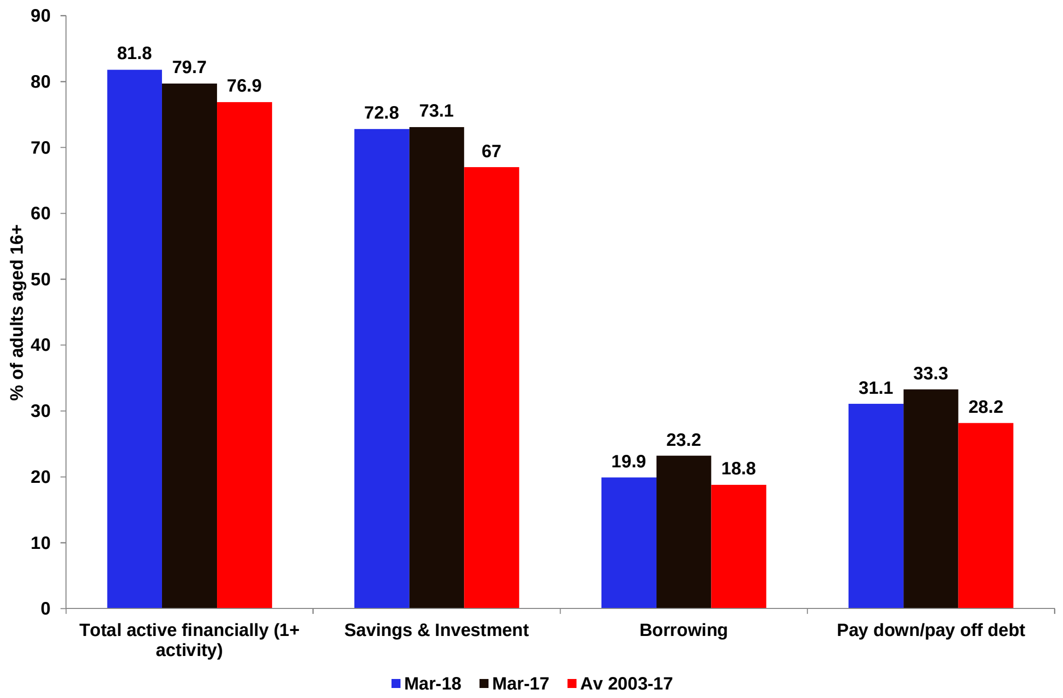
JGFR Financial Activity Barometer Spring 2018

Above average savings, investment and borrowing activity in next 6 months

The Q2 2018 JGFR Financial Activity Barometer (FAB) shows consumers prospective saving, investment and borrowing activity at above average levels, despite economic uncertainty and weaker consumer confidence.

Headline JGFR Financial Activity Barometer 2002-18



Source: GfK / JGFR

Over 8 out of 10 adults (81.8%) intend to undertake one or more of 18 saving, investment or borrowing activities in the next 6 months, well above the long term average of 76.9%, and the highest proportion since Q4 2016.

