New consumer spending trend: "Gray is the new black"

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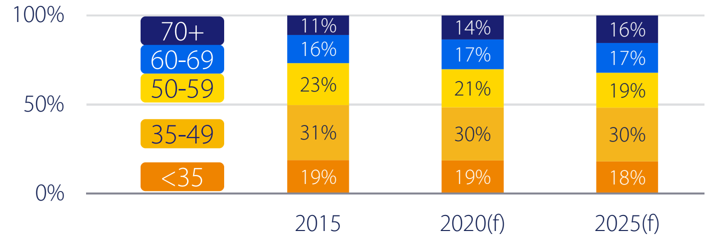
U.S. consumers born between 1946 and 1964 – Baby Boomers – will continue to drive consumer spending for the coming 5-10 years. Consumers over 50 constitute more than half of all U.S. spending, up from just over 40 percent in 2005. Demographics are partially responsible. There are more consumers over 50 than ten years ago. However, behavior changes are equally or even more responsible for the continued importance of spending among this population segment. Despite slowing population and labor force growth, Baby Boomers are staying in the workforce longer, taking on more debt and maintaining their discretionary spending.

It's not all about the millennials—baby boomers are still spending

- While spending among younger consumers is expected to decline over the next 10 years, older boomers should gradually spend more—with those aged 60+ reaching a 33 percent share by 2025.
- Gen X and millennials will continue to be important consumer targets—both for their current spending and longer-term loyalty—but the strongest future growth potential in spending lies firmly with baby boomers.

Distribution of aggregate spending (By age)

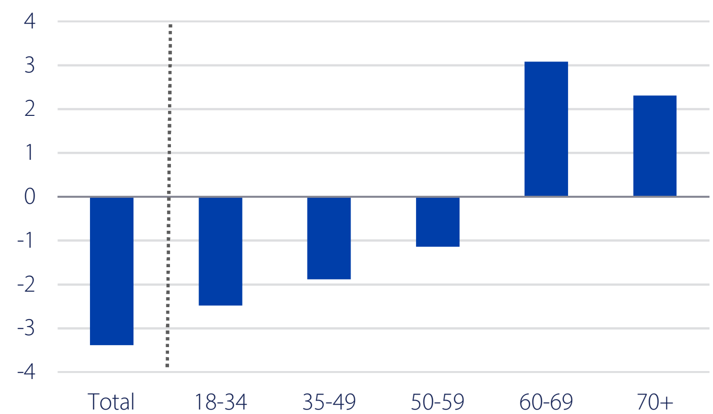


Source: Bureau of Labor Statistics, Consumer Expenditure Survey 2005, 2015; Visa Business & Economic Insights

Demographics *and* behavioral factors both contribute to spending increases

- The labor force is still growing, but at a slower rate than 10 years ago. The labor force is expected to grow by 8.5 million between 2012-2022, down from an increase of 10.1 million in the previous 10-year period.
- At the same time, labor force participation* is declining—decreasing to 61.6 percent projected in 2022 from 62.6 percent in 2015 and 67 percent in 2000.
- Participation is generally lower for those aged 60+, but they also are the only age group showing growth. The declines in other age groups are the result of increased numbers of people on disability, going to college (millennials), lacking the right skills, and other factors.
- Women are also undergoing a workplace shift. More millennial and Gen X women are leaving (likely due to a lack of parental leave and affordable childcare), while boomer women are increasing their participation—projected to reach over 64 percent of women aged 55-64 in 2022, up from 59 percent in 2012.

Labor force participation rate
(By age, percentage point change, 2005-2015)



Source: BLS Current Population Survey; Visa Business & Economic Insights

* People actively participating as a percent of those eligible to participate in the labor force – 16 years and older.

