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**Americans Feel the Pinch: Spending Behaviors Change as Consumer
Prices Continue to Rise**
*Americans Look to Pay Off Debts and Save — Not Spend —
Their Economic Stimulus Checks*

DES MOINES, Iowa, June 10, 2008 — As Americans continue to feel the pinch from rising consumer prices, more are pinching pennies when it comes to spending on everyday items, according to the latest Principal Financial Well-Being Index. In the past two months, more than half of workers (56 percent) and retirees (55 percent) say they have cut back on spending due to challenging economic conditions, a dramatic increase from just fourth-quarter 2007 (38 percent and 32 percent respectively).

The index, which surveys both American workers at growing businesses with 10 to 1,000 employees and retired Americans, is released each quarter by the Principal Financial Group® and conducted by Harris Interactive®.

“There is much debate today over whether or not we’re technically in a recession. Regardless, these findings show that a growing percentage of Americans are *feeling and behaving* like we are,” said Dan Houston, president of Retirement and Investor Services at The Principal®. “Fifty-eight percent of workers and 60 percent of retirees think we’re already there. That’s a sharp increase from just last quarter when only 42 percent of workers and 41 percent of retirees felt we were in a recession.”

What Goes Up ... Doesn’t Come Down?

Significantly more workers (57 percent) and retirees (56 percent) are worried that rising fuel costs could affect their summer vacation plans compared with last year at the same time (47 percent and 46 percent, respectively). To compensate for record-high prices at the pump, workers are making a number of changes. More than half of workers (56 percent) and retirees (56 percent) are driving less. Another 36 percent of workers and 27 percent of retirees have reduced spending on basic necessities; nine percent of workers and three percent of retirees carpool more often; and some are taking public transportation more often (six percent and five percent respectively). Only three percent of workers have cut back on contributions to retirement savings. Only seven percent of workers and three percent of retirees have fallen behind on monthly bills at this point.

But concern about rising prices is not limited to just filling up the gas tank. The majority of workers (81 percent) and retirees (76 percent) are spending up to \$100 a week more on

groceries now compared to just one year ago. Six out of 10 workers (61 percent) and nearly half of retirees (49 percent) say they are eating out less to offset increased grocery prices. About half of workers (55 percent) and retirees (47 percent) are buying store or generic brands more often, and 44 percent of both groups are clipping coupons. More than one-third of workers (37 percent) and retirees (35 percent) are sacrificing convenience and premium items for lower-cost alternatives. Another one-third of workers (36 percent) and retirees (34 percent) are bargain hunting at multiple stores in search of sales.

“Despite the pain at the pump and in the check-out lane, Americans must not only curb spending, but also keep their eyes on long-term financial goals,” Houston said. “We feel strongly that retirement savings is not discretionary and should be off limits as a source of liquidity during tough economic times. Fortunately, the message seems to be getting through.”

“Show me the Money” – Economic Stimulus Checks

Many Americans have or expect to receive a check from Uncle Sam as part of President Bush’s economic stimulus plan. “It’s encouraging that many Americans have disciplined plans for the money,” Houston said. Workers indicated they will use the rebate checks to pay down or pay off short-term debts (26 percent), save or invest the refund (25 percent), and pay monthly bills (23 percent). Another 15 percent plan to pay down or pay off longer-term debts. Retirees are planning to save or invest the refund (20 percent) or pay monthly bills (16 percent). Fortunately, Houston said, only 12 percent of workers and eight percent of retirees plan to spend their refund on clothing, electronics, etc., or splurge on a big-ticket item (six percent and two percent respectively). However, only 19 percent of workers and 14 percent of retirees agree Bush’s plan will stimulate the economy.

Preparing for a Rainy Day—Job Security Number One Concern

Significantly more workers (47 percent) ranked job security number one in importance compared to last year at the same time (39 percent). Forty-one percent of workers ranked long-term financial future as second most important (down from 49 percent), followed by challenging work (remaining steady at 12 percent).

Half of workers said they are concerned about the future of their company, with 36 percent who fear their company will make job cuts and nine percent who fear the company could go out of business altogether. When it comes to their *own* personal job security, however, less than a quarter of workers (24 percent) are concerned about losing their job.

“It’s interesting that workers are concerned about job security and job reduction, but most don’t think it will happen to them,” Houston said. “A building block of any good financial plan is

an emergency fund that can kick in to cover basic necessities given a job change or some other financial setback.”

According to the survey, more than half of workers (58 percent) and retirees (69 percent) said they have an emergency fund they can immediately access. Most workers (61 percent), however, indicated they could only cover up to four months of living expenses with their emergency fund. Less than one-third of workers (29 percent) and more than half of retirees (54 percent) could cover more than six months of living expenses.

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Methodology.

This Principal Financial Well-Being IndexSM survey was conducted online within the United States by Harris Interactive on behalf of the Principal Financial Group® between April 30 to May 7, 2008, among 1,117 employees and 673 retirees. This is one in a series of quarterly studies to identify and track changes in the workplace of small and midsize (growing) businesses. The first Principal Financial Well-Being IndexSM survey was conducted in the United States in 2000.

Employees consisted of adults 18+ who work at small and midsize (SMB) U.S. businesses (firm size 10-1,000 employees). Retirees consisted of adults aged 60+ who reported they are retired or those who are employed part-time or self-employed and have retired from a previous career. Results were weighted as needed for age by gender, education, race/ethnicity, education, region and household income. Propensity score weighting was also used to adjust for respondents’ propensity to be online.

All sample surveys and polls, whether or not they use probability sampling, are subject to multiple sources of error, which are most often not possible to quantify or estimate, including sampling error, coverage error, error associated with nonresponse, error associated with question wording and response options, and post-survey weighting and adjustments. Therefore, Harris Interactive avoids the words “margin of error” as they are misleading. All that can be calculated are different possible sampling errors with different probabilities for pure, unweighted, random samples with 100 percent response rates. These are only theoretical because no published polls come close to this ideal.

Respondents for this survey were selected from among those who have agreed to participate in Harris Interactive surveys. The data have been weighted to reflect the composition of the entire population of adult employees working for small to midsize U.S. businesses and retirees. Because the sample is based on those who agreed to be invited to participate in the Harris Interactive online research panel, no estimates of theoretical sampling error can be calculated.

About the Principal Financial Group

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² As of March 31, 2008