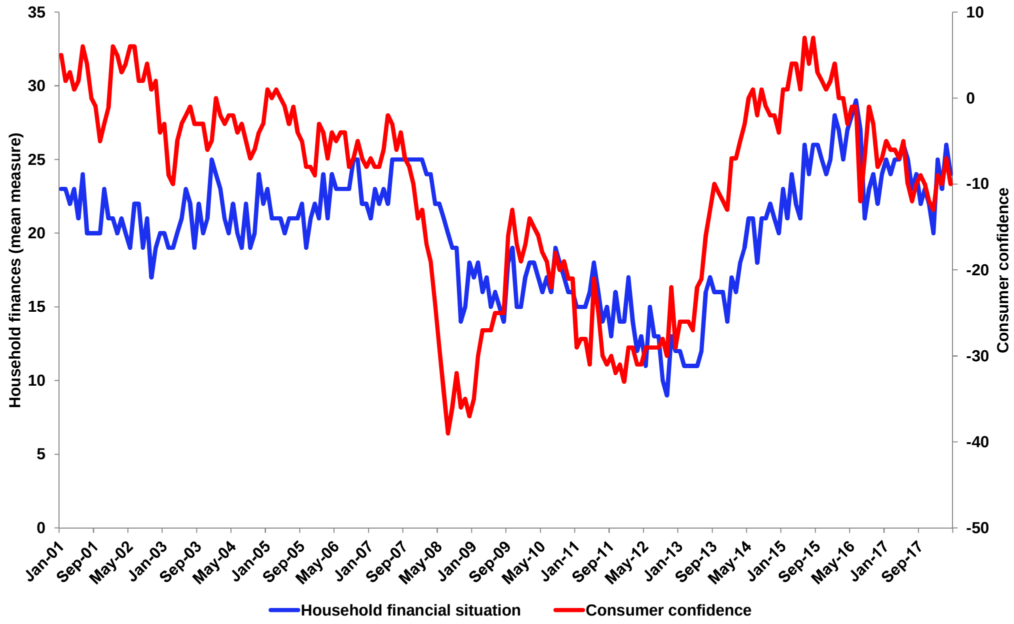
While the headline proportion of total financial activity is higher (81.8%) compared to Q2 2017 (79.7%), fewer people intend undertaking 4 or more activities and more 1,2 or 3 activities in the current survey. More expected financial activity is reflected in greater individual product intentions.

This is reflected particularly in borrowing activities. Overall the proportion of adults expecting to borrow in Q2 2018 (19.9%) is less than in Q2 2017 (23.2%). In line with fewer intending borrowers fewer people intend to repay debt (31.1% v 33.3%, Q2 2017).

Both expected borrowing and debt repayment in the latest survey are higher than the long term average which, despite weaker confidence, may reflect the relative strength of household finances.

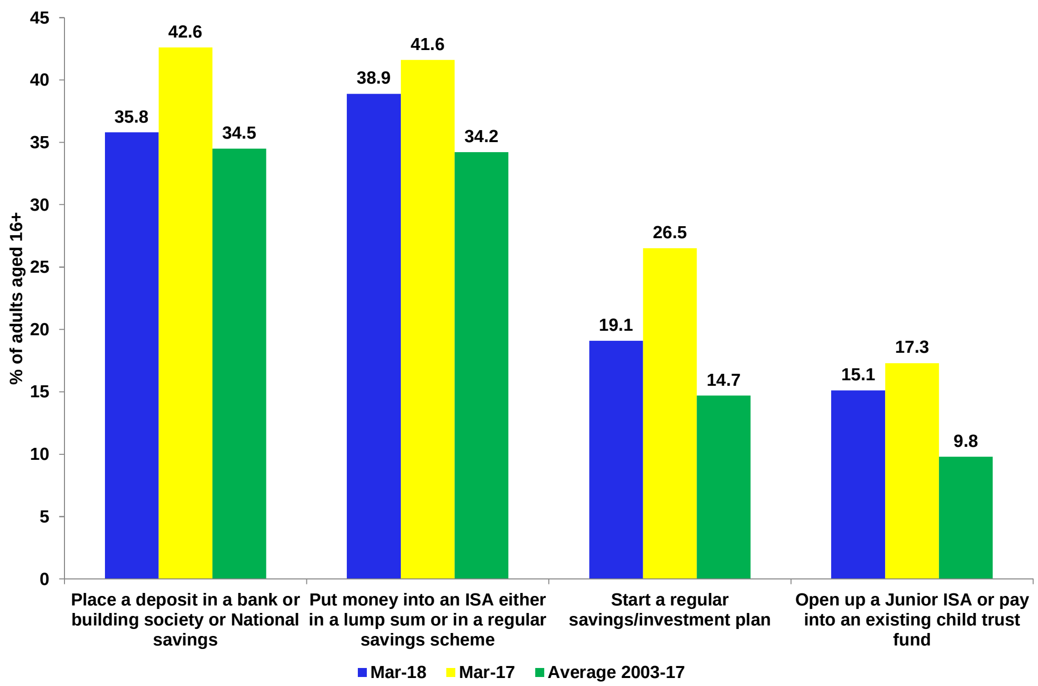
Expected saving and investment activity (72.8%) is well above the long term average (67%) and is little changed on Q2 2017 (73.1%). A feature of the past year has been the increased intended savings activity on the back of improved household finances helped by rising employment.

