

## L.E.K. Consumer Sentiment Survey 9: Confidence Remains Steady After a Long Climb Back

Consumer attitudes toward the economy and personal finances have climbed significantly since last fall. Although this news is encouraging, the majority of American consumers are still on the road to recovery, which is a stark contrast to affluent consumers who continue to lead all other demographics in spending power.

To assist our clients in developing their strategies to create value, grow and position themselves effectively for the future, L.E.K. Consulting surveyed 1,500 households to better understand consumer attitudes toward the economy, their finances and projected spending behaviors. This represents L.E.K. Consulting's ninth Consumer Sentiment Survey (CSS), which was conducted in September 2012. Initially launched in fall 2008, L.E.K.'s semi-annual survey also tracks consumers' spending expectations for the next six months across key industries by income group.

### Tracking Consumer Sentiment

Consumer outlook on both the economy and their personal finances are at four-year highs based on L.E.K. CSS trending data. When asked about economic conditions and personal finances, consumers reported a significant improvement in sentiment in these areas in the spring 2012 report, with only marginal increases reported in the latest L.E.K. CSS report (fall 2012).

The perception of economic conditions for the next six months is still slightly negative overall, but the trend continues to move upwards. L.E.K. found that only a small portion of respondents expect the economy to improve compared to the spring 2012 survey. This is a much smaller shift than the net 28.8% improvement in percent of consumers who said they expect the economy to improve between the fall 2011 and spring 2012 surveys.

Separately, consumers also expect their personal financial situations to improve – a net positive increase of 12.2% of respondents since the fall 2011 L.E.K. CSS, with only a nominal upturn reported in the latest findings. Affluent consumers have the most optimistic outlook on their personal finances for the next six months, while the lowest-income households are the least optimistic (see Figure 1).

Overall, optimism in both the economy and personal finances are still pointed in the right direction. A takeaway from the nominal shift in sentiment tracked in the latest L.E.K. survey shows that a significant segment of the population continues to feel economic pressures and have a fair amount of uncertainty in the factors that impact their confidence and wallets.

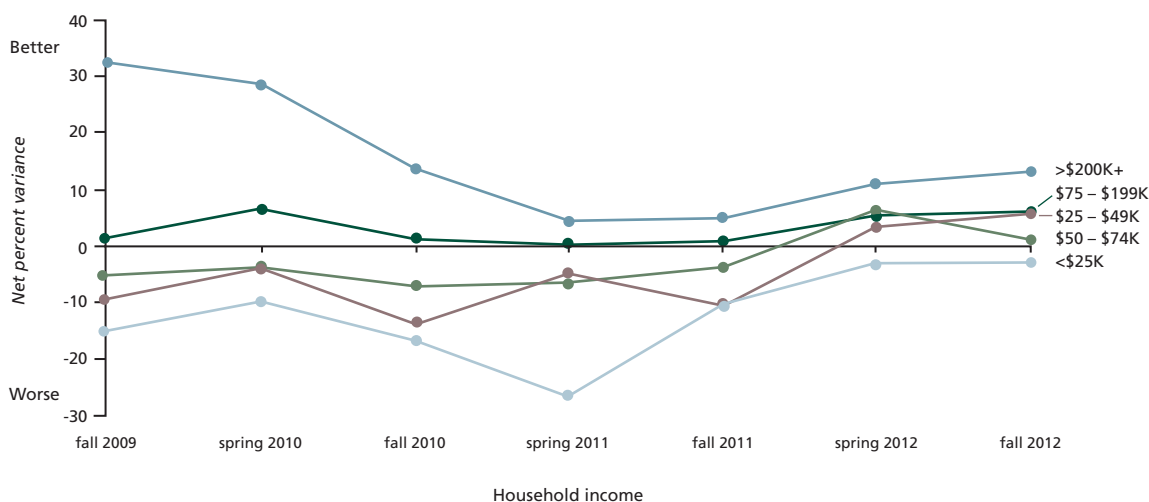
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Figure 1

Sentiment on Expected Personal Finances by Household Income – Today vs. Six Months in the Future



Source: L.E.K. Consumer Sentiment Survey, September 2012

## Six-Month Consumer Spending Forecast

While consumer sentiment is improving in some areas, this optimism is not projected to translate to material spending growth. For the second consecutive L.E.K. CSS, consumers say that they plan to trim their spending during the next six months by 2.6%. When survey response biases are taken into consideration, this magnitude of expected change in spending translates into muted growth similar to what retail sales have experienced in the last six months.

