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SPEED READ
- Consumer confidence dipped from a 12-year high
- 19% of adults put money into regular savings schemes
- Consumer credit borrowing highest since June 2005
- Marketers well placed to generate sales volumes

CONSUMER BLUES

With the lingering uncertainty over the EU Referendum result and the subsequent Brexit fallout, consumer confidence has taken a tumble in 2016. JOHN GILBERT delves deeper.

Consumers are in a blue mood – the economic blues – as uncertainty, the new word of economists, prevails.

A year ago the mood of the consumer felt a lot different. While a May general election was generating intense political debate, with pollsters feeding the media surveys showing a likely hung Parliament, consumers were enjoying the benefits of economic recovery. Confidence was at a 12-year high, household finances were strong and pent-up demand for big-ticket items was unleashed in more relaxed credit conditions.

Not surprisingly in the voting booth, economic optimism won the day and the 'Year of the Consumer' was underpinned. Sentiment was positive in every month during 2015, the first time this has happened since the Consumer Confidence Barometer was introduced in 1974. Most of the key metrics on the consumer dashboard were at, or near, multi-year highs.

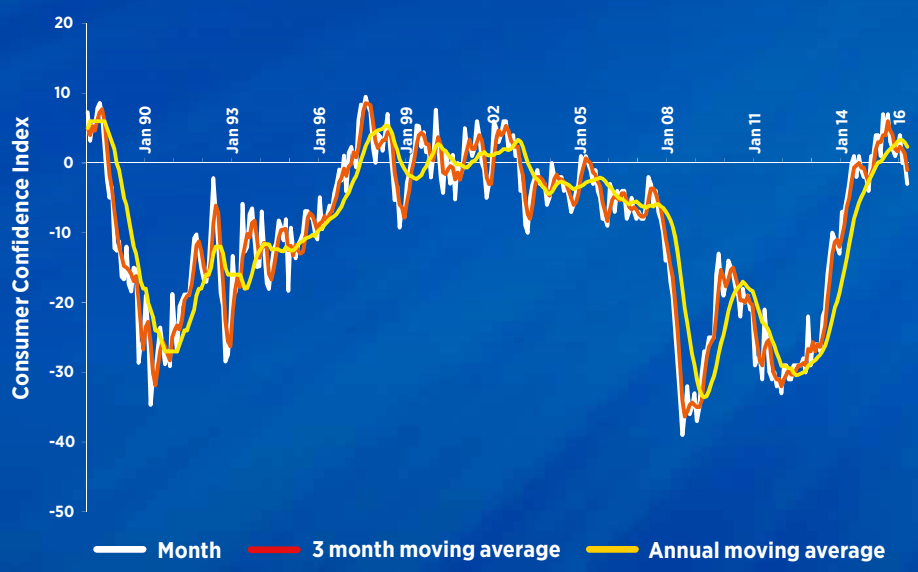
In contrast, 2016 looks set to be a down year for sentiment. The GfK Consumer Confidence Barometer in April fell to its lowest score (-3) since December 2014.

A GfK post-Brexit poll taken between 30 June and 5 July shows confidence down eight points to -9, with the economic situation in the next 12 months measure 15 points down on June and 33 points down on July 2015.

UNCERTAINTY RULES

The uncertainty of the EU Referendum outcome certainly stoked consumer fear. Growth has faltered as investment and spending decisions have been deferred.

Figure 1: UK Consumer Confidence 1988-2016



Source: GfK / European Commission / JGFR

It's still early days since the result and the full economic implications of the country's decision have yet to pan out.

Such worries are translating into rising unemployment and inflation expectations which together with forward measures of economic sentiment and personal finances have resulted in the JGFR Feel-Good Index shedding 47 points since its multi-year high of April 2015 to reach its lowest score since December 2013.

Financial wellbeing has not been as affected given the continuing strength of household finances. The combined measure of personal finances used in the headline GfK CCB is five points up in June on 12 months ago; the overall mean measure of household finances is at a 20-year high. Post-Brexit, both measures will fall back.

The dark cloud of indebtedness which threatened the economic climate has lightened in 2016, with the level of households in debt (5%) more around the long-term average, down from around 7% for much of the past six months until March.

As a result both spending and saving confidence remain well above long-run averages boosting the JGFR Financial Wellbeing Index to its highest since January and seven points up on June 2015.

'THE Q2 OUTLOOK FOR RETAIL FINANCIAL SERVICES BUSINESSES IS WELL ABOVE AVERAGE.'

Sentiment varies greatly across segments. Compared to June 2015 biggest falls are among the high earners, the over-50s and men. Despite the impression of a golden period for baby boomers, the sentiment gap with the very confident millennials has widened to 33 points from 24 points in June 2015. The National Living Wage would seem to have helped reduce the gender confidence gap (five points, June) which has been a feature of recent years (around 10 points).