Household finances and consumer confidence 2001-18



Source: GfK / European Commission / JGFR

Cash deposits and ISAs still most popular savings products



Source: GfK / JGFR

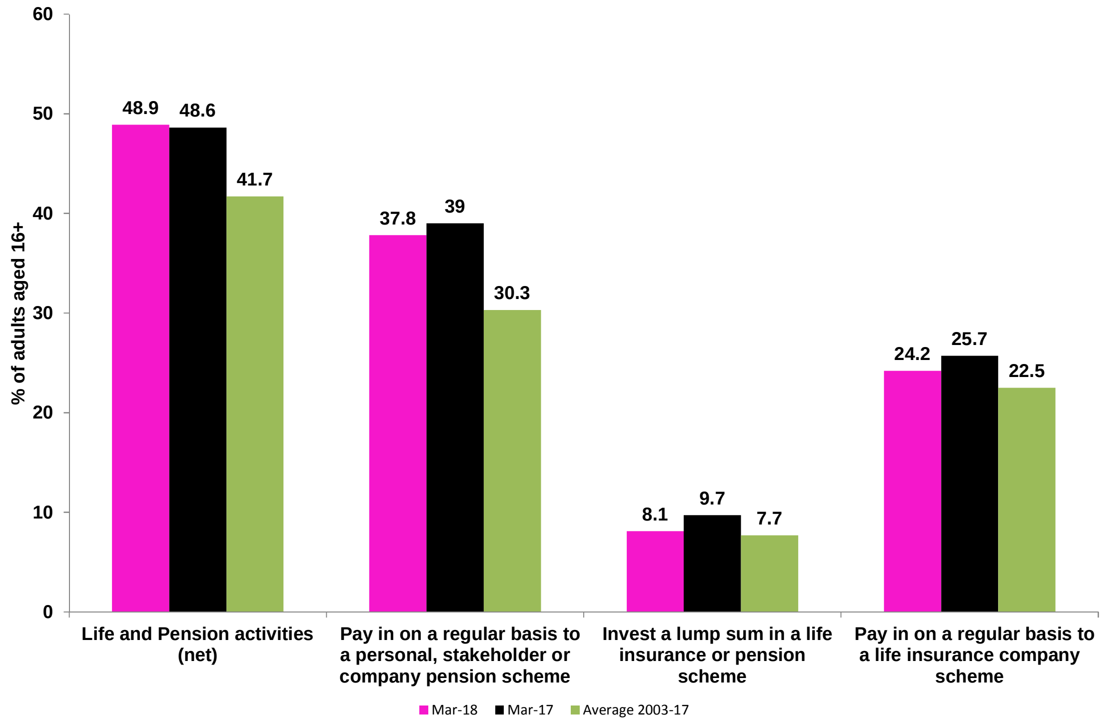
While expected demand for all four savings products listed above is lower than a year ago, demand remains above the long term average, especially for regular savings and children's savings accounts. The desire to get on the housing ladder among young people has been a factor in recent years in boosting regular savings schemes.

People cashing in pension pots, receiving inheritances and maturing life policies / savings plans may have boosted the cash available to deposit in Q1 2017.

Increased pensions activity a feature of recent years

Millions of people will have been affected by changes in pension policies in recent years, both government and employer induced. Giving access to pension pots has been a feature of increased activity among the over 55's, while at the younger end auto-enrolment has resulted in much greater intended regular pension activity.

