the second survey in a row, confidence in the outlook for house prices has improved.

Our survey shows optimism towards housing varies greatly by region. Those in the Far West and in the Northeast* are more inclined to believe that house prices in their area have risen, and are much more optimistic about the outlook for the coming year. Housing remains the greatest challenge in the Great Lakes region, where 45% think prices have fallen over the last year, and where respondents are also the least optimistic for the next year. That said, 69% in the Great Lakes think it is a good time to buy property, the highest of any region. The problem of negative equity tends to be concentrated in two distinct regions: the Far West and the states in the Southern Central* region.

A sustained rebound in house prices could transform the narrative for the U.S. consumer.

However, the call on house prices is not simply "just about housing"; it seems to go to the core of how U.S. households view the economic outlook. Those that are bullish on the outlook for house prices are more positive across the board. Economics tells us that there are two ways to de-lever. You can either pay back the debt (the hard way) … or you can inflate the asset-side of the balance sheet. **A sustained rebound in house prices could transform the narrative for the U.S. consumer**.

Optimists on house prices tend to exhibit more positive economic characteristics.

To test this we cut the survey into two groups: the 32% of respondents that believe house prices will rise over the next year versus everyone else. This showed that anxiety about house prices is clearly associated with negative economic behaviour. Both groups are similarly likely to own their home outright or to have a mortgage, and to have similar debt and employment/unemployment profiles. However, those who do not expect house prices to rise are less secure at work, much less likely to say they are "better off" from last year, and roughly three times as likely to say they will be "worse off" next year. They are generally much more risk averse and significantly more negative on stocks as a way to save for retirement. The pessimists on rising prices are much more likely to have been "burned" already by housing – they are almost twice as likely to have an unrealized capital loss on their home, and are about twice as likely to be underwater.

<u>The investment message is simple: a sustained rise in U.S. house prices could prove to be a significant game-changer for the U.S. macro outlook</u>.

* *Far West*: WA, OR, CA, AK, HI. *Northeast*: CT, ME, MA,NH, RI, VT, NY, NJ, PA. *Southern Central*: KY, TN, MS, AL, TX, OK, AR, LA. *Great Lakes*: WI, IL, MI, IN, OH.

In the Grip of Deleveraging

Americans are still in the throes of reducing their dependence on credit. For the first time in our survey, **fully half of respondents do not have a mortgage.** The percentage of those with a mortgage, at 49%, is 10% points lower than the level peak level of 59% recorded by our survey recorded in January 2010.

Table 1: Do you personally have a mortgage?

base=1,004	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Yes (either in your sole name or jointly)	56%	59%	58%	56%	54%	49%	49%
No	44%	40%	40%	42%	45%	49%	50%
Don't know	0%	0%	1%	0%	1%	1%	0%
I would rather not say	1%	1%	1%	2%	1%	1%	1%
Net % Have a Mortgage (%Yes-%No)	**13%**	**19%**	**18%**	**14%**	**9%**	**0%**	**-1%**

Source: ASR Ltd, TNS

This reduction in mortgage debt has been mirrored by an even greater decline in non-mortgage borrowings: the percentage of our panel with debt other than a mortgage has now fallen to 54% from a peak of 67% in June 2010.

Table 2: Do you have any other loans or borrowings other than a mortgage (such as credit card debt, a car loan, a bank loan, etc.)?

base=1,004	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Yes	62%	63%	67%	56%	58%	55%	54%
No	37%	35%	31%	41%	40%	42%	44%
Don't know	0%	0%	1%	1%	1%	2%	1%
I would rather not say	1%	1%	1%	2%	2%	1%	1%
Net % Have Other Debt (%Yes-%No)	**26%**	**28%**	**36%**	**16%**	**17%**	**14%**	**10%**

Source: ASR Ltd, TNS

In just two years, the percentage of the U.S. working population with no debt has risen from 19% in June 2010 to 29%.

Table 3: Borrowing Summary

base=1,004	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Only a mortgage	15%	15%	12%	18%	17%	16%	17%
Only other loans	22%	20%	22%	18%	20%	22%	22%
Mortgage and other loans	41%	44%	45%	39%	37%	33%	32%
Any mortgage	56%	59%	58%	56%	54%	49%	49%
Any other loans	62%	63%	67%	56%	58%	55%	54%
% have no debt at all	**22%**	**21%**	**19%**	**24%**	**24%**	**27%**	**29%**
% have any kind of debt	**78%**	**80%**	**81%**	**76%**	**76%**	**73%**	**71%**

Source: ASR Ltd, TNS

It seems any issues associated with managing student debt are where one would expect them to be … there's not much spillover into other areas.

Much attention of late has been given to the rapid growth in student loans, and any resulting economic distortions. Our survey suggests there is reason for caution, but not for alarm. 18% of respondents do have student debt, with roughly half of those with debt between the ages of 35 and 54 (remember this can be debt to fund a member of the family, not necessarily the respondent's own). Yet across many economic measures, there is little difference between those with student debt and those without: both worry about their finances, have similar risk aversion, housing tenure and experiences. The significant differences are in **savings and debt management**. Those with debt are more likely to think they aren't saving enough and overall debt levels are too high, and to have trouble servicing the debt. For now, any problems associated with managing student debt are contained where one would "expect", and not spilling over into other areas.

