



# The New Normal Revisited

*No More Smoke and Mirrors*

*By* JAMES O. MITCHEL, PH.D., CEBS  
*Vice President and Director,  
Developmental Research, LIMRA*

# Now's the Time for Real Change and Innovation

**T**here was a lot of talk about the Great Recession creating a “New Normal” for consumers back in 2009. At that time, I wrote an article in this magazine’s pages looking at the evidence for a fundamentally changed consumer (“The New Normal: Myth or Reality?” *LIMRA’s MarketFacts Quarterly*, Fall 2009).

It is now almost two years since the official end of the recession (June 2009). With this time passage, we should be able to determine whether consumers are fundamentally changed. This perspective is important because companies need to know if they should respond with different products and different sales approaches.

The premise of the New Normal (as stated in my prior article) is that consumers — in response to the massive economic downturn — will *permanently*:

- Take more financial responsibility
- Spend less and save more
- Abandon investing in equities in favor of fixed income investments
- View financial institutions with fear and caution.

## Economic Changes

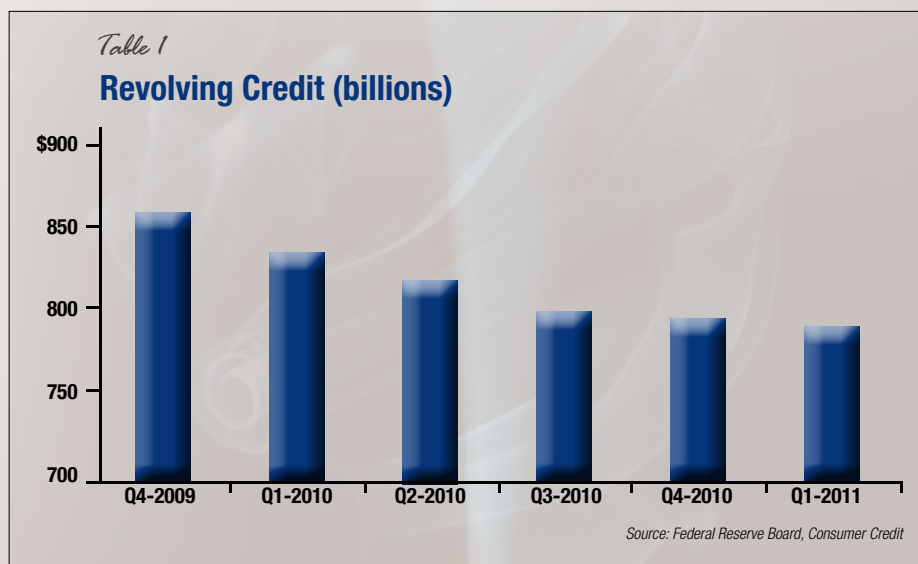
The Great Recession lasted from December 2007 through June 2009, and there is no doubt that consumers were impacted. All four premises of the New Normal did change during the downturn. Consumers did show more financial responsibility: They cut back buying on credit, and, as a result, revolving credit went down (Figure 1).

During the recession, consumers did spend less and save more (Figure 2 and Figure 3), and their personal balance sheets are getting better in shape. Federal Reserve Board (FRB) data shows that consumers have reduced the

ratio of debt to disposable personal income. The FRB computes a Debt Service Ratio that compares debt payments with disposable personal income. The ratio has steadily declined since the third quarter of 2007 through the end of 2010 and is below its 30-year average.

Inflow into bond mutual funds exceeded inflow into equity mutual funds as consumers switched to more conservative fixed-income investments (Figure 4). Confidence in financial service companies has remained low. From October 2008 through October 2010, fewer than 20 percent of consumers expressed “an extreme amount” or “quite a bit” of confidence in financial institutions — with, as reported in the *LIMRA Consumer Sentiment Tracking Study, October 2010*, the exception of community banks and credit unions.

While the economic data show different consumer behavior during the recession, they also show change after the Great Recession officially ended in June 2009. In prior recessions, there were similar declines followed by a recovery (this was noted in the “The New Normal: Myth or Reality” 2009 article, where I suggested that changes may be only temporary). Nonetheless, those who argue for a New Normal state that the current recovery is slower than past recoveries. Such slow recovery warrants examination.