Life and pension intended activity 2003-18



Source: GfK / JGFR

Over the past 15 years the proportion of adults paying into life and pension policies has notably increased. Nearly a half of adults now expect to pay into a life or pension scheme with a long run average over 15 years of around 42%. Life and pension businesses should have seen strong growth in business volumes and look set to see continued growth.

The success of auto-enrolment is reflected in the jump in the past 5 years in the proportion of people making regular pension contributions. Around 38% of adults expect to make a regular pension contribution, slightly down on 39% in Q1 2017, but well above the long term average of 30.3%

Among full-time workers 63% intend to make a regular contribution compared to 41% of part-time workers, slightly down on 66% and 43% 12 months ago.

Lump sum life and pension contributions have fallen back from a well-above-average-level in Q2 2017, but remain slightly above the long term average,

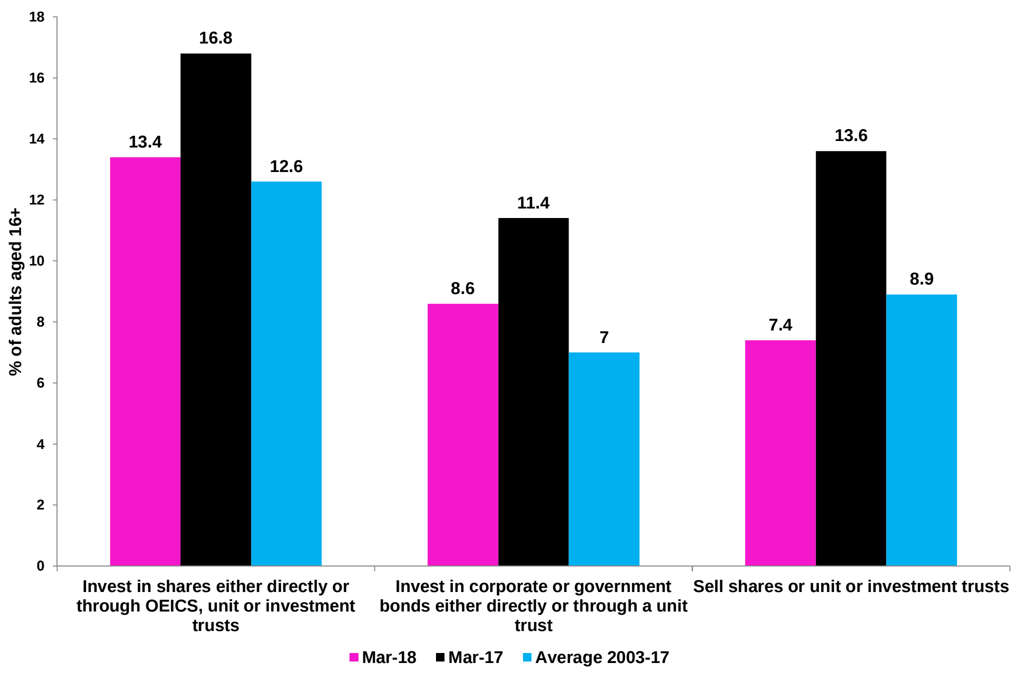
The past 2 years has seen greater take up of life insurance policies that may reflect greater awareness of the risks of dying/incapacity without making provision for financial security for family and dependents. Fewer people intend to pay into a regular life insurance scheme (24.2%) than 12 months ago (25.7%), although more than the long term average (22.5%).

Above average investment intentions in Q2

With considerable volatility in the stock market and the threat of rising interest rates, equity and bond investors have had a roller-coaster ride in recent months. The FTSE 100 fell by 8.2% in Q1 although has now bounced back to a new record high. The threatened May rise in Bank Rate was deferred by the Bank of England's Monetary Policy Committee as growth in Q1 was weaker than expected.

Against the backdrop of Q1 volatility investor sentiment for Q2 is above average, although down on the very strong measure of Q2 2017. This is true for both equities and bonds. Slightly fewer people intend to sell investments than average; this may reflect stronger household finances but also the need for income that many investments provide.

