

# The Macroeconomics of Fundraising

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# The Macroeconomics of Fundraising

## Understanding How Economic Conditions Affect Your Success

### Microeconomics

\ˈmī-(,)krō-, e-kə-ˈnä-miks, -ē-kə-\

The study of the economic decisions and actions of individual people, companies, etc. <sup>1</sup>

### Macroeconomics

\ˈma-krō-, e-kə-ˈnä-miks, -ē-kə-\

The study of the large economic systems of a country or region. <sup>2</sup>

## Microeconomics versus Macroeconomics

Most fundraisers are well versed in the microeconomics of their programs. They understand the factors that affect their everyday business decisions: RFM segmentation, response rates, average gifts, postage rate changes. They know how these factors influence decisions about hiring, expansion, and budgeting.

Few fundraisers take a step back to consider how macroeconomic factors also affect their results.

The nonprofit sector is not an island; it is a part of the broader economy. It represents about 5% of that economy in the United States, both in the form of the goods and services that nonprofits provide, as well as the amount of money that individuals and institutions spend on nonprofits. The macroeconomic factors that influence the rest of the U.S. economy necessarily influence the nonprofit sector as well, and often have a significant impact on the success—or failure—of fundraising efforts.

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## Macroeconomic Factors and Nonprofit Fundraising

There are many external factors that can affect movement in charitable giving. And different external factors can affect different industry sectors and different donor populations in different ways. But there are a few economic indicators that rise above the rest to be universally useful for monitoring and explaining, and sometimes even predicting, donor behavior.

The Giving USA Foundation, which publishes *Giving USA*, the national standard for reporting on American charitable giving, has done intensive research to find the best possible model for estimating annual revenue. They have found that three of the factors with the strongest relationship to individual charitable giving are: **income** (which is represented roughly in this analysis by the Gross Domestic Product), **wealth** (which is represented roughly in this analysis by the S&P 500 Index), and **tax policy** (since charitable giving rises when charitable tax deductions are higher)<sup>3</sup>. Of these, the S&P 500 Index is actually the strongest predictor of changes in charitable giving.

The bulk of charitable contributions in the United States come from high-income and high-net-worth individuals. These are the people who tend to itemize their tax deductions; they invest disproportionately more in the companies listed in the S&P 500; and their charitable giving behavior is disproportionately affected by changes in tax policy.

In our own donorCentrics Index of Direct Marketing Fundraising, which focuses on small and mid-range direct marketing gifts of less than \$10,000, we have seen that overall revenue trends for these more typical donors still follow changes in GDP and the S&P 500 quite closely.

We have also found in our own research that **interest rates** can provide some context for revenue changes as well, and that **unemployment rates** and **population growth** can also be helpful in understanding changes in donor numbers.

We will examine these factors in detail on the following pages.

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## Gross Domestic Product

Gross Domestic Product, or GDP, is one of the most helpful indicators for tracking and explaining changes in revenue across the nonprofit industry.

GDP measures the total market value of all goods and services produced domestically in a given time period. This means that it essentially represents the amount of money being *spent* in the entire national economy—which allows it to serve as a rough parallel to changes in national *income*, and as a general proxy for overall economic health.

Research by the Giving USA Foundation tells us that charitable giving revenue growth rises during periods of strong economic growth (when GDP is growing well) and slows or even falls during periods of relative economic weakness (when GDP is sluggish or declining)<sup>4</sup>. As the Foundation says, “Giving by individuals is closely linked with income and wealth, and the willingness of individuals and households to give to charity is also associated with financial security. As the economy continues to trend upwards at a moderate rate, contributions from individuals also continue to rise.”<sup>5</sup>