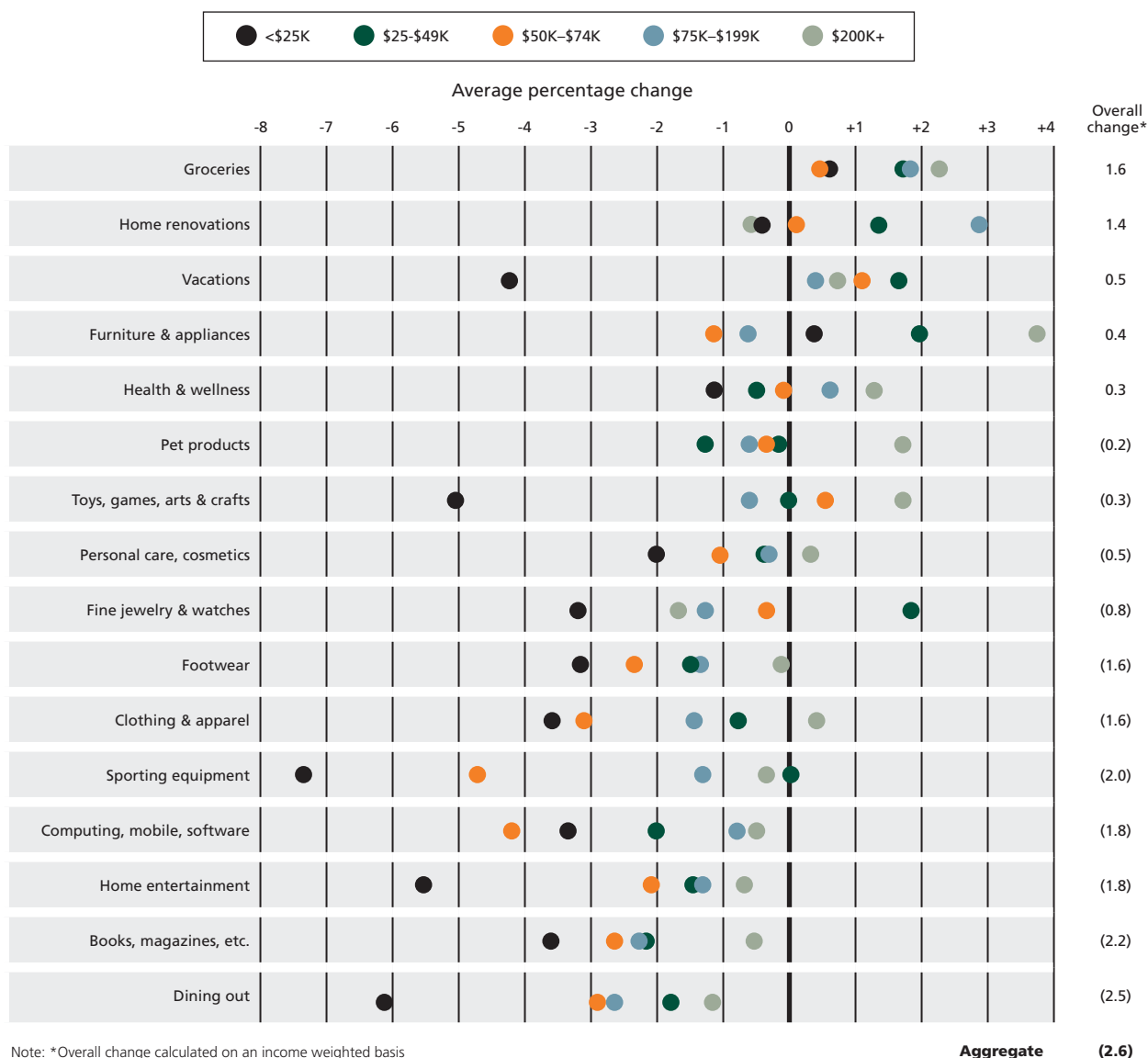
L.E.K. continues to see that growth in overall spending expectations is aligned with household income, with lower income groups pulling back more on spending than other demographics. Among affluent consumers with household incomes above \$200K, 27% plan to increase spending during this time period while a significant portion of this group expect their spending to stay the same. In the \$75K-\$199K income demographic, a similar percentage of respondents expect to increase their spending, although there is a larger percentage who expect to trim their spending compared to affluent consumers.

As households earning greater than \$75K constitute ~57% of total consumer spending, these results point to meaningful pockets of expenditure that could be accessed by companies who can effectively position their products and services to these groups.

Additionally, although lower income groups as a whole plan to cut their spending more than other income demographics, there are pockets of opportunity in the <\$25K-\$74K income group as approximately one-quarter of respondents expect to increase their spending.

Consumers who are planning to spend less cite economic uncertainty and price increases in gas and food as primary reasons. By contrast, consumers who plan to spend more believe that they will be earning more money and are optimistic that the value of their financial assets and homes will increase.

**Figure 2**  
Expected Change in Spending Within the Next Six Months  
by Category and Income Level



Note: \*Overall change calculated on an income weighted basis

Source: L.E.K. Consumer Sentiment Survey, September 2012

## Targeted Opportunities in Multiple Categories

L.E.K. asked consumers to share their projected spending across 16 categories during the next half year. Our findings identify likely purchasing patterns by income bracket across multiple sectors (see Figure 2).

According to consumer responses, spending projections for the next six months have improved significantly since the fall

2011 L.E.K. CSS when consumers only planned to increase their purchasing on groceries. This fall, there are net positive spending projections in five categories – nearly one-third of categories that we track: furniture & appliances, groceries, health & wellness, home renovations and vacations. Notably, households \$200K+ and \$75K-\$199K have shown the most dramatic positive change in projected year-over-year spending.

## Key Takeaways and Implications

U.S. consumer expectations on economic conditions and personal finances have reached four-year highs, which are both encouraging signs. Compared to a year ago, consumers may be slightly more willing to spend on discretionary items. However, most consumers will continue to look carefully at most purchases as they have become experts at recognizing good value across market categories and when it makes sense for them to spend. In other words, consumers are too smart (and persistent) these days to pay for something that is just “ordinary.”

Winning consumers in this environment requires companies to deliver products and services that clearly address the specific needs of individual market segments. These offerings must have a full package of attributes to win – innovation, quality, relevant (to them) value-add attributes, fair pricing, emotional and/or brand appeal – that compel consumers to select them from among the crowd of viable alternatives. Companies that can do this should be able to exploit pockets of opportunity in an otherwise still challenging environment.

**L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded nearly 30 years ago, L.E.K. employs more than 1,000 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns.**

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