

UK consumers expected savings, investment and borrowing activity is at its highest level since 2007

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UK consumers expected savings, investment and borrowing activity is at its highest level since Spring 2007 despite credit crunch

Despite economic gloom and weak consumer confidence, UK consumers are expecting to undertake their highest level of savings, investment and borrowing activity in fifteen months according to the latest UK Financial Activity Bulletin produced by JGFR, using specially commissioned data from GfK NOP.

This suggests an improvement in business outlook for retail financial services providers, although prospects vary between market segments and will be affected by the restriction of credit to households.

This is the second successive quarter showing an improving business outlook. It follows on from the rapid drop in intended financial activity last autumn when confidence in financial institutions fell following the problems at Northern Rock caused by the credit crunch. In December the Bulletin recorded the lowest intended savings, investment and borrowing activity in its 6-year history.

Some 2 million more adults expect to be "financially active"

74% of people intend to undertake one or more of 18 activities, up from 73% in March and 72% a year ago. Overall activity is some way below its long-term average of 78% and its record high of 84% in the autumn of 2005.

The headline FAB Financial Activity Index, based on a 2-quarter moving average to reflect the 6-month time period consumers are asked to consider their financial activity intentions, rose to 93.0 compared to 88.3 in March and is up from its record low of 87.5 in December. A year ago it was 92.9.

Some 2 million more people expect to undertake two or more savings, investment or borrowing activities (which we define as the "financially active") compared to March. Overall some 27.4 million adults expect to be financially active, up from 25.3 on the quarter and up from 27.1 million adults a year ago. The number of people expecting to undertake 6 or more activities (generally higher earners / the "mass affluent") increased from an estimated 4.5 million to 5 million on the quarter.

More people intend to save / invest particularly in cash-based and life & pension products

More people intend to save / invest than in March " up from 63 % to 66%, and up from 65% a year ago. The FAB Savings / Investment Index is up from 91.7 to 97.3, although down slightly on 99.2 a year ago. The improvement in savings / investment intentions is most noticeable among the young who appear to realise that the era of high loan to valuation mortgages is at an end. As a result much larger deposits will be needed to secure a mortgage in the future.

Despite squeezed personal incomes, a higher proportion of people intend to pay regularly into life and pensions schemes in the coming months " up from 35% in March to 40% currently and its highest score since Spring 2007 -suggesting that in uncertain times family financial protection becomes a greater priority.

While demand for cash-related product, particularly ISAs, is up this quarter, investor sentiment for equities is weak. There is little change in the number of buyers " the FAB Equity Purchase Intentions Index is little changed at 106.3 on the quarter, although slightly more people are intending to sell equities. Selling pressure has however been fairly limited in the past year despite the fall in stock market indices. The FAB Securities Selling Index is at 89.3 compared to 96.8 a year ago.

"but mixed borrowing intentions

While prospects for savings / investments providers have improved the outlook for mortgage and consumer finance businesses is mixed.

In the Spring Financial Activity Bulletin confidence in the housing market picked up but the lack of mortgage availability together with falling house prices meant demand was not met. This contrasted with the previous spring when mortgage demand was very weak yet mortgage approvals were near record levels.

In the latest survey the lack of mortgage availability together with falling house prices has resulted in the demand for mortgages dropping to its lowest ever. The FAB Mortgage Intentions Index fell back to 72.5 from 74.5 on the quarter and from 76.8 a year ago. At the same time the proportion of people intending to put down a deposit on a property to buy fell to a record low adding to the gloomy batch of recent housing market indicators.

Overall borrowing intentions fell on the quarter (down from 18% to 16% of adults) as a result of the drop in mortgage demand but more consumers expect to resort to unsecured borrowing in the coming months – up from 11%-12%. Both overdraft and credit card borrowing indices moved sharply higher suggesting more people expect to resort to unsecured borrowing as personal finances come under strain.

With more households falling into debt and fewer people intending to repay debt this quarter, the outlook is for default rates to rise as banks cut back extending new credit.

Big regional differences in demand – London and the North East are set to be most financially active

Regionally, more people intend to save, invest or borrow in London and the North East, where the nationalisation of Northern Rock will have boosted confidence. Higher savings/investment activity is expected in London; greater borrowing activity in the North East. The least financially active regions in prospect are in Northern Ireland and the South West.

There are big differences in housing market demand with Londoners still leading the way. The London Property Intentions Index, although down on the quarter, is almost double the UK Index (81.7) at 153.8.

Abbey-Alliance & Leicester merger to create sixth major main financial services provider

Although shareholders are shunning the leading UK banks as they seek new capital, 85% of consumers regard the leading top ten bank brands as their main financial services provider – little changed on March and on a year ago. The merger announcement between Abbey and Alliance & Leicester creates a new major main financial services provider with a current market share of around 8% and capable of closing the gap with nearest competitors, Halifax and NatWest.

Commenting on the survey findings John Gilbert, Chief Executive of JGFR said:

“With all the financial doom and gloom in the news it is refreshing to be able to comment on a more positive financial outlook, particularly for retail savings and life and pension businesses. It is going to be a difficult period in the housing market and the rise in expected credit card and overdraft borrowing suggests that an increasing minority of consumers are struggling financially. A sharp drop in the price of oil is the best summer news that consumers can hope for.”