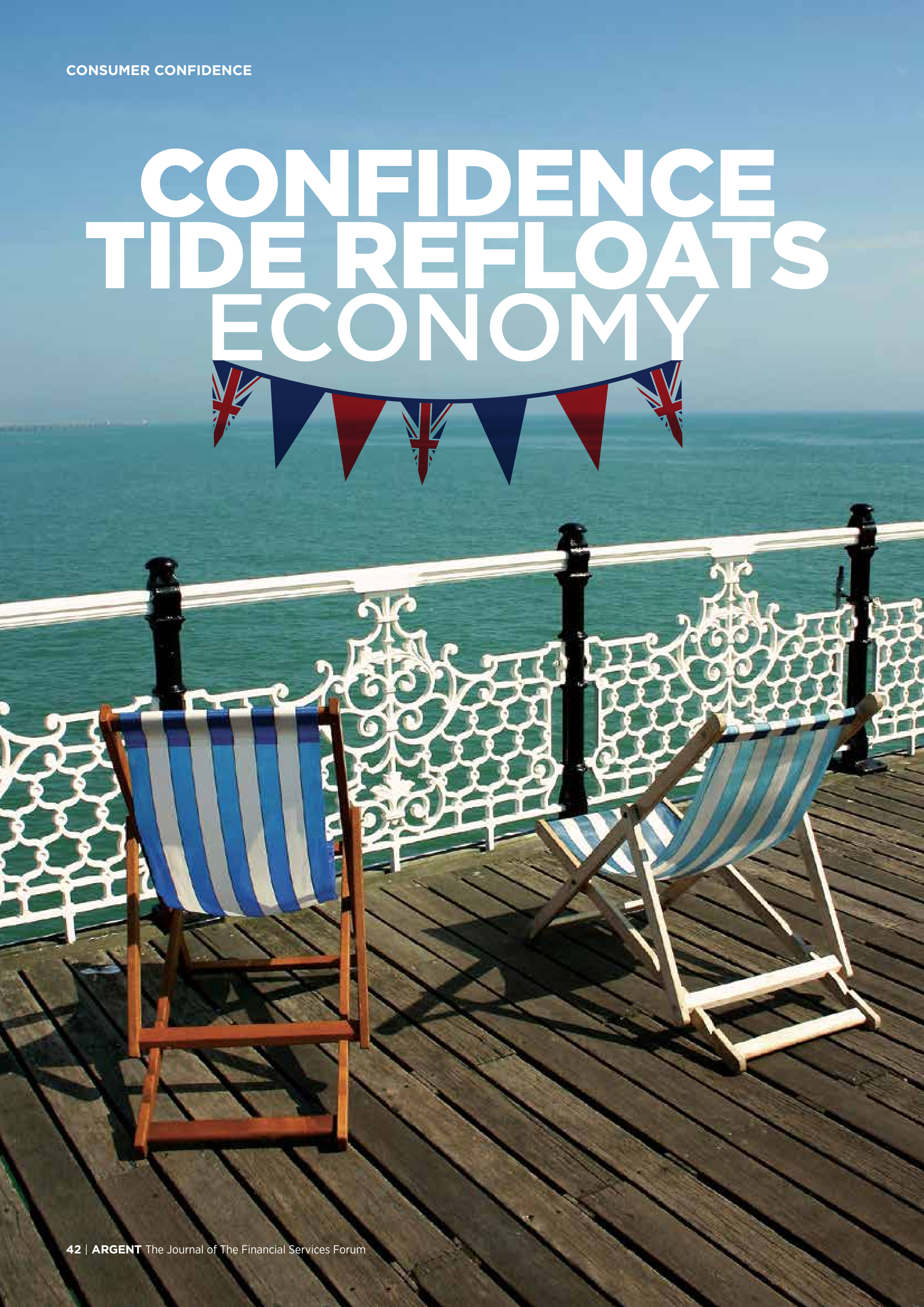
CONFIDENCE TIDE REFLOATS ECONOMY



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SPEED READ

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Whether they're saving for a house deposit or looking for the best car loan, JOHN GILBERT finds a new generation increasingly want to engage with financial brands online.

Despite a winter of floods and storms, UK consumers continue to be very optimistic about their future prospects. The remarkable transformation of the nation's mood last summer has continued, as economic recovery becomes more firmly established.

Few economists saw the sudden change of economic fortune and have been forced to revise up forecasts for 2014 and beyond. Ditto the new Bank of England Governor, Mark Carney, whose forward guidance policy has effectively been abandoned as the jobs market has been much stronger than expected. GDP is expected to surpass the 2008 peak in Q2 2014.

For UK holidaymakers the strength of sterling has meant rising spending power abroad. Expect a rise in demand for summer holidays and holiday homes overseas in 2014.

UK house prices have been rising at nearly 10% year-on-year; the equity market, especially the more UK-based FTSE-250 and FTSE Smaller Companies Index, are up by 21% and 71% in the past 12 months. Overall total net wealth in 2013 is forecast to rise to £8 trillion, up from £7.6 trillion in 2012, and to £8.5 trillion in 2014.