Equity and bond intentions, Q2 2018, Q2 2017 and 2003-17 average



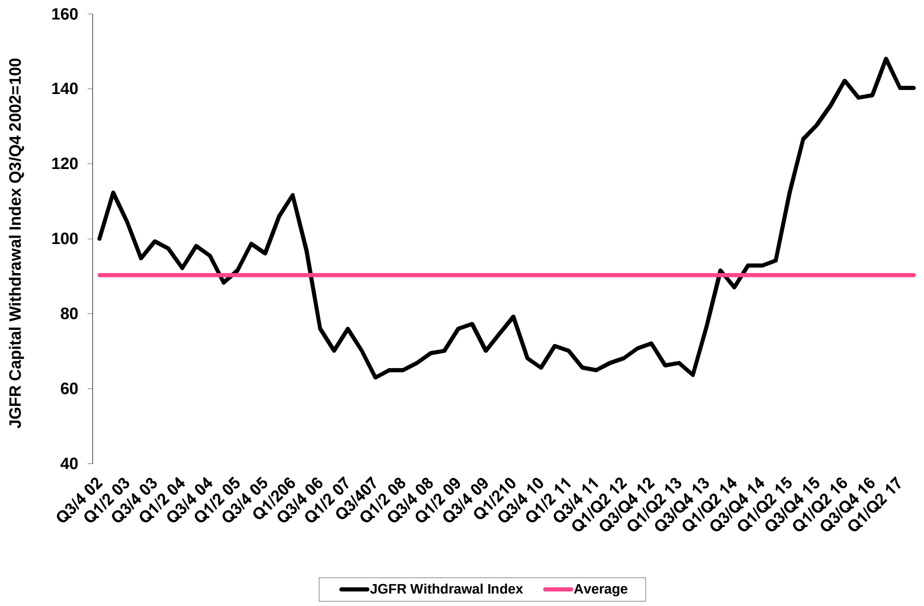
Source: GfK / JGFR

Expected investment activity continues to be driven by higher earners living in London and the South East. Many are outright owners. There is a big gender divide with 20% of equity investors male, compared to 7% of female investors, and 14% of bond investors male compared to 4% of female bond investors.

Capital withdrawals at 3 year low

In recent years financial activity levels have been boosted by record levels of intending capital withdrawals. Pension pot freedom together with more people at retirement and able to access cash lump sums, maturing high yielding deposits /bonds and 25-year endowments taken out in the early 1990s, and inheritances, have helped generate more available capital resources.

Capital Withdrawal Index 2003-17



Source: GfK / JGFR

In Q2 2017 just over 10% of adults expected to withdraw capital in the following 6 months, well above the long term average of 7%. The latest survey shows 8.6% of adults intending withdrawing capital with higher numbers of the over 50s and outright owners many of whom will be at or near retirement and may also be seeking equity withdrawal. There has also been a rise in the number of young people withdrawing capital that may reflect house purchase and student loan activity.

