
THE TIMES
ARE A CHANGIN'

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- New car ownership on the rise
- More UK households saving
- Scots' confidence below UK average

In a rollercoaster year of national events and political change, JOHN GILBERT provides a snapshot of consumer confidence over the past 12 months.

After a summer of major events – geo-political, sporting and commemorative – the UK is moving into an autumn/winter period of great change and challenge.

Nationalism and regionalism will be central themes for much of the remainder of the decade. Politics may replace economics in determining the mood of consumers, particularly in a general election year.

CONFIDENCE WARMING UP

Consumers were in very optimistic mood this summer. Warm weather and strengthened household finances have boosted confidence and wellbeing. The strength of sterling has also helped boost numbers of people travelling abroad, while reducing the amount spent.

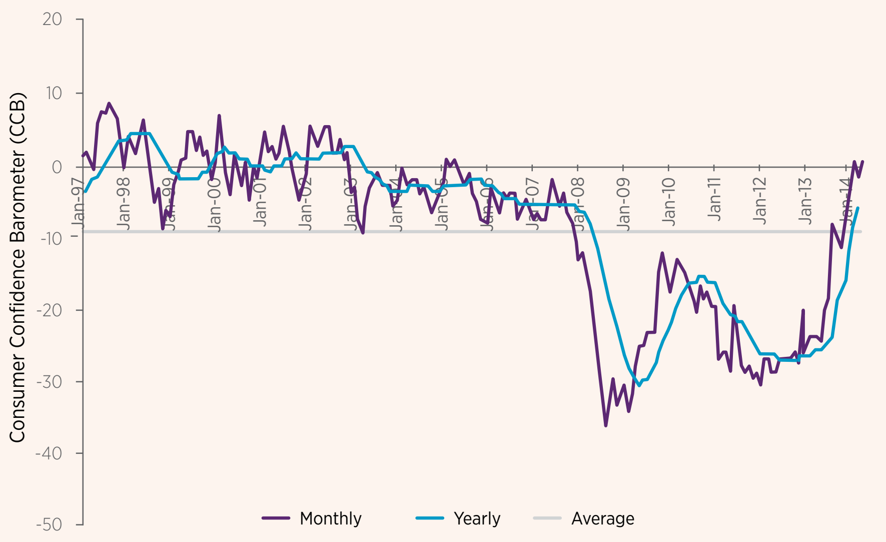
An economy growing at the fastest rate in the G7, with output above pre-recession levels, has helped restore business confidence, resulting in record numbers of people in work, including nearly a quarter of over-65s.

Unlike previous recoveries, earnings growth continues to be subdued, helping the Bank of England to continue with its low interest rate policy, effectively subsidising borrowers and penalising savers.

With annual house price rises over 10%, the nation's net wealth should exceed £8.5 trillion in 2014, up from an estimated £8 trillion in 2013. Over the past year, equity markets have held up well despite geo-political concerns, with the UK FTSE 100 and FTSE All Share Index up by 5% and 6% respectively.

Increasing confidence is evident among new car buyers, with private registrations up from around 840,000 units in the year to March 2012 to 1.15 million cars in the past 12 months, according to the Society of Motor Manufacturers and Traders.

FIGURE 1. UK CONSUMER CONFIDENCE, JANUARY 1997-AUGUST 2014



Source: GfK NOP/European Commission/JGFR

ON A NINE-YEAR HIGH

Since February, consumer confidence has climbed eight points to its highest level (+1) since March 2005, when bank rate was a 'normal' 4.75%.

A surge in optimism about the economic outlook has underpinned the recovery in confidence. More people now feel the general economic situation of the country has got better (38%) than worse (33%) in the past 12 months. A year ago, more people (53%) believed it had got worse than better (24%).

The combined current and future GfK measure about the economy is at the highest since the turn of the century, suggesting that government policies are resonating with the majority of the public. In the past year, the measure has jumped 40 points.

Much reduced unemployment expectations are behind the improvement in sentiment. Together with a fall in inflation expectations, improving economic optimism and personal finance expectations, the composite JGFR 'Feel Good Index' is also at a post-2000 high.

Measures of current and future personal finance saw stronger gains in August than for many months, with the JGFR Financial Wellbeing Index (FWI), a composite measure of saving and spending confidence and personal finance, surging 27 points to its best level (+27) since January 2008, and closing in on the levels of the mid-2000s of around +50. A year ago, the FWI stood at -32.

Confidence in most consumer segments has now recovered to above pre-recession levels. In the past year, the recovery is greatest among women; the over-65s; people retired/not working with private pension means; the long-term unemployed/not able to work; and people relying on the state pension. Notable sentiment gaps continue, however – between men (+6) and women (-3) and between the highest (+16) and lowest earners (-14).

HEALTHY BUSINESS VOLUMES

Financial services providers will have seen good business volumes in the first half of 2014, as the Q1 and Q2 JGFR UK Financial Activity Barometers[1] indicated.

For financial services providers, the outlook for the second half of 2014 is for further strong growth in business volumes. In the Q3 JGFR UK Financial Activity Barometer, 81% of adults intend to save, invest, borrow or repay debt, up from 77% in Q2 – the highest proportion since March 2006.

The Q3 JGFR FAB Index (see Figure 2) is up 2 points to 100.3 on Q2, an eight-year high. All indices made strong gains with the Savings/Investment Index, the Borrowing Index and Debt Repayment Indices all also standing at eight-year highs. Year-on-year, ▶

'CONFIDENCE IN MOST CONSUMER SEGMENTS HAS NOW RECOVERED TO ABOVE PRE-RECESSION LEVELS.'

► the biggest gain is in the Borrowing Index, up 37 points to 91.3.