Table 4: Do you have any educational/student loans outstanding*?

base=1,004	Aug 2012
Yes: less than $10,000	6%
Yes: between $10,000-$25,000	6%
Yes: between $25,000-$50,000	2%
Yes: more than $50,000	3%
Total % Yes	*18%*
No	*82%*
Prefer not to say	1%
Net % Yes (% Say Yes-% Say No)	**-64%**
Average Student Debt Outstanding	**$21,347**

* This can include loans for your own education or those you have for your children or dependents. Source: ASR Ltd, TNS

Of those with debt, 44% feel that the level of debt is too high relative to their income. This number has not come down significantly over the past three years.

Table 5: Do you feel that your total debt is too high relative to your income?

base=705, all with debt	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Yes	41%	43%	47%	43%	45%	45%	44%
No	52%	50%	46%	49%	48%	45%	49%
Don't know	6%	6%	6%	7%	7%	9%	6%
I would rather not say	1%	1%	2%	1%	1%	1%	1%
Net % Think Borrowings Too High	**-11%**	**-8%**	**1%**	**-7%**	**-3%**	**0%**	**-4%**

Source: ASR Ltd, TNS

Table 6: Do you have difficulty meeting the minimum* payments on your mortgage or your loans?

base=705, all with debt	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Yes	19%	17%	15%	17%	23%	25%	21%
No	79%	80%	80%	80%	74%	71%	78%
Don't know	1%	2%	3%	1%	1%	2%	1%
I would rather not say	1%	1%	2%	2%	1%	2%	1%
Net % Have Trouble Making Payments (% Say Yes-% Say No)	**-61%**	**-63%**	**-65%**	**-62%**	**-51%**	**-46%**	**-57%**

* This previously read "monthly". Source: ASR Ltd, TNS

The Financial Crisis has clearly had a major impact on attitudes to debt. A total of 70% say their attitude has changed: 32% of those polled are planning to reduce their debt levels over the next 12 months, with 38% deciding not to take on any further debt.

Table 7: Has the Financial Crisis fundamentally changed your attitude toward debt?

base=705, all with debt	Jul 2011	Feb 2012	Aug 2012
Yes: I now plan to reduce my total debt level over the next 12 months.	33%	35%	32%
Yes: I am not taking on any further debt.	34%	39%	38%
No: The financial crisis has not changed my attitude towards debt.	27%	22%	26%
Don't know	5%	4%	5%
Net % Say Yes (% Say Yes-% Say No)	**41%**	**51%**	**44%**

Source: ASR Ltd, TNS

The supply of credit remains severely constrained. 57% of our panel report that it is hard to get a loan while only 22% report that it is relatively "easy".

Table 8: At this time do you think it is easy or hard to get a mortgage, or loan?

base=1,004	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Very hard to get a loan	25%	24%	24%	21%	19%	22%	23%
Fairly hard to get a loan	32%	35%	37%	37%	38%	37%	35%
Fairly easy to get a loan	22%	19%	20%	20%	18%	18%	18%
Very easy to get a loan	5%	5%	4%	6%	6%	5%	4%
Don't know	16%	18%	15%	17%	18%	18%	21%
% Say very / fairly hard	*57%*	*59%*	*62%*	*58%*	*58%*	*59%*	*57%*
% Say very / fairly easy	*27%*	*24%*	*24%*	*25%*	*24%*	*23%*	*22%*
Net % Think Hard To Get A Loan (% Hard - % Easy)	**29%**	**35%**	**38%**	**33%**	**33%**	**36%**	**35%**

Source: ASR Ltd, TNS

37% of respondents say that house prices in their area have fallen over the past 12 months, with 15% saying prices have fallen "significantly".

Table 9: Thinking about the housing market over the last twelve months, do you think house prices in your area have…

base=1,004	Aug 2012
Risen significantly	5%
Risen a little	17%
Stayed about the same	30%
Fallen a little	22%
Fallen significantly	15%
Don't know	11%
Risen	*22%*
Fallen	*37%*
Net % Think Prices Have Risen Over Last Year (% Say Rise - % Say Fall)	**-16%**

Source: ASR Ltd, TNS

33% think they have an unrealized capital loss in their house.

33% of homeowners believe their house is worth less than they paid for it, and they are sitting on an unrealised capital loss. 27% of those with a mortgage believe that their house is worth less than their mortgage. 20% of those with a mortgage face not only a capital loss but are also "underwater" on their mortgage.

Table 10: Would you say that the value of your house today is worth more or less than when you bought it?

base=698, all homeowners or those with a mortgage	Jul 2011	Feb 2012	Aug 2012
Worth more than when you bought it	45%	42%	41%
Worth about the same as when you bought it	19%	21%	21%
Worth less than when you bought it	33%	32%	33%
I would rather not say	0%	1%	1%
Don't know	3%	4%	4%
Net % Worth More	**12%**	**10%**	**8%**

Source: ASR Ltd, TNS

The problems of negative equity and unrealized capital losses are not going away.