Real wages are also expected to pick up in 2014, with lower inflation and greater competition for workers as the economy recovers. GfK NOP unemployment expectations are at a multi-year low; the February 2014 KPMG/REC labour market report shows near 17-year highs for permanent staff and rising vacancies.

Not surprisingly, the upbeat trade data is supported by strong and rising confidence levels across consumers and businesses and is leading to growing economic activity.

RECOVERY FLOWS THROUGH TO ALL CONSUMERS

UK consumer confidence in February (-7) is above its post-1997 average (-10) and at the highest since before the recession in September 2007. Nearly all consumer segments have recovered to above pre-recession levels. In the past year the recovery has been greatest among the baby-boomer 50–64 age group, men, and top earners (£50,000+). Various sentiment gaps have emerged during the year, notably between men and women, and between the highest and lowest income band.

A surge in optimism about the economic outlook has underpinned the recovery in confidence. The combined current and future view about the economy is at the highest since June 2002, suggesting that government policies may finally be resonating with a majority of the public. In the past year the measure has surged 62 points.

Reduced unemployment expectations, at the lowest level since 2001, are behind the improvement in sentiment. Together with a fall in inflation expectations and the economic optimism measure, the composite JGFR Feel Good Index is at its highest since March 2005.

Measures of personal finances have not risen as strongly, up 16 points on the year, with the JGFR Financial Wellbeing Index, a composite measure of saving and spending confidence and personal finances, up 56 points on the year. Financial Wellbeing is still well below the long-term average as a result of strained household finances. A strong improvement in household finances in the coming months could return financial wellbeing back above the long-term average.

Regionally, confidence has recovered to above pre-recession levels in all regions apart from the North East. In Scotland, where uncertainty about the Referendum will grow, confidence has improved.

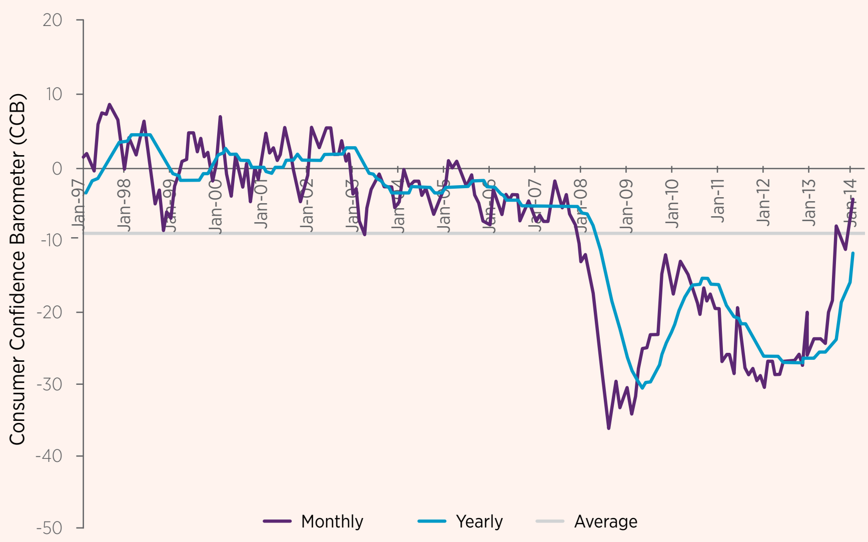
BUSINESS VOLUME TO CONTINUE TO GROW

For financial services providers the outlook for the first half of 2014 is for strong growth in business volumes. In the Q1 JGFR UK Financial Activity Barometer,[1] just over three-quarters of adults intend to save, invest, borrow or repay debt, a similar proportion to Q4 2013, and the highest proportion since March 2010.

Savings/investment intentions (up from 60% to 68%, year-on-year), borrowing (up from 13% to 19%) and debt repayment (up from 26% to 29%) reflect the strength in activity, in the wake of improved household finances.

The Q1 JGFR FAB Index (see Figure 2) gained 5 points to 98.4, a 3-year high. All indices made strong gains with the Savings/Investment Index at a 3-year high, and the Borrowing Index and Debt Repayment Indices at 7-year (pre-recession) highs. ►