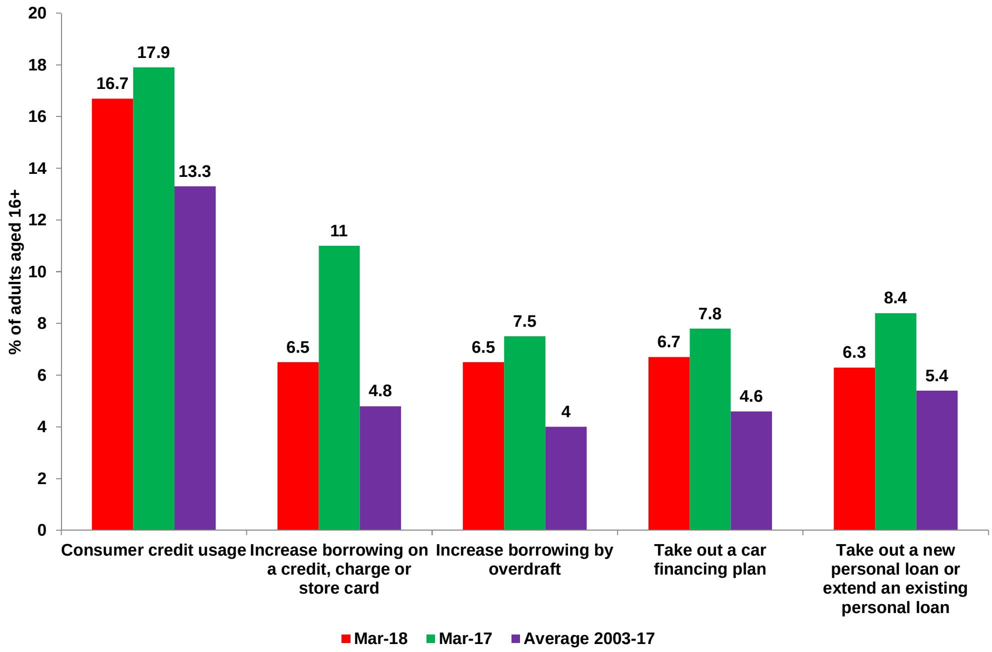
Consumer credit demand weaker on a year ago but above long-term average

The past two years has seen expected consumer credit usage sharply higher. The 2-quarter JGFR Consumer Credit Index based on a Q3/Q4 2003 index of 100 reached a record high of 119 in both Q42016/Q12017 and Q1/Q2 2017. This compares with a survey low of 52.5 in Q1/Q2 2012.

Expected credit usage in 3 of 4 product areas reached new survey highs helped by the Bank of England’s response to the Brexit vote in loosening monetary conditions as it sought to stave off recession. Consumers responded by boosting spending and helping UK GDP avoid any immediate Brexit blues.

The JGFR Personal Loans Intentions Index reached a high of 122.5 in Q2/Q3 2017; the JGFR Overdraft Index soared to 213.7 also in Q2/Q3 2017, while the JGFR Plastic Card Borrowing Index hit a record 210.7 in Q1/Q2 2017. Only the JGFR Car Financing Plan Index was off its Q42015/Q12016 pre-Brexit high of 181.9, but still a very strong 162.8 in Q2 2017. Many consumers appeared to back up their Brexit vote with ensuring the economic doomsters were wrong.

Consumer credit usage intentions Q2 2018, Q2 2017 and 2003-2017 average



Source: GfK / JGFR

Compared to a year ago overall expected consumer credit usage is slightly lower (16.7% of adults intend to use credit compared to 17.5% a year ago) , although intended credit usage is well above the long term average (13.3%). Major purchase intentions tracked by the GfK CCB on a 3-monthly basis improved in April compared to the past 3 quarters suggesting that summer spending by consumers may gain traction fuelled by higher borrowing.

Across the individual product areas all are lower than the exceptionally strong demand of a year ago, moving closer to the long term averages. Biggest reduction in people intending using credit is on plastic cards.