Table 11: Would you say that the value of your house today is worth less than the amount you owe on your mortgage?

base=474, those with a mortgage	Jul 2011	Feb 2012	Aug 2012
Worth less	27%	26%	27%
Worth more	61%	65%	60%
I would rather not say	2%	2%	2%
Don't know	10%	7%	10%
Net % Worth More	**34%**	**39%**	**33%**

Source: ASR Ltd, TNS

20% face the worse possible scenario, believing they are underwater AND have a house worth less than they paid for it.

Table 12: Cross-break - Capital Loss vs. Underwater

	Underwater?	
The value of the house is...	**Yes**	**No**
Worth more than when you bought it	4%	33%
Worth about the same as when you bought it	3%	15%
Worth less than when you bought it	20%	12%

Base=457, those with a mortgage. Source: ASR Ltd, TNS

Against this negative backdrop, home ownership has fallen from a peak of 78% in January 2010 down to 69% in August 2012.

Table 13: Housing Tenure

base=1,004	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
I own it outright	20%	22%	18%	20%	19%	21%	22%
I am buying my home with the help of a mortgage or loan	53%	56%	55%	55%	53%	47%	47%
I pay rent	22%	18%	21%	20%	23%	25%	24%
I live with my parents / relatives (but don't pay rent)							6%
None of these	5%	4%	5%	6%	5%	7%	2%

Source: ASR Ltd, TNS

However, while the percentage of the panel who think that this is a good time to buy real estate has dwindled steadily over the past 3 years (from 74% in June 2009 to 56% in August 2012), **improved prospects for house prices could reverse this dynamic.**

Table 14: Do you think now is a good time to buy property or a good time to sell property?

base=1,004	Jun 2009	Jan 2010	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
This is a good time to buy property	74%	63%	67%	63%	59%	58%	56%
This is a good time to sell property	1%	2%	3%	2%	2%	4%	3%
Neither	18%	25%	20%	24%	25%	25%	27%
Don't know	7%	10%	9%	12%	14%	13%	15%
Net % Say Buy	**73%**	**62%**	**64%**	**61%**	**57%**	**54%**	**53%**

Source: ASR Ltd, TNS

At 17%, the net balance of our panel that think house prices could be higher in 12 months' time is the most positive since June 2010, and **could put a brake on deleveraging.**

Table 15: Thinking about the housing market, how do you think property prices will behave over next twelve months?

base=1,004	Jun 2010	Jan 2011	Jul 2011	Feb 2012	Aug 2012
Rise significantly	4%	3%	3%	3%	3%
Rise a little	31%	26%	17%	23%	28%
Remain more or less unchanged	38%	41%	35%	41%	39%
Fall a little	13%	13%	20%	15%	10%
Fall significantly	5%	5%	10%	5%	5%
Don't know	9%	11%	15%	14%	15%
Rise significantly or a little	*35%*	*30%*	*20%*	*26%*	*32%*
Fall significantly or a little	*18%*	*19%*	*30%*	*20%*	*14%*
Net % Think House Prices Will Rise	**17%**	**11%**	**-10%**	**7%**	**17%**

Source: ASR Ltd, TNS

Interestingly, 16% of those polled have not only experienced higher house prices over the past year, but they also expect prices to rise again in the coming year. Another 8% have seen house prices stabilize over the last year, and expect a rise in the coming year. In contrast only 12% of the panel are braced for two consecutive years of declines.

Table 16: House Prices Over the Last 12 Months, and Expectations for The Next 12 Months

	Over the next 12 months, I think house prices …			
Over the last 12 months, house prices …⇩	**Will Rise**	**Will Not change**	**Will Fall**	**Don't Know**
Have risen	16%	4%	1%	2%
Have stayed about the same	8%	18%	2%	2%
Have fallen	7%	16%	12%	3%
Don't know	1%	1%	0%	9%

Base=1,004. Source: ASR Ltd, TNS

ASR's Survey of U.S. Household Finances

Background

This is the seventh in a series of proprietary surveys commissioned by Absolute Strategy Research (ASR) to provide our clients with insight into U.S. consumer finances. First launched in June 2009 and conducted biannually, each survey analyzes the responses from 1,000 Americans of working age. The questions explore respondents' financial security; their saving, borrowing and access to credit; and their views on housing and retirement. The questionnaire goes beyond a typical "consumer confidence" survey because it attempts to explore the motivations behind and the perceptions of saving and borrowing decisions. We hope it complements the (less-timely) household balance-sheet data found in the U.S. National Accounts.

The Fieldwork

We commissioned TNS, the world's largest custom market research specialist, to conduct the fieldwork during the two weeks commencing August 2, 2012. Adults between 25 and 65 and living in the U.S. were surveyed about their spending and saving habits. The survey respondents took part in a Computer Assisted Web Interviewing survey, with quotas set on age, gender, region, household income, and education level; with rim weighting applied at the analysis stage to ensure that the profile of the final sample was as representative as possible. Please contact us for detailed methodology information.

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