

## INTRODUCING THE USA

For the first time, the Genworth Index of consumer vulnerability was extended beyond Europe in 2009 to the USA.

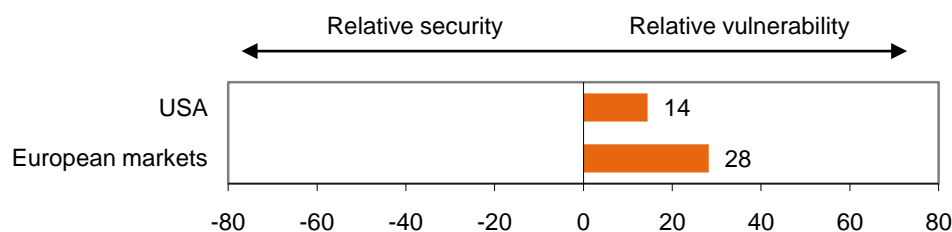
The world's largest economy may be emerging from its worst recession since the 1930s. The economy contracted by 1.0 per cent in the second quarter of the year, a visible improvement from the -6.4 per cent in the first quarter of 2009. The economy may return to growth in the second quarter. However with consumers still handicapped by credit restrictions, a backlog of high debts and high unemployment, the economy may be some way from a sustainable recovery.

Falls in house prices combined with high loan-to-value mortgage ratios have left a fifth of households in negative equity – where the value of their home is less than the debt owed on it. Lenders launched foreclosure proceedings on a record 1.5 million properties in the first half of 2009, or one in every 84 households. This decline in property values together with falls in US share prices and rising numbers of job losses have seen large amounts of household wealth wiped out, making it harder for consumers to meet other debts.

The level of people behind on their loans hit a new high in the first three months of 2009. Those more than 30 days overdue rose to 3.23 per cent from 3.22 per cent in the previous quarter. The ratio of consumer credit to disposable personal income is close to all-time highs at around 24 per cent and volumes of new loans have shrunk as households have cut back on borrowing.

The jobless rate has doubled from 4.4 per cent in March 2007 to 9.4 per cent in July 2009.

**Figure 17: Vital statistics, USA**



	Percentage in each group (row per cent)				Index score
	Financially vulnerable	Strivers	Circumspect	Financially secure	
USA	20	20	49	10	14
European markets	24	12	58	7	28

Given the harsh economic climate in the USA of recent months, it is perhaps surprising that relative financial vulnerability was lower in the USA at 14 points on the Index compared with the average of 28 points for the 14 European countries. Nonetheless, this above-zero score shows that the overall picture in the USA was one of consumer vulnerability rather than security. Of all the individual European markets surveyed, the Index score for Great Britain (10 points) is most similar to the USA.

This comparatively low consumer vulnerability score reflects the finding that a smaller proportion of households in the USA were financially vulnerable (20 per cent) and slightly more households were financially secure (10 per cent) compared with households in Europe (24 per cent and seven per cent respectively). Although the Index scores for Great Britain and the USA are similar and the proportions of secure households are similar, the percentage of households that were financially vulnerable is substantially higher in the USA compared with Great Britain.

Turning to the two remaining segments, the figures above show that proportionately there were more strivers in the USA (20 per cent) than in Europe overall (12 per cent), and fewer households that were circumspect (49 per cent compared with 58 per cent). And taking into account these proportions, it is clear that the profile of US householders in terms of the breakdown of the segments is unlike that of any single European country surveyed.

Taken together, the findings suggest that it is comparatively more optimistic expectations for the future financial position of the household that is driving the more positive picture in the USA overall. Further examination of the data confirms this to be the case: overall some 31 per cent of US households expected the financial situation of their household to improve, compared with just 18 per cent of their counterparts in Europe (see Table A.1). In contrast, the experience of current financial difficulties in the USA was broadly similar to those in the Europe.