REFERENDUM BOOST TO ACTIVITY

According to the Q2 CBI / PwC Financial Services Survey[1] business volumes expanded at a solid pace in Q1 2016 driven by demand from private individuals. This chimes with the Q1 outlook in the Financial Activity Barometer[2] which again highlighted the much greater intended financial engagement among consumers,especially millennials.

Despite EU Referendum uncertainty, the Q2 outlook for retail financial services businesses is well above average. Indeed some pre-Referendum asset switching activity may be adding to demand with a record level of capital withdrawals.

In the Q2 FAB 84% of adults intend to save, invest, borrow or repay debt, up from 82% in Q1, and from 81% in Q2 2015, at a 10-year high.

Savings / investment intentions (up from 68% to 75% of adults, year-on-year), borrowing (up from 20% to 21%) and debt repayment (down from 35% to 32%) reflect the strength in activity, in the wake of improved household finances.

The Q2 2016 JGFR FAB Index (see Figure 2) is up two points to 105.0 on Q1, boosted by a 6-point jump in the Savings / Investment Index to 111.9, close to Q1's record high.

Both Borrowing and Debt repayment Indices are above long-term averages; the former (86.5) is little changed on Q1 but down on Q2 2015 (93.7), while the latter is three points up on Q1 (106.0) but four points down on Q2 2015.

ISAs ON THE UP

Despite low interest rates and volatile stock markets, savings confidence has risen among consumers with a record proportion intending to put money into cash savings, life & pension and investment products. A record 44% of adults intend putting money into an ISA either in a lump sum or by way of a regular saving scheme.

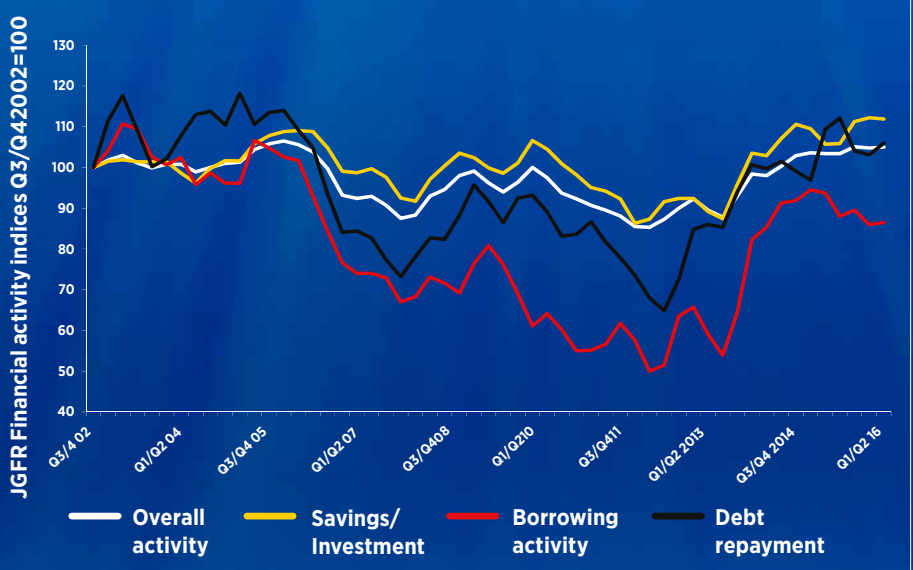
'A RECORD 44% OF ADULTS INTEND TO PUT MONEY INTO AN ISA.'

At the same time more people are moving their money around, pointing to increased monitoring of financial product offerings. Just over one in 10 adults intends to make a capital withdrawal in the coming months, the highest proportion in the 13 years of the FAB.

Nearly six out of 10 intending capital withdrawals are from outright owners. Many of these may be accessing pension pots allowed under the new pension freedom. A smaller minority are under 30, a number of whom may have saved up a deposit to put down on a property to buy.

A feature of recent quarters has been more people developing a regular savings habit, especially young people. Many will be saving for a property deposit. A record 19% of adults intend to put money into a regular savings scheme, above the long-term average (14%). ▶