### It's Back to the "Same Old" (for Most)

*Many worry the severity of the 2008 crisis will result in a watershed increase in consumer frugality. Early evidence suggests rumors of the U.S. consumer's death may once again be premature. Although real consumption spending has been less during the first 18 months of this recovery compared to other recoveries in the post-war era, when adjusted for the level of job (and thus income) creation, real spending has been above average compared to eight recoveries since 1970. That is, weaker real consumer spending in the current recovery does not appear to be evidence of newfound frugality, but rather simply reflects slower job creation.*

—James Paulsen, Chief Investment Strategist  
(Commenting in Wells Capital Management's "Economy and Market Perspective", Issue 1, 2011)

Although, as Figure 3 indicates, the savings rate rose to 7 percent in the second quarter of 2009 (at the end of the recession), it has since flattened. The decline in revolving credit shown in Figure 1 is also misleading. Revolving credit is not down simply because consumers are becoming more aggressive in paying off their debt. Revolving credit is falling, in part, because lenders have given up collecting large chunks of it, and — as Daniel Gross notes in the March 2011 *Yahoo!* finance

article "How Can Retail Sales Rise While Credit Card Balances Decline?"— creditors are charging it off as *bad debt*. Gross writes that, from the end of 2008 to the middle of 2010, revolving credit balances fell by \$132 billion — however, over that same time period, companies wrote off more than \$124 billion in bad debt.

Finally, while it may be too soon to say it is permanent, note that Figure 4 shows that inflows switched from bonds to equities toward the end of 2010.

All the premises of the New Normal appear to have bounced back, except consumer confidence in companies (which at the end of 2010 was still below July 2008). Consumers still believe the economy is in poor shape. In January 2011, 67 percent of consumers felt the economy was very or somewhat unfavorable. While negative, it is down from 90 percent in October 2008 according to the *LIMRA Consumer Sentiment Tracking Study*. One explanation is that the negative opinions are driven by the stagnant unemployment that has been near 9 percent for so long (Figure 5).

Right now, consumers do not see things turning around in 2011. The January 2011 *LIMRA Consumer Sentiment Tracking Study* found:

- Only 32 percent of Americans think the economy will improve next year
- 45 percent disagree with the statement that they will have spent more in 2011 than in 2010

