Slump in expected activity pushes retail financial services towards recession

Contributed by JGFR
Friday, 15 February 2008
Last Updated Monday, 14 July 2008

Findings from the 24th Financial Activity Survey for New Year 2008 - Thursday 17th January 2008

Slump in expected activity pushes retail financial services towards recession
Consumers expected savings, investment and borrowing activity is set to continue its year long slide in the coming months pointing to a difficult period ahead for the retail financial services industry.

This is the key finding from the 24th UK Financial Activity Bulletin produced by JGFR based on research commissioned from GfK NOP*.

In the past two years the proportion of adults expecting to be financially engaged has fallen from 84% to 67% - a fall of some 8 million people. This sharp decline in expected activity comes against a backdrop of slow growth in disposable income, the recent credit crunch and threatens many jobs in the all important financial services sector.

The two-thirds of adults expecting to save, invest or borrow is the lowest proportion since the survey started in March 2002. The headline FAB Activity Index, based on a 2-quarter moving average with Q3/Q4 2002 =100, fell to 87.5, a record low, down from 92.9 in September and 99.7 in December 2006. In December 2005 the FAB Index reached its record high of 106.5.

Compared to a year ago the number of adults financially inactive has increased from an estimated 14.2 million to 16.4 million. There are some 2.4 million fewer people intending to save or invest and 1.3 million fewer intending to borrow this year compared to last year.

The weakness of financial activity comes against a background of consumer uncertainty and squeezed household budgets. Consumer confidence is at its lowest since December 1995 and the spending climate is viewed as its weakest since June 1991.Â

Commented report author John Gilbert:
â€œThe latest survey findings confirm the very difficult operating outlook for retail financial services businesses predicted in last quarters survey. Borrowing intentions have been weak for some time but the concern for many providers in this survey is the fall in savings intentions which will add to retail funding pressuresâ€•

Big regional differences in financial activity
A feature of the survey has been the differences in financial activity across the UK regions.
While demand in many areas for financial services has weakened during 2007, in London demand has been consistently much stronger.

In the latest survey people in East Anglia (76%) and London (71%) expect to be the most financially engaged. The least financially engaged are people living in the North (57%) and Northern Ireland (59%).

Londoners expect to be the most financially active â€“undertaking 2 or more activities â€“ 57% compared with 48% overall.

Proportionately more people in East Anglia (68%) expect to save/invest in the next six months while more Londoners expect to borrowÂ (20%) than anywhere else in the UK. At the sameÂ time more Londoners also intend to repay debt (29% compared to 21% overall)

Overall 58% of adults expect to save or invest in the coming 6 months, with greater expected activityÂ Â in the South West (61%), London, Scotland and the South East (60%). Lowest saving/investment is expected in the North (51%) and Northern Ireland (48%).

The proportion of Londoners expecting to put down a deposit on a property to buy fell from 15% to 11% quarter-on-quarter although this remains well above the national average (7%). This fall suggests some cooling of the London market is in prospect. The FAB London Property Purchase Intentions Index is down from 183.1 in September to 160.8 in December -this is almost double the national index which fell to a record low of 85.4 from 94.6 in September.

Barclays brand regains pole position as the leading main financial services provider
Last quarter Lloyds TSB returned to the top position for the first time since September 2006. In the latest survey Barclays regained pole position for the fourth quarter out of five. Among the best performers this quarter are both HBOS main

brands, Alliance & Leicester and The Co-operative Bank.

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

Notes:
*The Financial Activity Bulletin is based on a sample of 2,000 adults aged 16+ and carried out from 30 November â€“ 9 December 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 across 18 categories. It also asks consumers about their main financial services provider.

- Product areas covered include cash deposits, ISAs, regular life and pension contributions, lump sum life & pension contributions, investment in equities and unit trusts/OEICS, mortgages, house purchase, personal loans, overdrafts, credit/charge card borrowing, car finance plans, child trust funds

- The Financial Activity Bulletin is available either on a single copy or subscription basis

- More details can be found at www.jgfr.co.uk