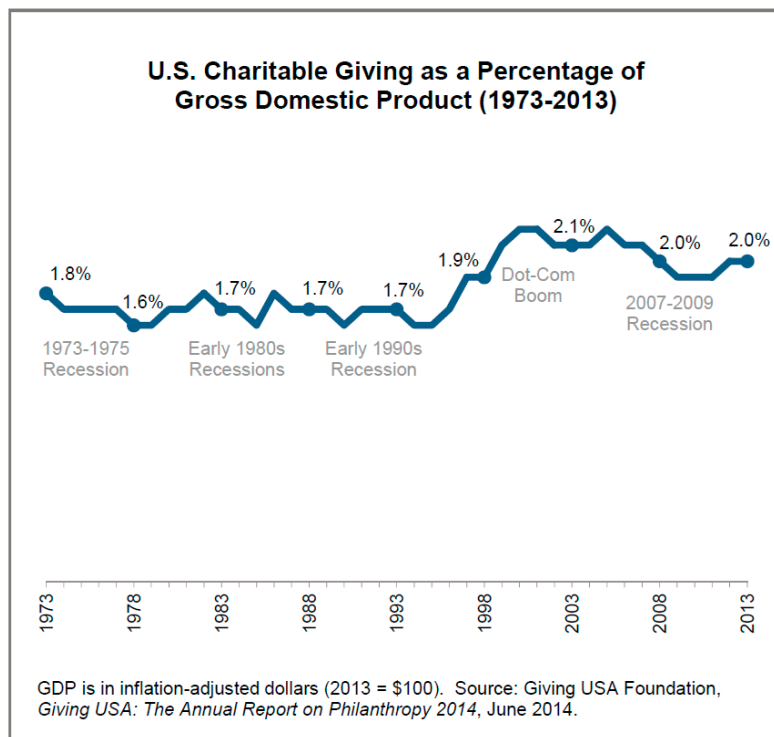
Non-profit giving is not limited to a simple up-and-down correlation with GDP, however. The Foundation has reported in their publication *Giving USA* that during harder economic times, charitable giving falls as a *percentage* of GDP<sup>6</sup>. Charitable giving in the United States has been about 2% of total GDP for more than forty years. In boom times it has reached as high as 2.3%, and in recessions it has dipped as low as 1.7%. This means that in a slow economy, not only does giving slow down, but it also declines as a *proportion* of the average American’s spending dollar.

In other words, in recessionary periods, people not only spend a lower dollar amount on charities, but they also allocate to charities a smaller fraction of the money they do spend—thereby compounding the effects of an economic decline on fundraising.

Our quarterly donorCentrics Index of Direct Marketing Fundraising has consistently supported these findings. Median index revenue trends have generally followed national economic performance, as represented by GDP growth and decline.

According to the National Bureau of Economic Research, the United States economy entered a recession in December 2007 and emerged from it in June 2009<sup>7</sup>. Non-profit direct marketing revenue in the donorCentrics index declined throughout 2008 and in early 2009 during the worst parts of the recession, and donor declines intensified during that time. We reported overall revenue declines in seven consecutive editions of the index (Q2 2008 through Q4 2009), with some of the steepest downturns coming in the first half of 2009.

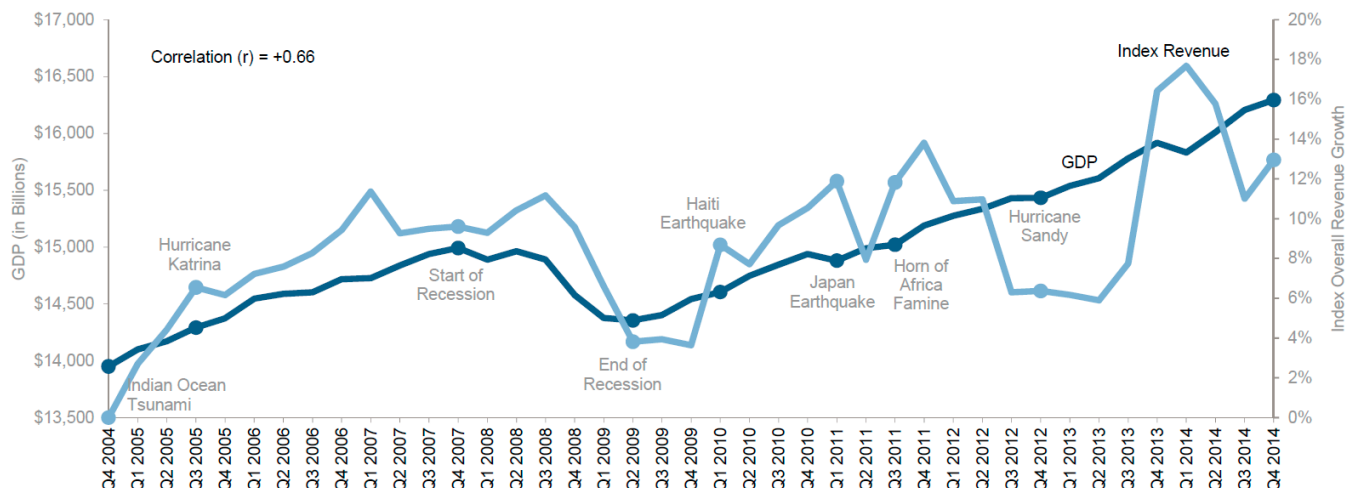
Many indicators of US economic health, including GDP growth, have remained sluggish since the end of the recession in 2009. Similarly, nonprofit revenue growth in the donorCentrics index has been weak since the declared end of the recession. Most organizations participating in the index have only just this year regained the ground they lost during the recession five years ago.