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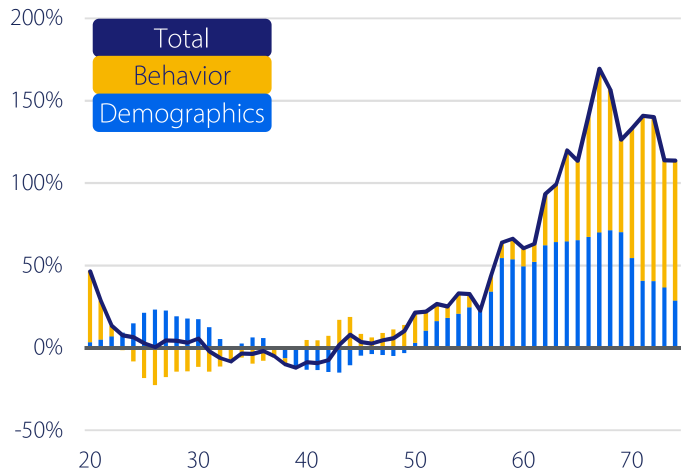
Debt patterns among baby boomers are shifting

- Boomers have taken on more debt over the past 10-15 years—increasing 60 percent between 2003-2015 for those aged 50-80. This is partly a demographic trend, since there are more consumers over the age of 50.
- However, more than half of consumer debt among those 65 and over is behavioral and attributed to the amount of mortgage, credit card, auto loan, student loan and home equity debt they choose to carry.
- Older borrowers hold higher per capita balances in every debt category except credit card debt. Although they are less likely to revolve on their credit cards, those that do are more likely to carry a higher balance.
- There is a downside risk that increased debt, combined with a continued hangover from the housing crisis and increasing healthcare expenditures, could result in an increased credit risk among baby boomers.

Change in total debt
(By age, percent change, 2003-2015)

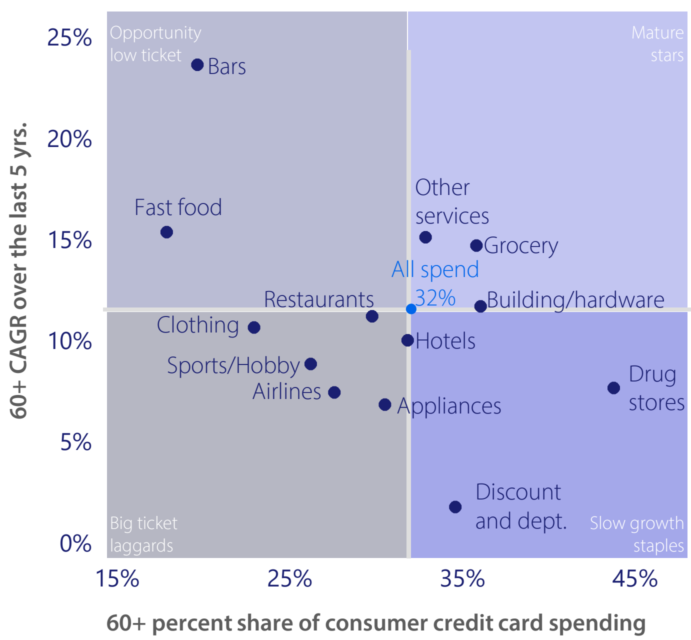


Source: NY Federal Reserve "The Graying of American Debt", 2016

Boomer spending patterns are changing, too

- As boomers stay in the work place longer, their spending habits appear to be changing, requiring merchants and retailers to adapt as well:
    - Fast food—which has typically been a low growth, low opportunity category among the age group—is in a period of rapid growth.
    - Grocery spending, a strong, mature category for boomers, is experiencing above average growth.
    - Drug stores, discount stores and department stores, which are also over-represented among 60+ consumers, are experiencing slower than normal growth, a possible indication that more marketing investment to this group is necessary.
    - Areas that have low penetration and low growth potential among those 60+ include sports/hobby, clothing retail and airline travel.
- Older consumers are also engaged online via computers, smart phones and other devices, leading to a strong card-not-present share of Visa credit spend—40 percent for consumers aged 60-69; only slightly lower than the overall average CNP of 40.3 percent.

Visa consumer credit spending
(Share in H1 2016, Growth is CAGR H1 2011-H1 2016)



Source: Transunion; Visa Business & Economic Insights