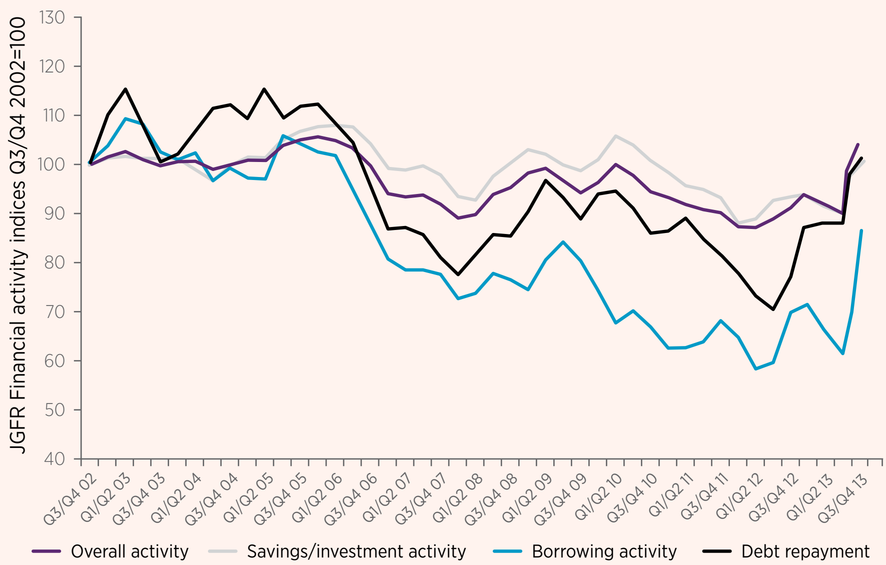
FIG. 1 UK CONSUMER CONFIDENCE, JANUARY 1997- FEBRUARY 2014



Source: GfK NOP/European Commission/JGFR

'NEARLY ALL CONSUMER SEGMENTS HAVE RECOVERED TO ABOVE PRE-RECESSION LEVELS.'

FIG 2. UK FINANCIAL ACTIVITY BAROMETER Q2/Q3 2002 – Q4 2013/Q1 2014*



* Two-quarter moving average

Source: GfK NOP/JGFR

► A big improvement in household finances last summer resulted in more savings households, up from 35% to 45% of the population. Greater savings confidence has helped boost prospective active in the past two quarters.

SURGE IN SAVINGS AND PENSIONS

Despite continuing low deposit rates, all cash products are set to receive increased inflows, with cash deposits, ISAs, regular savings accounts and children's savings accounts benefiting. All JGFR Cash Deposit Indices are at multi-year highs, with the Regular Savings Index at a record high, boosted by strong intentions by young people, many saving for a property deposit.

Improving personal finances may also have triggered much greater pension contribution intentions, helped also by the extensive advertising campaign on auto-enrolment. Nearly a half of working people intend to contribute, up from 37% in Q1 2013, with the JGFR Regular Pension Index at its highest since 2006.

Following strong investor intentions in Q4, likely to have reflected the Royal Mail IPO, investor sentiment turned more cautious in the Q1 2014 survey. Overall 13% of people intend to invest in equities or bonds, down from 16% in Q4 and slightly below 14% in Q1 2013.

STRONG SPRING FOR HOUSING AND CAR MARKETS

Housing market confidence (mortgage and property purchase intentions) jumped to its highest since Q2 2009 in Q1, boosted by greater numbers of cash buyers. Confidence is much greater in London. The 'bank of mum and dad' is more in evidence than a year ago.

Faced with high moving costs, increases in major renovation / DIY project intentions suggest more people may elect to stay put, further reducing properties for sale and pushing house prices higher.

Car finance plan demand climbed to a pre-recession high, with prospective demand almost double last year. A change of regulator from the OFT to the FCA in April may result in car finance being less readily available.

While overall consumer credit demand has returned to pre-recession levels in the past two quarters, debt repayment intentions are also at pre-recession levels, and net debt repayment is above the long-term average. One darker cloud is a rise in the number of indebted households, up by some half a million in the past year, a number likely to grow on interest-rate spikes.

A BANKING REVIVAL IN 2014?

As more new banking entrants appear, and established banks re-invent themselves to rebuild the trust they have lost, 2014 will prove a notable year for bank watchers.

To date the JGFR/GfK UK Banking Barometer[2] is yet to reflect any shift away from the continued dominance of the established branch banking brands.

Among the public, 86% have a designated main financial services provider (MFSP), of which 85% (81%, December 2013) cite one of the ten leading bank brands (including Nationwide). Barclays took over as leading MFSP following the forced separation of Lloyds Bank and TSB. The latter brand replaced former suitor Co-operative Bank in the top ten leading MFSP brands.

One area the banks have largely exited from is financial advice, either selling off client banks or moving to technology-driven direct-to-consumer platforms. Some 5 million people have exited professional financial advice in the past two years.[3]

GROWING DIGITAL DIVIDE

The past two quarters have seen a big jump in financial engagement among young people.

Around eight out of ten under-22s intend to save, invest, borrow or repay debt in the coming six months, well above the six-year average of around six out of ten.

For the great majority of the under-30s financial services is largely about online access to switch, compare, research or transact products/services. Some 83% of under-30s (60%, all adults) access financial services online through a PC, with 73% (43% all adults) also using a mobile device/app.[4]

A digital divide is now a key feature of the financial services landscape. As the economy grows and big data becomes ever more a driver of business, so a generational split is set to develop between the openness of the young and the more reserved older generation.

For financial institutions to grow in a more complex world, they will need to understand their customers' needs and expected outcomes in a culture of shared values. ◻

[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 six months across 18 categories of activity.

[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.

[3] See Financial DIY 2014 produced by ComPeer Ltd (www.compeer.co.uk) and JGFR.

[4] See JGFR Briefing paper 'Financial Services Buying Patterns 2014'