A big improvement in household finances in the past year has resulted in more saving households, up from 43% last summer to 50% of households this summer. Greater saving confidence has helped boost prospective activity in the past three quarters.

SAVINGS ON THE UP

Very strong savings inflows are expected in Q3. Both ISA and Junior ISA/Child Trust Fund expected contributions are at survey highs; starting a regular savings plan is close to the Q2 record (which may include interest-paying current accounts) and is very popular with young people. 35% of adults intend placing a cash deposit, compared with a quarter a year ago.

More people in work, together with greater awareness of pensions helped by the extensive advertising campaign for auto-enrolment, is reflected in increasing intended regular pension contributions. Half of working people intend to contribute, up from 30% in Q3 2013, with the JGFR Regular Pension Index at its highest since 2006. Overall, life and pension intentions are at their best since December 2005.

Investor sentiment picked up in Q3, despite a range-bound FTSE 100 Index. Overall, 17% of people intend to invest in equities or bonds, up from from 15% in Q2 and 14% in Q3 2013. Demand for equities was greater than for bonds.

SURGE IN BORROWING INTENTIONS

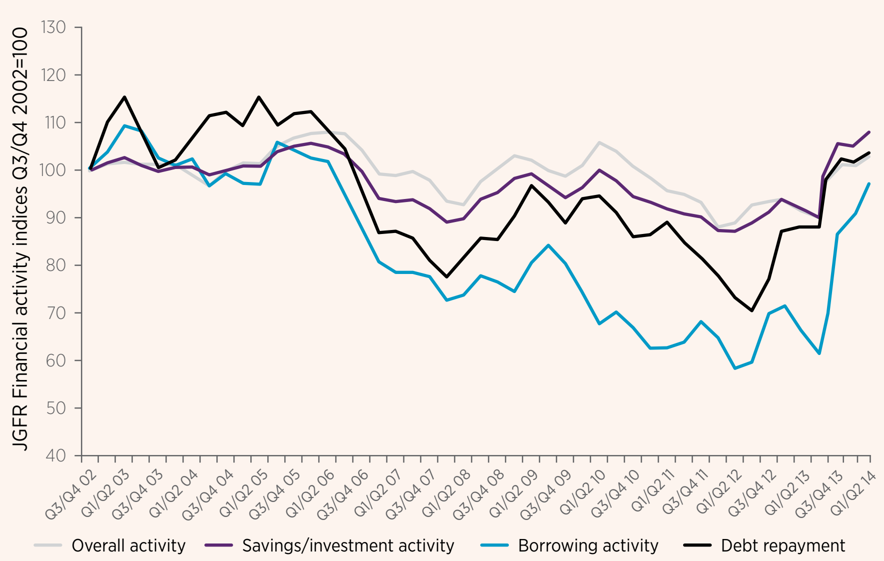
Housing market confidence (mortgage and property purchase intentions) jumped to its highest level since Q2 2009 in Q3, boosted by the highest proportion of people intending to put a deposit on a property to buy since March 2005 (9%).

With high moving costs, strong rises in major renovation/DIY project intentions suggest more people staying put, further squeezing properties for sale and boosting house prices.

Car Finance Plan demand climbed to a pre-recession high, with prospective demand more than double last year. The buoyancy of new and used car sales, on the back of car finance plan offers, has been one of the unheralded marketing success stories of recent years.

Overall, consumer credit demand is at its strongest since March 2006, matched by debt repayment levels. Compared with a year ago, the proportion of indebted households has changed little, at around 5%, despite the increased borrowing demand. With concern over any interest rate rise and its impact on borrowers, credit availability is likely to be constrained, especially in the mortgage market, where demand is back to 2007 levels.

FIGURE 2. UK FINANCIAL ACTIVITY BAROMETER Q2/Q3 2002–Q2/Q3 2014*



* Two-quarter moving average

Source: GfK NOP/JGFR

RBS GAINING GROUND

With bank-watchers eager to see evidence of new entrants gathering up high street bank switchers, the Q3 UK Banking Barometer[2] data disappoints. Switching between high street brands appears more likely, especially on the back of high-paying interest-bearing current accounts.

Among the public, 91% have a designated main financial services provider (MFSP), of which 87% (the highest in three years) cite one of the ten leading bank brands, including Nationwide. The 'new' Lloyds Bank brand took over as leading MFSP from Barclays, with NatWest closely behind at a survey high. Of the new challenger brands, TSB (3.5% market share) is the best established.

Along with NatWest, the Royal Bank of Scotland had a stellar Q2, with a strong performance in Scotland where the role of banks was a feature of the economic debate for independence.

Indeed the impact on the financial services sector is a concern for many Scots, whose confidence this summer (-6), despite the Commonwealth Games boost, is well below the UK average (0). Other consumer metrics also point to great uncertainty in Scotland about the future. Combined optimism about personal finances and the economy is much higher in the UK (16) than in Scotland (7).

For financial marketers, the regional dimension to confidence, wellbeing and activity provides valuable insight into where marketing resources are best deployed. Confidence and wellbeing are far greater in the South East and London. Savings and investment activity is greatest in prospect in the Midlands, housing market activity in the South West and borrowing activity in Northern Ireland.

The role of UK-wide marketing campaigns may need to be rethought as the demands for regional and national autonomy grow. Having a branch network to understand local concerns and issues may yet make sound business sense. ◻

[1] The UK Financial Activity Barometer is commissioned from GfK NOP each quarter and asks consumers about their intended savings, investment and borrowing activity in the next 6 months across 18 categories of activity. The Q4 Financial Activity Barometer is published in mid-October 2015.

[2] Respondents are asked to name their main financial services provider. Cross-analysis with intended financial activity and household finances provides insight into bank customer bases. Other questions on attitudes to banks are periodically included. The Q4 Banking Barometer is published in mid-October 2015