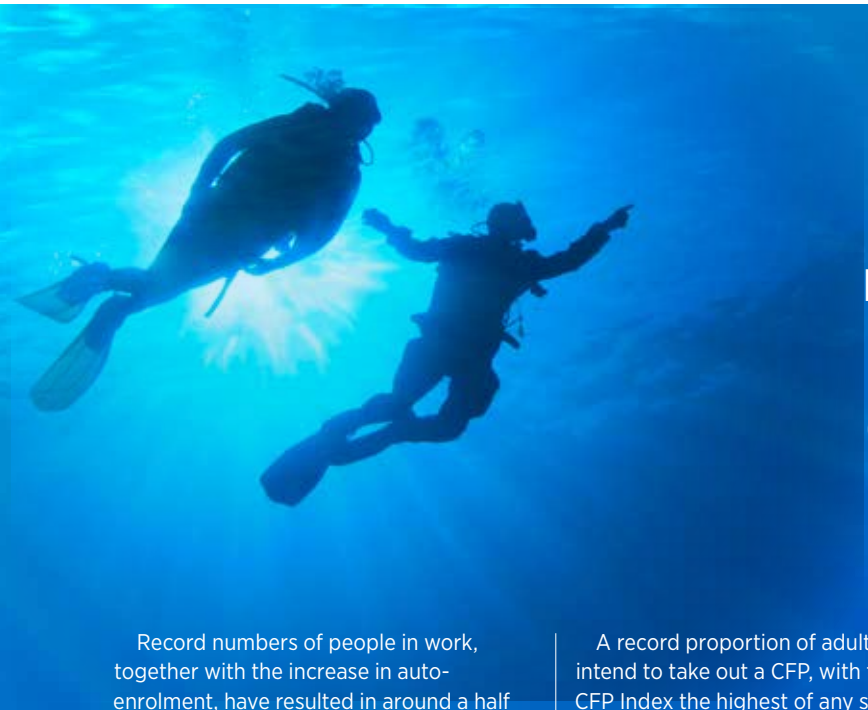
Figure 2: FAB Overall, Savings, Investment and Borrowing Indices 2002-2016*



*2-quarter moving average. Source: GfK/JGFR

1 See http://www.pwc.co.uk/industries/financial-services/insights/cbi-pwc-financial-services-survey-march-16.html

2 The UK Financial Activity Barometer (FAB) 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 Q1 Financial Activity Barometer was published in January 2016; the Q2 FAB in April 2016.



'GIVEN THE DEMAND FOR FINANCIAL PRODUCTS FROM CUSTOMERS, MARKETERS ARE WELL PLACED TO HELP GENERATE SALES VOLUMES.'

Record numbers of people in work, together with the increase in auto-enrolment, have resulted in around a half of the public (a survey high) intending to contribute to a regular or lump sum pension / life insurance scheme.

Recent quarters have seen greater focus on family finance; more people intend putting money into a Junior ISA / Child Trust Fund.

Among the investing public, sentiment improved in Q2, primarily for bonds rather than equities. Around 17% of adults intend to invest in equities or bonds, above the long-term average of around 15%.

CFPs DRIVE CONSUMER CREDIT USAGE

Strong big-ticket purchase intentions have been a feature of recent quarters; borrowing intentions in the coming months continue to be well above average, especially for Car Finance Plans (CFPs), although post-Brexit such demand is set to fall back.

More people intend to borrow by way of consumer credit (17%), the highest proportion since June 2005, with strong credit card, personal loan and overdraft usage in prospect.

A record proportion of adults (9%) intend to take out a CFP, with the JGFR CFP Index the highest of any savings, investment or borrowing product, up 13 points to a new high of 181.9. CFPs have been the success of the consumer finance industry.

Mortgage and property purchase intentions, the latter capturing cash buyers as well as mortgage buyers, are weaker in the Q2 FAB following strong intentions in the past year, but continue at well above average levels.

The JGFR Housing Confidence Index, combining both activity measures, fell for the second successive quarter, down from a 10-year high in Q4 2015 of 102.5 to 88.9 in Q2.

Family finance is to the fore in housing market activity with outright owners representing 46% of mortgage intentions and 45% of property purchase intentions. Many of the 'outright owners' will be younger family members benefiting from the Bank (and home) of Mum and Dad.

MAIN FINANCIAL SERVICES PROVIDERS (MFSPs)

JGFR has long argued that the public designate a Main Financial Service Provider (MFSP). This has been tested over 13 years in the JGFR/GfK UK Banking Barometer.[3] The Q2 Barometer finds that a record 93% of adults cite having a MFSP; 89% cite one of the top 10 banking brands as their MFSP. Despite efforts to establish a core of new challenger bank brands, the public prefer the well-known high street banking brands as their MFSP.

Nearly three-quarters prefer their MFSP to be a high-street bank / building society with branches. Enhancing the customer experience is the key to success in the market across channels.

In the Q2 Banking Barometer the strength of the former building society brands continues the Leicester City-like assault on the MFSP league table over the past year.

Over the past four quarters Barclays retained the MFSP leadership it had in the four quarters to March 2015, but with notable changes in its wake. Santander, Halifax and Nationwide increased their combined MFSP share from 29% in the four quarters to March 2015 to 34.5% over the four quarters to March 2016.

Given the demand for financial products from customers, marketers are well placed to help generate sales volumes. The challenge is in helping customers navigate an uncertain world where they are increasingly responsible for their long-term financial wellbeing. A first step may be for MFSPs to provide guidance on the financial impact of Brexit.

3 The UK Banking Barometer is run quarterly on the same GfK omnibus as the Consumer Confidence and Financial Activity Barometers. It asks respondents who they regard as their main financial services provider. The Q2 2016 UK Banking Barometer was published in April 2016.

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