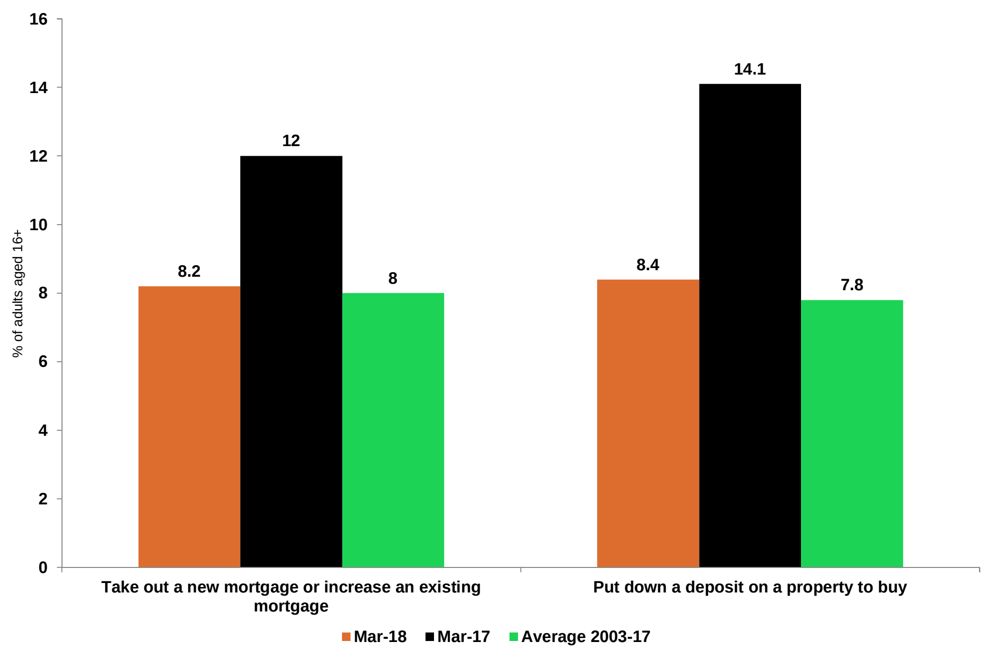
Household indebtedness continues to be at elevated levels relative to the current low level of Bank Rate, although consumer credit borrowers (especially using credit cards and overdrafts) are exposed to much higher interest rates that compound up very quickly if repayments are missed. In April 7% of households were running into debt and a similar number having to draw on savings. This compares with 7% running into debt and 6% drawing on savings a year ago, but is above the long term average of nearer 4-5% falling into debt and 5-6% drawing down savings, in periods when bank rate was much higher.

A new wave of consumer borrowing especially given the unchartered waters the UK is set to enter, while helping boost growth, will need to be carefully managed by providers, regulators and the Bank of England.

Housing market intentions at around long-term average

Despite new stamp duty regulations surrounding Buy-to-Let and Second Homes introduced in April 2016, demand for mortgages and the intention to purchase a property were at or near record levels in Q1 2017. Momentum in expected housing market activity had increased since Q4 2016 following the Bank of England's introduction of its Term Funding Scheme. This helped reduce mortgage rates, and alongside the existing Help to Buy scheme and Lifetime ISAs stimulated housing market activity with a jump in numbers of first time buyers.

Intended Housing market activity, Q2 2018



Source: GfK / JGFR

Compared to Q2 2017 expected housing market activity has returned to around the long term average with some 8% of adults intending both to take out a mortgage and put down a deposit on a property to buy. There are big drops in numbers of outright owners and existing mortgagors intending being active in the housing market suggesting pressure on properties available for sale.

