tag words

Job losses
Borrowing
ISAs

Paint it black?

One of the big hits by the Rolling Stones, *Paint it Black* comes to JOHN GILBERT'S mind to describe the current dark mood of consumers.

Gone is the upbeat 'back to school' feeling last autumn when economic optimism soared as people anticipated the end of the deepest recession many could remember, and house and share prices moved reassuringly higher.

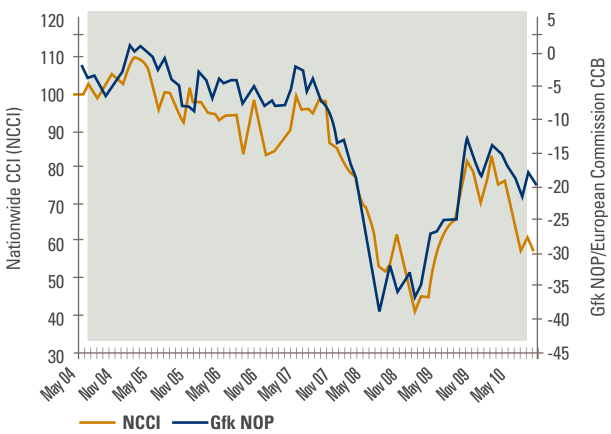
Then, 44% of consumers expected the economic situation to be much better in 12 months time[1], today only 12% believe this to be the case. Looking ahead 12 months, only 31% expect the economy to be better, with 46% expecting it to get worse.

Household finances over the past year have also weakened – in September 2009 28% of adults expected the financial position of their household to improve over the next 12 months, today only 14% feel better off. In the next 12 months only 23% expect an improvement in household finances.

Worries over jobs are at the centre of consumer concerns. Since the general election the expectation of job losses has intensified as hundreds of thousands of job losses are expected in public spending cuts. In April a net balance of 47% of people expected more unemployed people in the coming months, in September the net balance had risen to 67%.

As a result both GfK NOP and Nationwide (weighed down more on job worries) measures of consumer confidence have sunk back to recession levels pointing to the possibility of a double dip recession – and the need for further quantitative easing (QE)

Figure 1 UK Consumer confidence, May 2004-September 2010



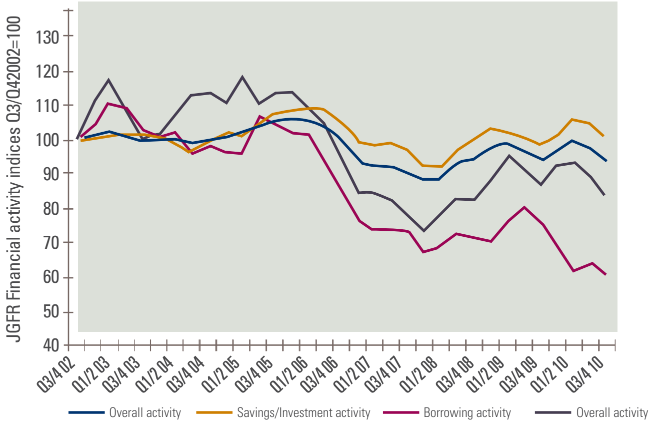
Sources: GfK NOP / European Commission / Nationwide / TNS / JGFR

Falls in consumer confidence have not been uniform – top and bottom income bands, women, the over 50s and people living in the North of England, Scotland, Wales and Northern Ireland show the biggest losses in recent months. Many will be those most affected by threatened job losses.

What does this mean for financial services marketers? Firstly, the differences in reactions across the various segments to the new economic climate need to be understood.

In this new age of austerity – what some commentators also describe as the 'Great Transition' – people are acting more rationally – trying to save, paying off debt and shopping for value.

Figure 2: UK Financial Activity Barometer[2], Q3/Q4 2002 – Q3/Q4 2010



Source: GfK NOP / JGFR

Figure 2 highlights the sharp fall in borrowing activity intentions in the past two years and a preference for debt repayment and savings, although both have fallen in the autumn FAB.

The JGFR Borrowing Index fell to a survey low of 60.2 with both mortgage intentions and consumer credit indices falling to their lowest on record.

The outlook for all consumer credit products is very weak, particularly for personal loans and car financing plans. Only in London, where demand for consumer credit and mortgages is far greater than elsewhere, is demand at near normal levels. Greatest demand for overdrafts and personal loans is among young people, many of which are students.

A note of caution for marketers is the increase in indebted households intending to borrow by credit card and overdrafts in the coming months.

While fewer people intend to repay debt this quarter (especially higher earners), net debt repayment remains well above average, with many people using savings to repay debt rather than place cash savings on deposit.

For all concerned with the housing market, prospects of any pick up in activity appear unlikely.

Savings and investment intentions have been above average in recent quarters as people prioritise rainy day and long term savings. More young people have been forced to increase regular savings to build up housing deposits. Baby boomers have to save more to fund their retirement. Around two-thirds of adults intend to save or invest in the next six months, little changed on June but below 70% in March and December.

ISAs remain the favoured savings vehicle, 37% of adults intend to put money into an ISA, up slightly on June (36%) but down from a record 40% in March. Low interest rates seem to be reducing the attraction of cash deposits – the JGFR Cash Deposit Index is at its lowest since June 2004.

FEWER CONSUMERS EXPECT TO SAVE, BORROW, INVEST OR REPAY DEBT IN THE COMING MONTHS.

Despite stock market volatility in the summer months, investment sentiment has held up well. Investing in stocks, shares and bonds, individually or through a fund, is a minority affair (averaging around 15% of the population) and found to a much greater extent among higher earners – around a third intend to invest.

Regionally, highest savings/investment activity in prospect is in the East Midlands, with highest proportions of ISA activity in the South East and North East. Scotland has the highest proportion of people intending to contribute to life and pension policies; the biggest proportion of intending investors is in the South East.

Secondly, differences in activity levels determine business volumes and engagement.

Fewer consumers expect to save, borrow, invest or repay debt in the coming months – an estimated 37 million compared to 37.8 million in June. Of these some 28 million people expect to undertake two or more activities (28.4 million, June) and 12 million people expect to undertake four or more activities, down 1.4 million on June. Much of this drop in activity is in savings/investment activity among higher earners reflecting the fall in confidence in this key segment.

For financial services marketers, catering for the more affluent market segments, such insight into activity levels provides a valuable pointer to likely consumer financial behaviour.

Some 86% of consumers[3] regard one of the top ten banking brands as their main financial services provider (MFSP), with Lloyds TSB and Barclays establishing themselves as the clear market leaders. However, such market share does not mean high activity levels. Currently the two main RBS brands and HSBC have the most active customers in prospect.

With much debate about competition in retail banking, less than 0.5% of consumers regard Tesco Bank or Virgin Money as their MFSP.

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[1]Source GfK NOP Consumer Confidence Barometer for European Commission, September 2010. A full analysis of the GfK and Nationwide consumer confidence surveys is published in the JGFR monthly UK Consumer Confidence Monitor

[2]The UK Financial Activity Barometer measures purchase intentions across 18 categories of savings, investment, borrowing and debt repayment in the next 6 months. It has been running since March 2002 and is run on the same GfK NOP omnibus of 2,000 adults aged 16+ as for consumer confidence.

[3]Consumers are asked on the Financial Activity Barometer 'Which company do you regard as your main financial services provider?' Since the bank bailouts more people have cited one of the 10 leading bank brands as their MFSP. This trend and other much discussed issues are covered in a forthcoming JGFR report 'Consumer attitudes to retail banks'.