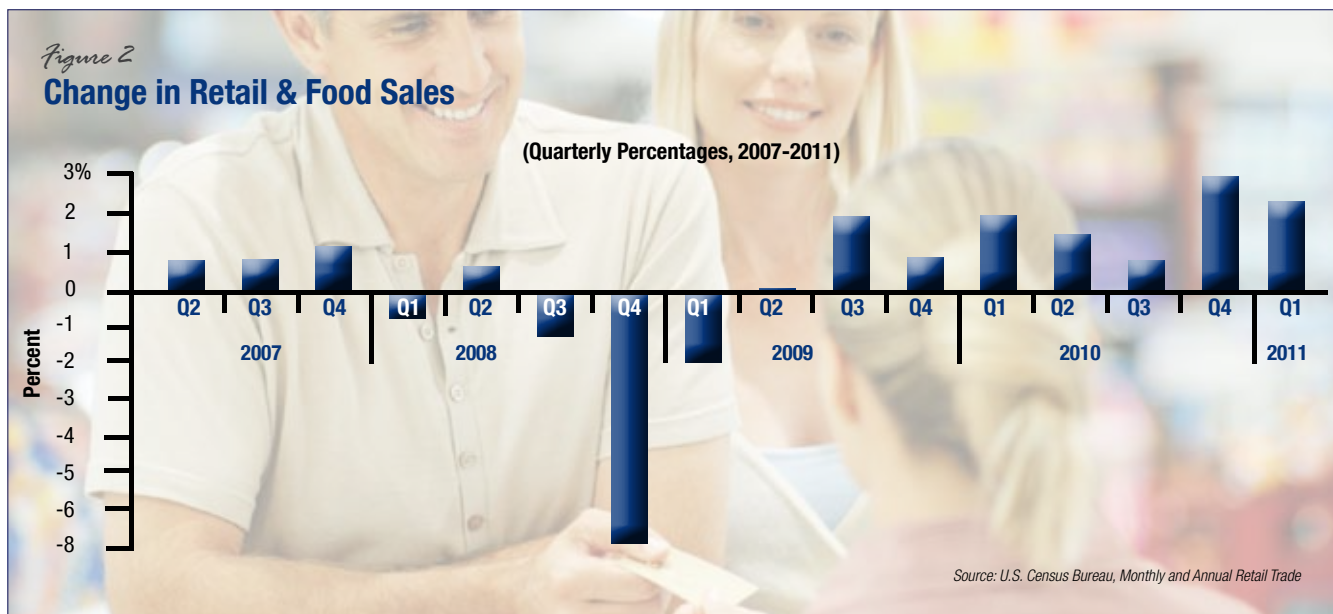
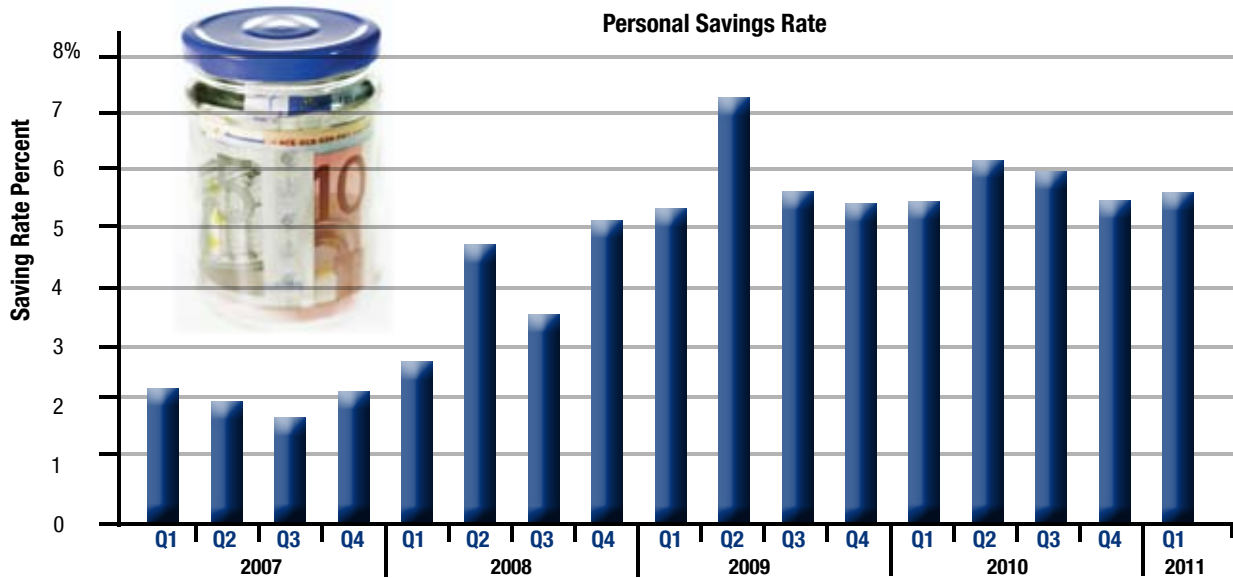


Figure 3

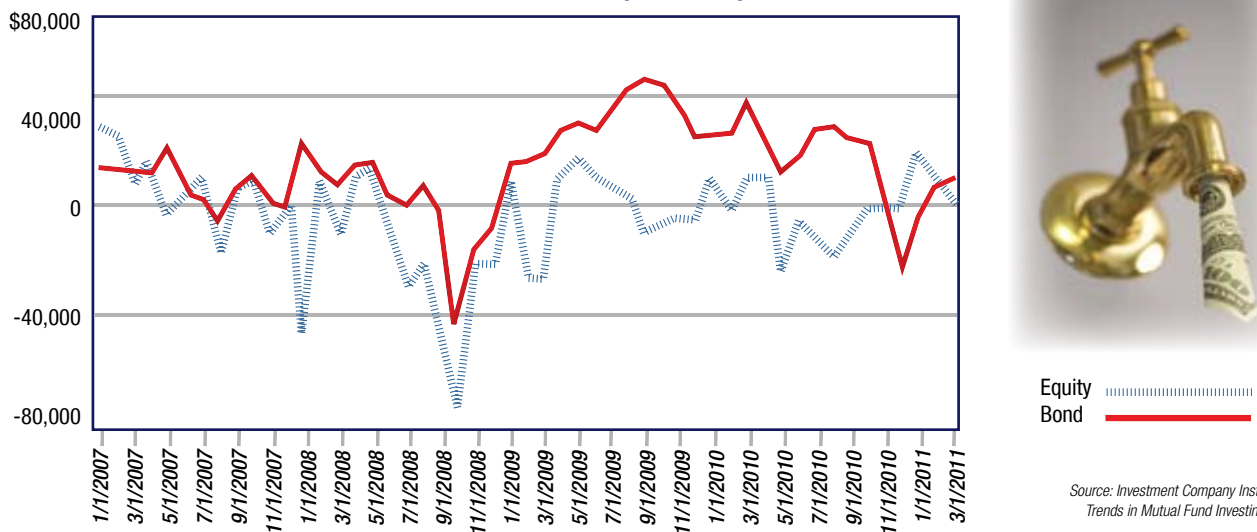
### Increase of Consumer Personal Savings