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Further Giving USA Foundation research indicates that, in the past, once a recession is over, it has taken an average of three to four years for inflation-adjusted charitable giving to rise back up to pre-recession levels<sup>8</sup>. And the Foundation is optimistic that total charitable giving could recover completely by 2015 or 2016<sup>9</sup>. However, the recession of 2007-2009 was one of the worst in recent memory and the post-recession recovery has been one of the slowest, meaning that the nonprofit industry may still have to contend with the ripple effects for some time.

**Gross Domestic Product vs. donorCentrics Index Overall Revenue Change (2004-2014)**



Source for Index Revenue: Cumulative Rolling 12-Month Median Revenue Change from Q4 2004, Target Analytics donorCentrics Index of Direct Marketing Performance, 2014 Fourth Calendar Quarter Results, April 2015. Source for GDP: Gross Domestic Product (Seasonally adjusted quarter end, indexed to 2009 dollars), U.S. Department of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/national/>. Retrieved March 2, 2015. A Pearson correlation coefficient (r) of +0.66 indicates a strong positive relationship between the two measures.

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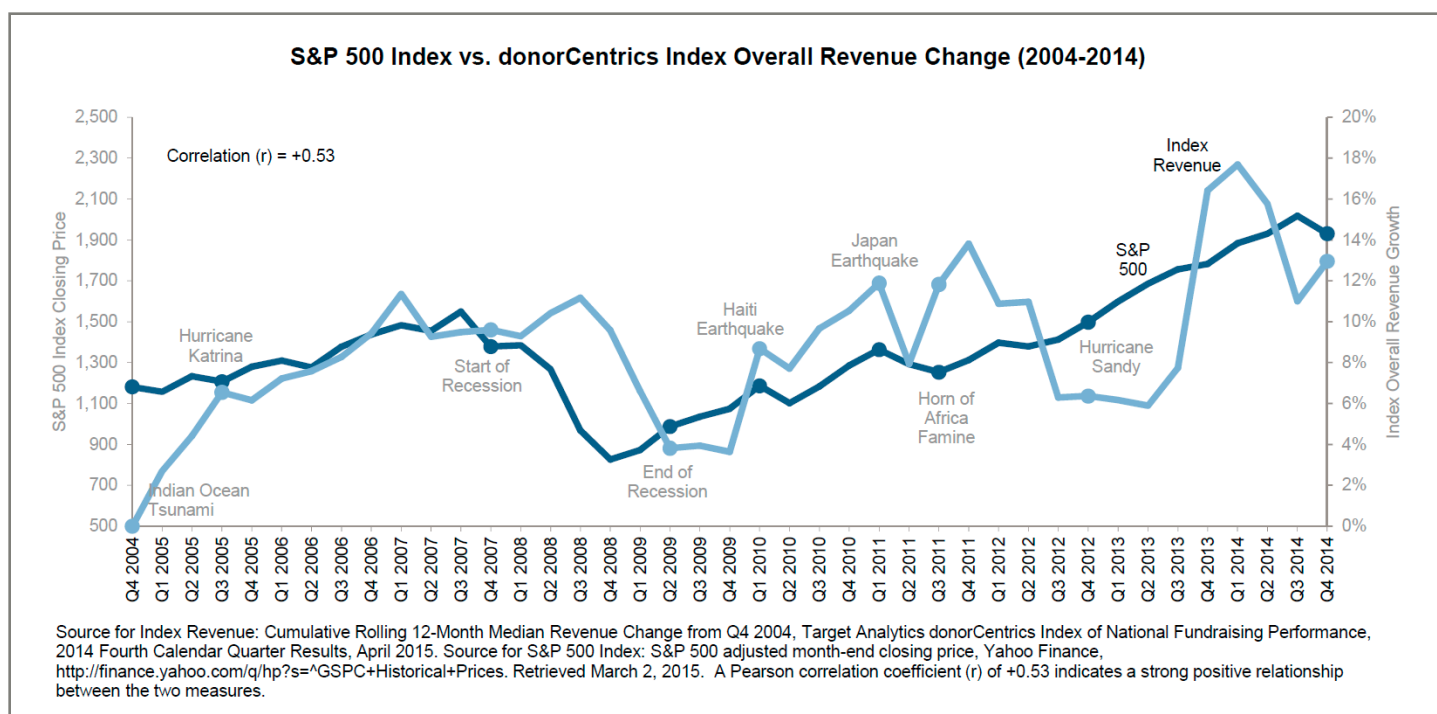
## S&P 500

Change in individual wealth is another key determinant of change in charitable giving. And the Standard & Poor's 500 Index (S&P 500) serves as a good proxy measure for the growth and decline of personal wealth.

