Four Million Fewer People Financially Engaged than a Year Ago

Contributed by John Gilbert Financial Research
Thursday, 19 July 2007

Findings of the 22nd quarterly UK Financial Activity Bulletin for Summer 2007
Weak financial activity in prospect in coming months
Some 4 million fewer consumers expect to save, invest or borrow in the next 6 months than last summer according to the latest UK Financial Activity Bulletin produced by JGFR based on a specially commissioned survey among 2,000 adults aged 16+ undertaken by GfK NOP.
The findings suggest an extremely competitive summer season of attractive offers as financial services providers try and stimulate demand in the face of rising interest rates and squeezed household budgets.

Overall activity index close to survey low
The FAB Activity Index* is little changed in June (92.9) close to its all time low (92.4) and down from 103.8 a year ago. Since the survey began in March 2002 the index has averaged 100.6. 72% of adults expect to be financially engaged in the coming months.
There are notable differences in activity across the UK. In London 76% of people expect to be active compared to a low of 63% in the North (primarily North East). Other regions of above average financial activity are the South East (75%), South West (74%) and East Midlands (73%).*

* The FAB Activity indices are based on a 2-quarter moving average (base Q3/Q4 2002=100). This takes into account the 6-month time span and counters seasonal effects.

Borrowing intentions flat; savings / investment intentions down slightly
There is little change in the proportions of people intending to borrow and a slight fall in people expecting to save/invest in the latest survey compared to the New Year survey. The proportion of borrowers in the population is little changed at 17%; the proportion of savers/investors is down to 65% from 67%. The latest FAB Borrowing Index is unchanged at 74.0, its record low set in March, while theFAB Savings Index rose slightly to 99.7 from 98.7in March. These indices compare to 101.0 and 108.8 respectively a year ago.

With fewer people borrowing in recent months and high levels of debt repayments in the past two years, the proportion of the population expecting to repay debt in the coming quarters has reduced from around one-third to under one-quarter in the past year. Part of this fall in debt repayment may also reflect more people taking mortgage payment holidays.
Compared to a year ago the numbers of intending savers and investors has fallen from 34.9 million to 32 million, and down 1 million compared to March.

The number of intending borrowers has fallen from an estimated 9.8 million a year ago to around 8 million in the latest survey.

Cash-based products show good prospects
Despite an overall fall in expected savers/investors some products have better prospects. Placing a cash deposit is the most popular of all savings, investment and borrowing products (36% of the population expect to undertake) slightly higher than in March.
ISAs and regular savings plans, although slightly down in appeal this quarter both have been popular over the past year with indices well above average. Prospective contributions into Child Trust Funds are lower (11% of adults) than a year ago (15% of adults).

Jump in lump sum life & pensions intentions
While the proportion of people intending to pay into a life or pensions scheme this quarter fell back from 40% in March and from 44% a year ago to 38%, more people intend to pay into a lump sum life or pension scheme, probably as a result of the new pension regulations last Spring. The FAB Lump Sum Index rose sharply to 128.8 in June from 110.0 in March.

Investor sentiment lowest since December 2004
The surge in investor confidence that reached a peak in June 2006 has fallen back in subsequent quarters, although mainly in terms of new purchases. Fewer investors have been intending to sell during this period suggesting they are happy to see gains from market

momentum resulting in increasing net retail sales of equities and equity related products.

The FAB Equity Buying Index is at 117.4, down 11 points on the quarter and down from a record 150.1 a year ago. The FAB Government and Corporate Bond Index also is down this quarter â€“ from 129.8 in March from 146.8 last year.

Little appetite for consumer creditâ€¦â€¦.
Consumer caution and worries about rising interest rates is hitting consumer credit demand. Expected credit usage is set to fall for the fifth consecutive quarter. The FAB Consumer Credit Index is down to a record low of 74.9 from 77.6 in March and from 101.0 in June 2006.

â€¦but steady summer for housing market in prospect
After several quarters of slumping demand for mortgages â€“ not reflected in approvals figures â€“ mortgage demand has picked up a little in the past two quarters. The large number of fixed rate mortgages coming to the end of their term will be a factor. Among prospective new mortgagors, 28% are currently renting and are likely to be first time buyers. The FAB Mortgage Index is up at 76.8 in June from 71.5 in March but down from 81.1 in June 2006.

Property intentions (putting a deposit on a property to buy) has been more in line with current market trends â€“ the FAB Property Intentions Index is up (100.6) compared to March (98.8) although down on a year ago (102.6). In London the Property Intentions Index is 192.2 compared to 167.5 in March and 159.5 a year ago. Around 25% of people intending putting down a deposit are likely to be cash buyers- some of which will be parents helping to support their offspring get on the property ladder.

Barclays in pole position as UKâ€™s leading main financial services provider (MFSP)
In the competition to win the most wallet space as the leading MFSP brand, Barclays appears to have won control from Lloyds TSB having been market elader in 4 out of the past 5 quarters. Previously Lloyds TSB had been leader since March 2003. Overall the market share of the leading ten brands (85%) shows no sign of lessening despite recent negative publicity.

Commenting on the latest Financial Activity Bulletin findings, author John Gilbert said :
â€œThe latest Financial Activity Survey data reflects the straight-jacket many consumers find themselves in. More people have adopted a cautious approach to personal finances â€“ seemingly preferring to focus on meeting monthly commitments and spending out of income.

While investor sentiment has fallen back this quarter, cash based products are benefiting from higher interest rates â€“ boosted by strong competition. At the same time property demand continues to confound with little evidence this quarter of consumer confidence in residential
property cooling â€“ particularly in London.

As in March the current climate remains a tough one for retail financial services providers. With higher--margin consumer credit constrained by continuing bad debt write-offs, many are having to seek new ways of generating revenue from financially restrained consumersâ€•

Enquiries: John Gilbert 0208 944 7510 / 07740 027968 (mobile)

Notes:Â· The Financial Activity Bulletin is based on a sample of 2,033 adults aged 16+ and carried out from 8-17June 2007 by GfK NOP. Quotas are imposed on age, sex, region and social class to ensure the final sample is representative of the UK population
- The survey was conducted by telephone and weighted
- The financial activity survey asks consumers about their expected savings, investment and borrowing activity in the next 6 months. It also asks consumers about their main financial services provider.
- The Financial Activity Bulletin is available either on a single copy or subscription basis
- More details can be found at www.jgfr.co.uk
(Any published material requires a reference to GfK NOP and JGFR)