Source: Bureau of Economic Analysis, Personal Income and Outlays

Figure 4

### Net New Cash Flow into Mutual Funds (millions)



Source: Investment Company Institute, Trends in Mutual Fund Investing

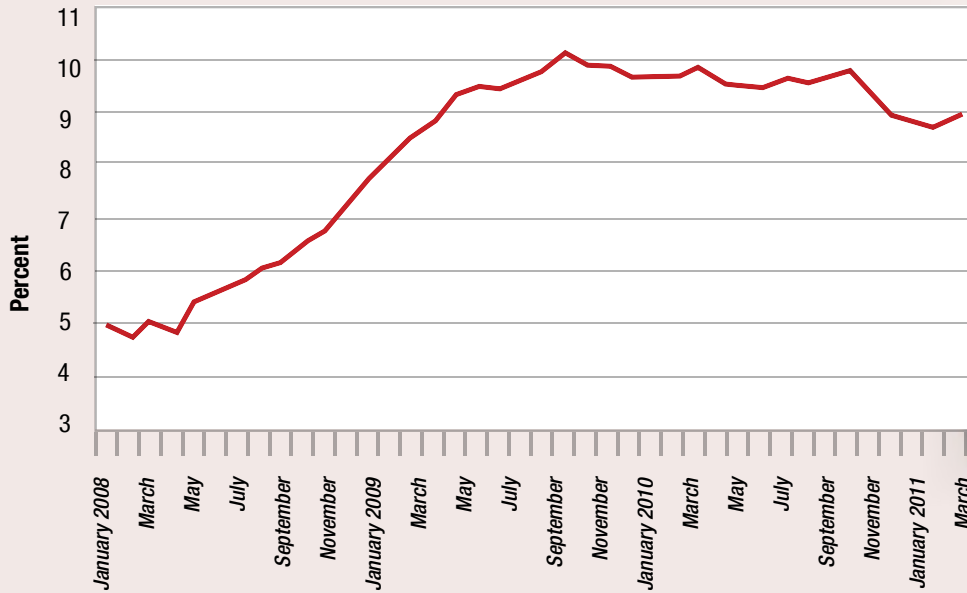
The Great Recession was severe, but it impacted people differently — the overall figures mask the differential impact. The Pew Research Center, in its September 2010 *One Recession, Two Americas* report, estimates that 55 percent of Americans suffered significantly because of the recession — unemployment, mortgage troubles, shrinking paychecks, etc. The January 2011 LIMRA

Consumer Sentiment Tracking Study found similar results, with 49 percent indicating that the recession had a negative or significant negative impact on their personal financial situation. The impact could have been short-term, such as a few months of unemployment or a decline in the value of their retirement savings until the recent upturn in the equity markets. It is easier

Figure 5

**Unemployment Rate**

(January 2008-March 2011)



Source: Bureau of Labor Statistics

to bounce back from a short-term setback than from longer-term one.

Those who were out of work for a long time or had their house foreclosed could be permanently impacted by the Great Recession. For them, it may well be a New Normal. As the *LIMRA Consumer Sentiment Tracking Study, October 2010* notes, 20 percent to 25 percent of these people say their savings and spending habits are permanently changed because of the recession.

We can conclude that for most people, the thrifty activities undertaken during the Great Recession were a temporary adjustment. Now that the recovery is underway, it is back to normal ... but with a bit of caution. After all, someone with friends and relatives still looking for work, facing foreclosure, or enduring wage and benefit give-backs might be unlikely to see a robust economy. Until job creation picks up, we can expect some skeptical

opinions. In addition, for those who are unemployed, we can expect continued frugality — at least until they are back to work. Nevertheless, for the majority, the New Normal is no longer relevant.