The Giving USA Foundation found, in fact, that the S&P 500 was the strongest single predictor of charitable giving out of all the factors they considered for their annual revenue estimate models.<sup>10</sup> The S&P 500 is far more volatile than the comparatively stable charitable giving trends, but the two travel up and down together—with changes in giving usually lagging changes in the S&P 500 by one to two years. “Because stock market values are an indicator of financial and economic security,” the Foundation explains, “households and corporations are more likely to give when the stock market is up.”<sup>11</sup>

This is particularly true, they found, for high-net-worth donors, who are more likely to be directly invested in the stock market. In addition, gifts of appreciated stock make excellent charitable giving vehicles for high-net-worth donors when their investments are doing well.

Again, our quarterly donorCentrics Index supports the relationship that the Giving USA Foundation found between giving and the S&P 500—even though our Index analyzes giving from a relatively lower net worth stratum of direct marketing donors. Over the past ten years, as the S&P 500 has risen, so has overall index revenue; and when the S&P took a dip during the recent recession, overall index revenue declined shortly thereafter.



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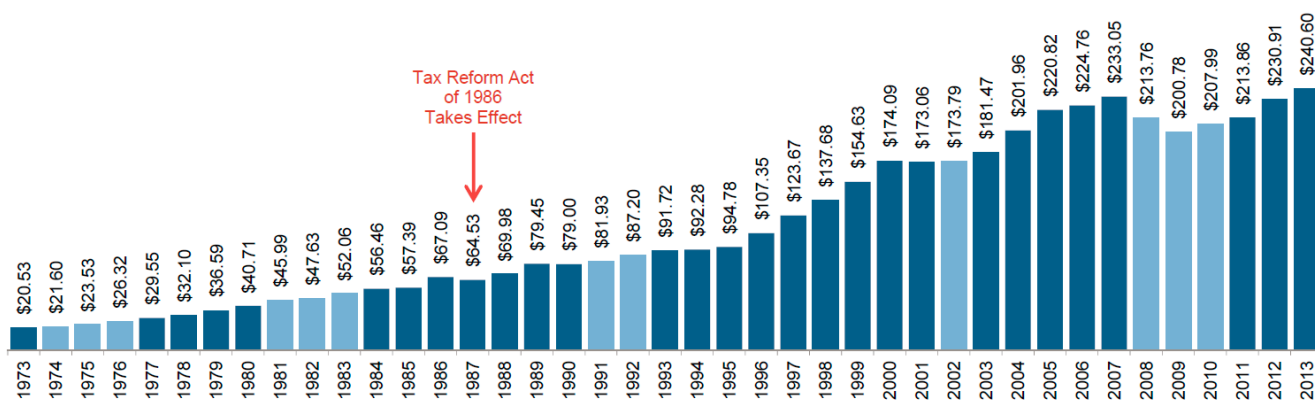
## Tax Policy

In order to encourage private philanthropy, Congress introduced a charitable contribution deduction into the federal income tax code for the first time in 1917. Since then, tax policy—in particular, this deduction for charitable giving—has influenced people’s charitable giving decisions.

Charitable giving is one of the primary ways that higher-income taxpayers reduce their tax liabilities. It is unlikely that the deductibility of their gifts affects which organizations donors decide to support, but it almost certainly does affect how *much* they decide to give, as well as how much they choose to leave to nonprofits as charitable bequests. The amount of charitable deductions is one of the most important pieces of data used by the Giving USA Foundation to estimate total giving in the United States each year.<sup>12</sup>

The Tax Reform Act of 1986 is a notable example of how tax policy directly affects charitable giving. This act took effect in 1987 and eliminated a large number of deductions, including the charitable deduction for people who did not itemize deductions on their tax returns. Giving from individuals dropped from over \$67 billion in 1986 to less than \$65 billion in 1987 (a decline of 3.8%), because many donors “pre-paid” their charitable gifts in 1986 to get the largest deductions they could before the new tax laws went into effect the next year.<sup>13</sup> 1987 is still the only year in which the Giving USA Foundation reported a decline in charitable giving when there was not a recession that year—a decline that was likely entirely due to a change in tax policy.

**Giving by Individuals (1973-2013)**



Giving is in billions of current dollars. Lighter bars identify years with at least one month of recession. Source: Giving USA Foundation, *Giving USA: The Annual Report on Philanthropy 2014*, June 2014.

Another example—one that we are experiencing the effects of now—is the “Pease Limitation,” which was added to the tax code in 2001 and which has gone through a number of adjustments in the past decade. The Pease Limitation essentially limits the total amount of most otherwise allowable itemized deductions, including the charitable deduction, for many upper-income taxpayers. Of the roughly \$240 billion given by individual donors in 2013, \$199 billion (about 83% of the total) came from itemized deductions.<sup>14</sup> These are higher-net-worth donors who will be most affected by the Pease Limitation. Limiting the deductibility of charitable gifts and thereby reducing the incentive for high-net-worth individuals to give, puts a very large amount of charitable revenue in potential jeopardy.