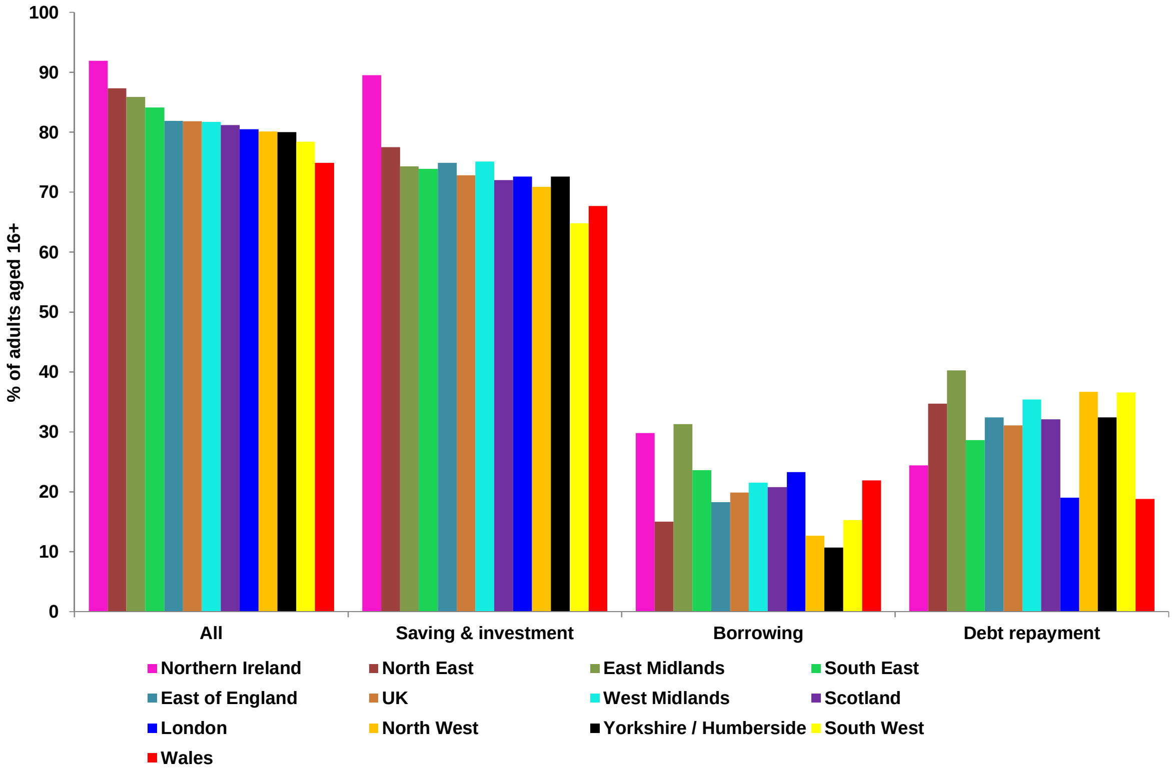
Fewer intending cash buyers are in evidence compared to Q2 2017, especially among outright owners. More cash buyers are found among current renters. Among mortgagors fewer are looking to buy, with more seeking to refinance (42% v 21%, Q2 2017), with many worried about mortgage rate hikes.

By profile activity continues to be greatest among the under 40s. There is less evidence of the Bank of Mum & Dad apart possibly from the youngest age group where demand is greater than a year ago with Mum & Dad perhaps providing parental guarantee / deposit to support a mortgage.

Expected housing market activity has slowed down across all UK regions over the past year, with the biggest declines in Northern Ireland, the West Midlands, Scotland and London.

Among Londoners 12.7% of adults intend to take out a mortgage compared to 18% in Q2 2017 while 13% of Londoners intend putting a deposit down on a property to buy, down from 22.6% in Q2 2017. This fall among Londoners reflects a weakening of confidence in the Capital, falling in April (-6) to its lowest since after the Brexit vote in July 2016 (-8).

Financial activity in prospect: highest in Northern Ireland*, weakest in Wales, Q2 2018



*smaller sample size in Northern Ireland may over-state results

Source: GfK / JGFR

The outlook for financial services providers varies considerably across the 12 UK regions / devolved administrations. Prospective financial activity is greatest in Northern Ireland (89.5%) boosted by very high intended savings & investment activity. In general. activity correlates well with confidence and in March confidence in Northern Ireland jumped 21 points to -3, subsequently shedding 10 points to -13 in April. Border issues over Brexit will have an impact but the measure is volatile.

Weakest activity in prospect is in Wales (74.9%) and the South West (78.4%). In the latter confidence has been very weak for a number of months with low levels of saving / investment intentions and a high priority attached to debt repayment pointing to a region under financial pressure.

Londoners' activity (80.5%) also is unusually below the UK average (81.8%). London , Wales and Northern Ireland are the only regions where borrowing intentions are greater than debt repayment intentions.

Brightest prospects for saving & investment businesses are in the North East and East Midlands; for lenders in the East Midlands and the South East (where borrowing intentions are well exceeded by debt repayment intentions).

Debt repayment is a greater priority in the East Midlands (40.3% of adults intend to repay / pay down debt), North West (36.7%) and South West (36.6%).

Notes:

The Q2 Financial Activity Barometer was undertaken online by GfK for JGFR between 1-17 March 2018 among 2003 adults aged 16+, representative of the UK population

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