**Industry Reaction**

The industry felt the impact of the recession with declining sales in 2008 and 2009. Many companies laid off employees, and a few took Troubled Asset Relief Program (TARP) money to bolster their financial situation. As the recovery began, 2010 showed only limited improvement.

Table 1 show 2010 sales results in our industry. Individual life new premium was only at 2003 levels, new fixed annuity considerations were down significantly, new group premium was mostly flat, and recruiting was down for the first time in several years.

The impact of the temporary

New Normal behavior is evident. Secondary guaranteed UL products had a good run, but are sliding. Indexed products are doing well with their downside protection. But their success could be just a function of the current low interest rates. Recruiting was up for a couple of years but has fallen back.

In retrospect, with minor exceptions, the industry's strategy seemed to just hunker down and wait out the recession — rather than make any tactical response. This may turn out to be a poor strategy.

Hard economic times expose weaknesses in companies and industries. Good management recognizes the weaknesses and makes changes to correct them, rather than just cutting expenses and waiting for times to get better. While the New Normal may have been a myth and the changes only temporary, it could be a big mistake for company management to just plan to do things as they always have as the economy recovers.

There are fundamental changes going on beyond the New Normal that must be addressed. Key socioeconomic trends — as identified in the LIMRA and Society of Actuaries 2011 joint study *Guaranteed Uncertainty: Socioeconomic Influences on Product Development and Distribution in the Life Insurance Industry* — are influencing the need and demand for the indus-

Table 2

## 2010 Financial Services Sales Results

		Change over 2009
Individual Life New Premium	Total	+4%
	Guaranteed UL	-5%
	Non-guaranteed UL Indexed	+27%
Annuities New Considerations	Fixed	-27%
	Indexed	+7%
	Variable	+10%
Group Insurance New Premium*	Life	-1%
	Disability Income	0%
	Long-Term Care	+24%
Recruiting	U.S. Career	-7%

\* Through third quarter, 2010

Source: LIMRA (2011)



try's products and services. These trends will influence product development and distribution into the future. Companies should prepare for the possibility that demand for individual life insurance could continue to drop and that consumers will probably rely less and less on agents and brokers to purchase products.

Some appropriate responses to a decline in demand would be:

- Develop innovative products that will appeal to customers
- Find new purposes for existing products
- Open new markets
- Make adjustments to distribution

Nonetheless, these changes are *not* happening. There is not much evidence companies are introducing and

developing new products. And, as LIMRA's 2011 *New Product Development: 2010* report indicates, changes that are being made are mostly just modifications to existing products. Likewise, companies are not making changes to their distribution mix.

Opportunity is out there. As the January 2011 *LIMRA Consumer Sentiment Tracking Study* states, 90 percent of consumers are not where they want to be financially and these consumers today need our help.

The easy strategy is to believe the New Normal was just a myth and that change is not needed — however, that is not the case: Real change is needed. Now is the time for innovation. As companies plan their strategy, the conclusive message is this: Believe that “anything is on the table” and, for significant growth to occur, real changes have to be made. 🌐



**James O. Mitchel, Ph.D., CEBS**, Vice President and Director, Developmental Research, for LIMRA. Mitchel and his staff conduct exploratory research in the United States and Canada focused on new and developing areas within the financial services industry. He also is responsible for research in the affluent market. Prior to assuming his present position, Mitchel held positions as vice president, markets research, corporate vice president and director of Industry Research, and prior to that he headed LIMRA's Decision Resources unit. He joined LIMRA in 1974 as an associate scientist in Developmental Research. Mitchel has directed more than 100 research projects for individual companies and has authored more than 20 articles, which have appeared in such publications as the *Journal of Applied Psychology*, *Journal of Financial Service Professionals*, *Best's Review*, *MDRT's Round the Table*, *Journal of Financial Services Marketing*, and *LIMRA's MarketFacts Quarterly*. He is a member of the American Psychological Association - Division 14 (Society of Industrial and Organizational Psychology), the American Marketing Association, and the American Statistical Association. Also, he is on the adjunct faculty of Central Connecticut State University. Mitchel holds a Ph.D. in industrial and organizational psychology from Bowling Green State University. He can be reached at 860-285-7745 (email, [jmitchel@limra.com](mailto:jmitchel@limra.com)).