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## Interest Rates

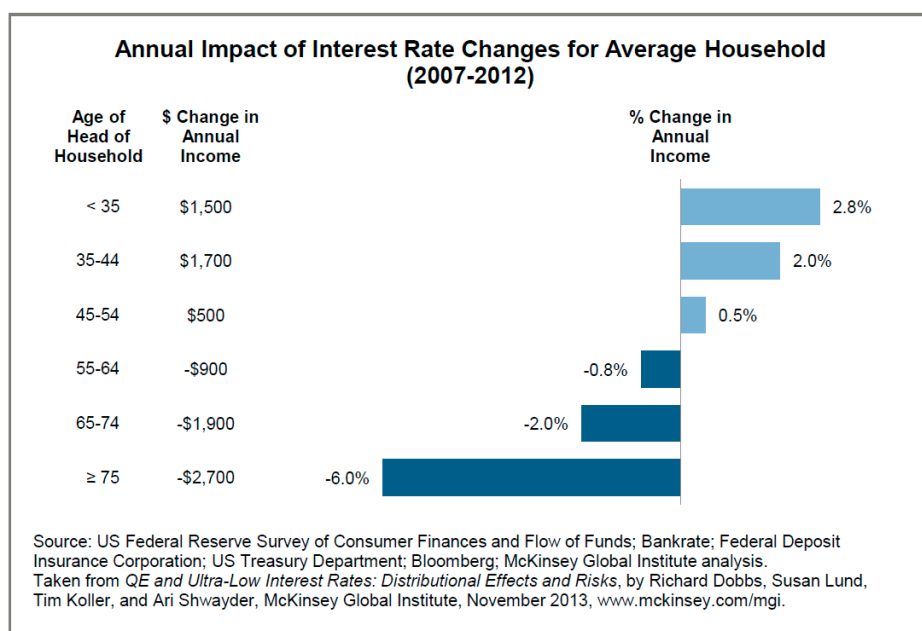
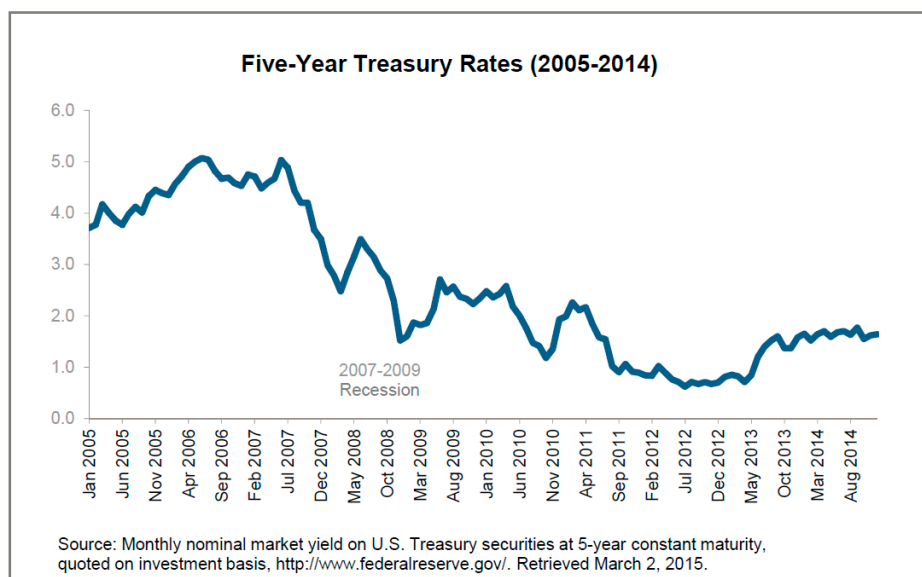
Interest rates have been falling for most of the past six years. Before the recession of 2007-2009, interest rates were between 4.5% and 5%. The recession caused them to drop to about 2%, and then monetary policy pursued by the Federal Reserve Bank drove the interest rate down to less than 1%.

Lower interest rates lower the cost of mortgages, helping the housing market. They also lower the cost of business loans, encouraging investment in new and expanding businesses. This disproportionately helps younger people, who are more likely to engage in these kinds of transactions.

On the other hand, lower interest rates mean lower returns on savings vehicles such as treasury bills, certificates of deposit, and mutual funds. This disproportionately hurts older people, who are more likely to be retired and reliant on these more conservative, interest-bearing investments.

This has meant a decline in the income of older individuals—the segment of the population that makes up the majority of the donor class. According to a McKinsey Global Initiative study published in November 2013, for example, donor-aged adults in the United States lost \$2,000 or more compared with their 2007 interest income.

