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Recession Fears Mount as Holiday Shopping Season Hits Full Stride

Nearly One-Third of Americans Plan to Spend Less This Holiday Season; Americans Show Signs of Financial Discipline in the New Year

DES MOINES, Iowa, Dec. 3, 2007 — Volatile economic conditions and fear of a looming recession are weighing on the minds of Americans as they descend on shopping malls and online shopping sites this holiday season. The majority of American workers (71 percent) and retirees (72 percent) said they believe that the economy has fallen into a recession or fear that it is headed in that direction, according to the latest Principal Financial Well-Being IndexSM. More than one-third of workers (37 percent) expressed concern about their own job security, up significantly from second quarter this year, when only 22 percent of workers expressed concern.

The index, which surveys American workers at growing businesses with 10 to 1,000 employees, is released each quarter by the Principal Financial Group[®] and conducted by Harris Interactive[®]. The index also surveys retired Americans in recognition of the retiring baby boomer generation.

According to the survey, if an economic slowdown forced workers and retirees to reduce their spending, more than three-fourths of workers (76 percent) and 49 percent of retirees say they would eat out less often. Both groups said they would cut back on buying clothing and consumer goods (69 percent of workers and 49 percent of retirees). Almost two-thirds of workers (63 percent) and more than one-third of retirees (39 percent) say they would cut back on entertainment to reduce spending, such as going to movies and concerts. Americans even indicated they would go as far as reducing their coffee intake — more than one-fourth of workers (27 percent) said they would purchase coffee less often. Finally, 11 percent of workers indicated they would lower their retirement plan contribution rate.

“Uncertainty about the direction of the economy clearly is top of mind as Americans navigate the holiday shopping season, which has turned into a gift giving extravaganza,” said Dan Houston, executive vice president of Retirement and Investor Services, The Principal. “Americans are underestimating their real spending. To get on solid financial footing, I recommend that every person set a budget, prioritize gift purchases and use a high degree of fiscal discipline.”

Spending for the Holidays

Americans are planning to tighten their financial belts when it comes to spending during the holidays. When asked about their intentions for spending this holiday season, 29 percent of workers and retirees indicated they plan to spend less money than last year. More than half of workers (59 percent) and nearly two-thirds of retirees (64 percent) plan to spend the same amount as last year while 12 percent of workers and 7 percent of retirees plan to spend more money. According to the survey, nearly half of workers and retirees (49 percent and 46 percent, respectively) are planning to spend between \$101 and \$500 throughout the holiday season. Just more than one-fourth of workers (27 percent) and less than one-fourth of retirees (22 percent) plan to spend between \$501 and \$1,000 this holiday season.

Stepping Into the New Year—Financial Resolutions

Americans were given a list of potential financial resolutions they intend to make as New Year’s resolutions in 2008. The top two resolutions selected by workers were paying off credit card debt (40 percent), followed by putting a set amount of money into savings each month (39 percent). Compared with fourth quarter 2006, significantly more workers are making resolutions to save more each month (39 percent, up 6 percentage points from 2006) and to stop using their credit cards (22 percent, up 4 percentage points from 2006). Less than one-fourth of workers (23 percent) indicated they do not intend to make a resolution, and nearly half of retirees (49 percent) have no such plans.

“There still may be a financial hangover from last year’s holiday season,” Houston said. “American workers need to put retirement savings before buying the next plasma TV or cashmere sweater.”

Too Much Plastic?

The index also reveals that more than one-third of workers (39 percent) report having credit card debt between \$1 and \$5,000 compared to just 21 percent of retirees. While retirees have significantly more credit cards in their name for personal use than do workers, significantly more retirees than workers report having no credit card debt (66 percent versus 33 percent). More than one-third (34 percent) of retirees and 29 percent of workers reported they have five or more cards. However, when asked how many of these cards they use on a regular basis, only five percent of retirees and two percent of workers reported using five or more cards regularly. On average, retirees report having 4.4 credit cards in their name for personal use compared with workers (3.7).

Know Your Credit Score?

At least six out of 10 workers (66 percent) and retirees (62 percent) have ordered a credit report in the past. However, more than half of workers (51 percent) and six out of 10 retirees (61 percent) do not know their credit score, despite the fact that Americans can request a free annual credit report.

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Methodology. The Principal Financial Group®, the nation's 401(k) leader, commissioned Harris Interactive® to conduct online research with employees (ages 18+) of small and mid-sized (SMB) U.S. businesses (firm size 10 – 1,000 employees) about their attitudes and perceptions regarding their financial well-being and their current employee benefits. To compare responses, Harris Interactive also interviewed a group of retirees. Harris Interactive conducted The Principal Financial Well-Being Index survey online among 1,154 employees and 514 retirees from October 22 to October 30, 2007. Data were weighted to be representative of the entire population of adult employees working for small to mid-sized U.S. businesses and retirees on the basis of age by gender, education, race/ethnicity, region, income and propensity to be online. With a probability sample size of 1,154 and 514, one can say with 95 percent probability that the overall results would have a sampling error of ± 2.71 percentage points and ± 4.21 percentage points, respectively. Sampling error for data based on sub-samples may be higher and may vary. However, that does not take other sources of error into account. This online survey is not based on a probability sample, and therefore no theoretical sampling error can be calculated. This is one in a series of quarterly studies to identify and track changes in the workplace of small and mid-sized (growing) businesses. The first Principal Financial Well-Being IndexSM survey was conducted in the United States in 2000.

About the Principal Financial Group

The Principal Financial Group® (The Principal®)¹ is a leader in offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement and investment services, life and health insurance, and banking through its diverse family of financial services companies. A member of the Fortune 500, the Principal Financial Group has \$306 billion in assets under management² and serves some 18.3 million customers worldwide from offices in Asia, Australia, Europe, Latin America and the United States. Principal Financial Group, Inc. is traded on the New York Stock Exchange under the ticker symbol PFG. For more information, visit www.principal.com.

About Harris Interactive.

Harris Interactive is the 13th largest and one of the fastest-growing market research firms in the world. The company provides innovative research, insights and strategic advice to help its clients make more confident decisions which lead to measurable and enduring improvements in performance. Harris Interactive is widely known for *The Harris Poll*, one of the longest running, independent opinion polls and for pioneering online market research methods. The company has built what it believes to be the world's largest panel of survey respondents, the Harris Poll Online. Harris Interactive serves clients worldwide through its North American, European and Asian offices, and through a global network of independent market research firms. More information about Harris Interactive may be obtained at www.harrisinteractive.com.

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² As of September 30, 2007