Anecdotally, in our donorCentrics benchmarking groups, we have started to see high-value older donors giving smaller gifts. If this continues, it could have a large negative effect on charitable giving in the U.S.



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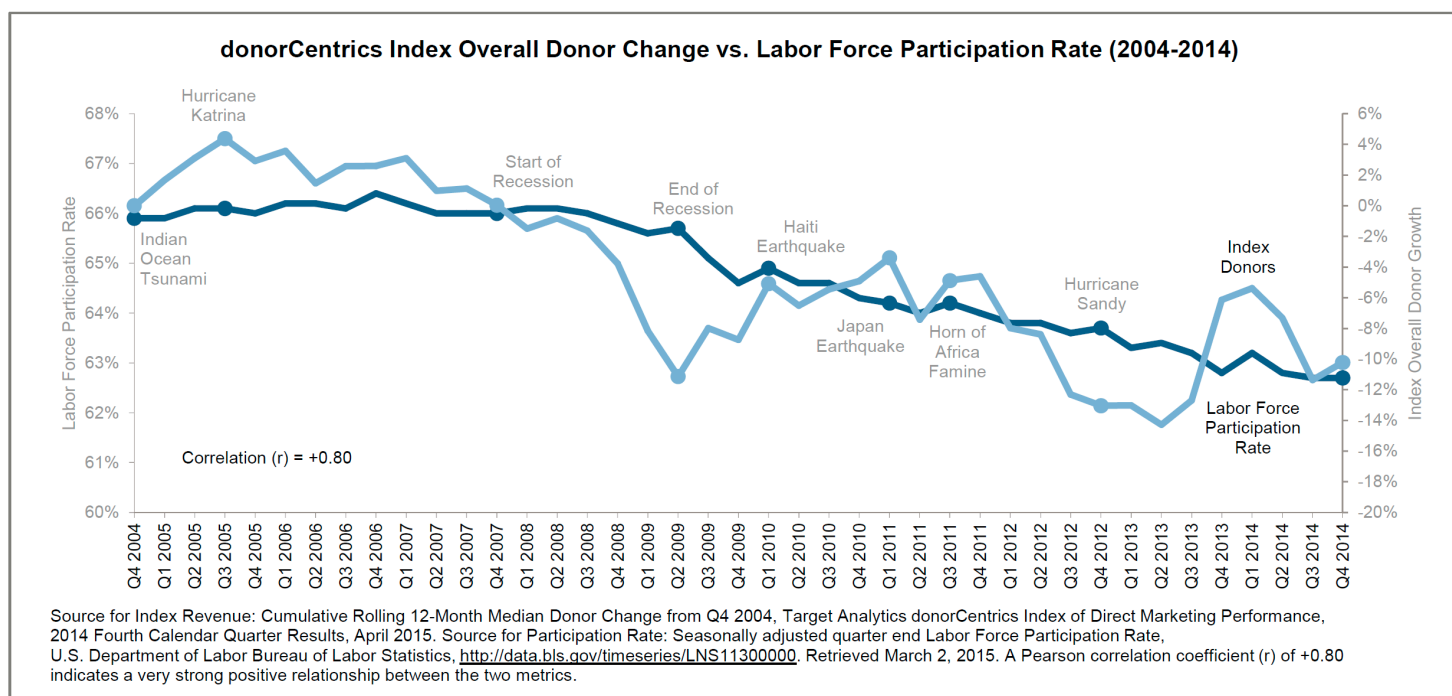
## Unemployment

In our donorCentrics Index of Direct Marketing Fundraising, we have reported declines in overall donor populations in almost every quarter since the third quarter of 2005 (the quarter that included Hurricane Katrina). These declines are due primarily to declines in new donor acquisition.

There is likely no single cause of these declines. As we have said in our index analysis, falling donor populations in the index may be due to a mix of factors, including a changing generational profile in the United States, changing attitudes of donors about giving, and a change in focus by fundraisers toward higher-dollar donors.

And there are, undoubtedly, economic reasons as well. As we have seen in looking at Gross Domestic Product, charitable giving goes down when the economy struggles. In a recession, donors cut back on both the amount of money they give and the number of organizations they give to.

In the donorCentrics Index, we have also seen an inverse relationship between the unemployment rate and the number of *donors* giving to participating organizations. While we do not have the data to say that this is causative, this makes intuitive sense; when people are not employed, they are likely to have less disposable income and to not be as disposed to give what they do have to charity.



The unemployment rate is the number of unemployed people looking for work divided by the labor force. It does not include those who have stopped looking for work, which happens more and more as a recession drags on. Another measure of the workforce that includes people who have stopped looking for work, and which may better reflect true employment, is the labor force participation rate: this measures the percent of the population over the age of 16 who are employed. The participation rate has been steadily declining, along with index donor numbers, for the past five years. As of December 2014, it reached a 35-year low of 62.7%.

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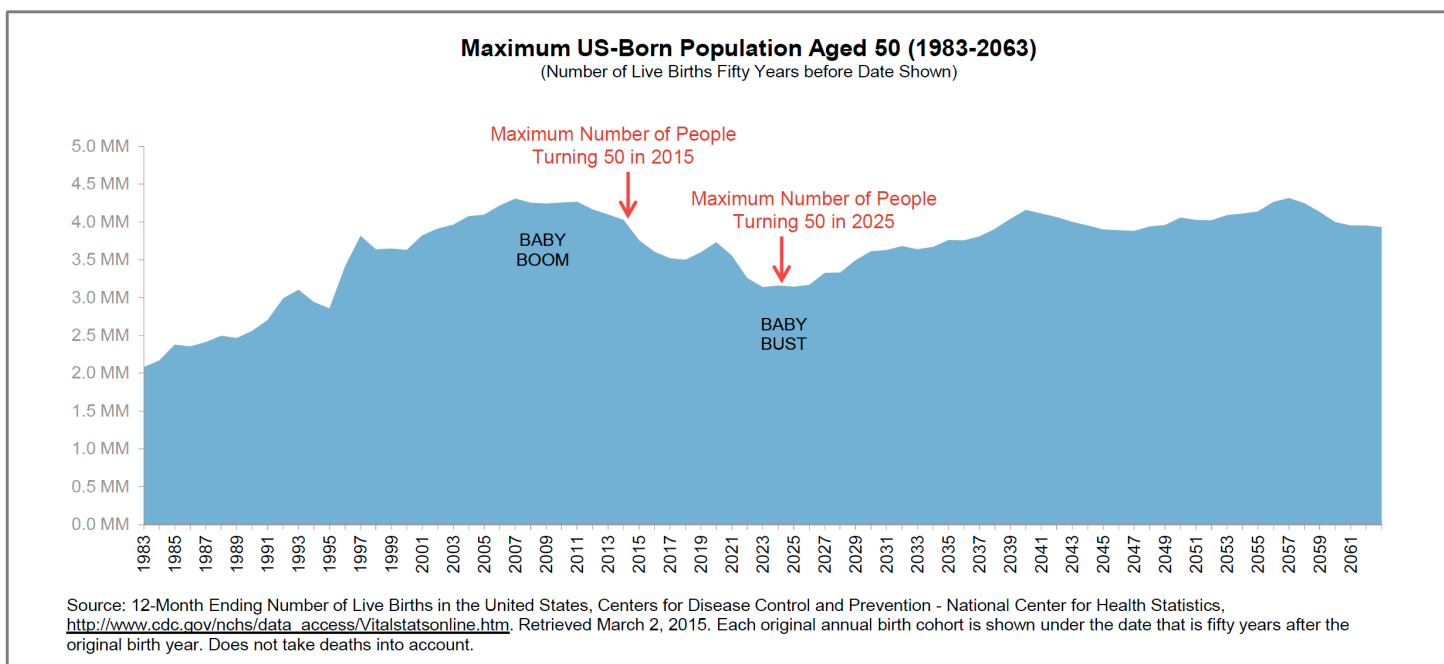
## Population

There is at least one other major macroeconomic factor that likely lies behind today's shrinking donor files. And that is that the pool of possible donors is simply not as big now as it was even ten years ago, and it will continue to shrink for at least the next decade.

Older people generally donate more to charity than younger people; they are more likely to give in the first place, they give more, and they give more consistently. The vast majority of donors to the organizations in our donorCentrics nonprofit benchmarking groups are people who are over fifty years old, and for many organizations the average donor age is in the seventies. If we assume that the likely nonprofit donor pool consists of people who are fifty years old or older, then the number of people likely to give to charity is lower now than it was ten years ago, and is destined to get even lower.

There was a baby boom in the 1950s and early 1960s when birth rates skyrocketed after World War II. The tail end of this boom generation is just entering their fifties now.

Following the baby boom, birth rates plummeted, creating what became known as the "baby bust" of the late 1960s and 1970s. The people born during these bust years are the people who will be entering their fifties over the next ten or fifteen years.



In our donorCentrics Index, donor counts last peaked in 2005. Part of the reason for that peak was the extraordinary giving in response to the Gulf Hurricanes and the Indian Ocean Tsunami, but it also happened to be the time when the population of US-born people turning 50 was at its peak. This could be a coincidence—or an indication of things to come.

For the past few decades, lifespans have not been increasing fast enough to make a significant difference in the pool, and, although there is immigration, most immigrant populations do not become donors until the second or third generation living in the United States. Given this, if we assume all other factors to be equal, we should not be surprised by dropping donor populations, and we should not be surprised if they continue to drop for the next several years.

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### What Does This Mean for Nonprofits?

For the past several years, nonprofit organizations have been facing challenges in the form of lackluster revenue growth and declining donor files. We do not believe that these trends can be entirely ameliorated or reversed by focusing entirely on microeconomic, internal tactics. In order to expand, organizations need to focus on strategies that address the changing macroeconomic environment in which we find ourselves.

Traditional methods for reaching donors will likely continue to reach older Americans, but are less and less effective at bringing in new, young donors. Direct mail, in particular, will become less viable as a means of fundraising. In our donorCentrics benchmarking groups, direct mail still currently represents close to 80% of all gifts, but that percentage has been steadily shrinking for the past ten years.

Many nonprofits have looked to online fundraising as a replacement for direct mail. As it is currently used by most nonprofits, online fundraising techniques mirror the techniques used for direct mail; by and large, this has proven effective, but online giving still represents just 5% of all giving. It will not soon make up for the decline in direct mail for most organizations.

The challenge for fundraisers is to devise ways to make the case for giving using the full range of channels available to them. These include direct response television and radio, face-to-face and door-to-door canvass, events, inserts in publications, catalogs of symbolic gifts, and telemarketing, in addition to the internet and traditional direct mail. Fundraisers will also have to learn to use the newer channels of crowd sourcing, micro loans, text giving, do-it-yourself fundraising, and other social media driven activities.

- The fastest growing innovation in fundraising in the United States, and one that may help to address these issues, is **monthly giving**. In other parts of the world, monthly giving is widely used, but it is relatively new in this country. Until recently the only nonprofits with large monthly giving programs were those raising funds through child sponsorship, but monthly giving now makes up a substantial proportion of giving to animal welfare and public radio organizations, as well as the segment of the market represented by international non-governmental organizations. These organizations have encouraged, and invested in, the implementation of monthly giving programs at their U.S. offices—and, in response to their investment, there are more direct response television programs and more vendors available for canvass.

The good news about monthly giving is that it is attractive to younger donors. Most people who are acquired as monthly donors are 10-20 years younger than the average 50+ year old donor acquired through other channels.<sup>15</sup>

- Another encouraging trend is an increased emphasis on **planned giving**. More than 80% of Americans donate to charity each year<sup>16</sup>, but fewer than 6% leave any part of their estate to charity<sup>17</sup>. The biggest reason for this disparity is the lack of investment in planned giving by most charities: people do not leave gifts because they were not asked to do so. Planned giving can include some complicated vehicles, such as charitable remainder trusts, and so seem complicated to fundraisers, but most planned gifts are actually relatively simple bequests. Fundraisers need to implement donor education programs around planned giving, and need to ask for the gifts.
- As evidenced by the success of micro-loans and crowd sourcing, today's donors are looking for tangible, substantial results from charities and they want more control over where their money goes. This can be accomplished by giving donors **choices**. Choice does not necessarily have to mean restricted giving; it can be executed in a way that allows the donors to voice their opinion about what they feel is most important, while still supporting the organization as a whole.

Americans are philanthropic. They respond in great numbers to disaster relief efforts; they volunteer at local events; they participate in walk-a-thons and bike-a-thons. Fundraising in the nonprofit sector will grow if fundraisers are able to reach new, younger donors in ways that meet the needs of both the donors and the organizations.

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## About Target Analytics

Target Analytics, a division of Blackbaud, delivers data-driven, collaborative solutions to help not-for-profit organizations increase support from their supporters and further their missions. Target Analytics offers the only comprehensive analytics solution for donor acquisition and cultivation, prospect research, and collaborative peer benchmarking, as well as access to exclusive data and fundraising expertise, to maximize fundraising results at every stage of the donor lifecycle.

## About Blackbaud

Serving the nonprofit and education sectors for 30 years, Blackbaud (NASDAQ: BLKB) combines technology and expertise to help organizations achieve their missions. Blackbaud works with more than 25,000 customers in over 60 countries that support higher education, healthcare, human services, arts and culture, faith, the environment, independent K-12 education, animal welfare, and other charitable causes. The company offers a full spectrum of cloud-based and on-premise software solutions and related services for organizations of all sizes including: fundraising, eMarketing, social media, advocacy, constituent relationship management (CRM), analytics, financial management, and vertical-specific solutions. Using Blackbaud technology, these organizations raise more than \$100 billion each year. Recognized as a top company by Forbes, InformationWeek, and Software Magazine and honored by Best Places to Work, Blackbaud is headquartered in Charleston, South Carolina and has employees throughout the US, and in Australia, Canada, Hong Kong, Mexico, the Netherlands, and the United Kingdom. For more information, visit [www.blackbaud.com/analytics](http://www.blackbaud.com/analytics).

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