

Soaring Consumer Optimism Does Not Equate To The Prospect Of ...

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Rising Savings, Investment And Borrowing Activity

The 31st JGFR Financial Activity Bulletin, published today by JGFR finds that consumers, although showing optimism about the economy at the highest level since the late 1990s, remain very cautious about spending or saving money.

The autumn financial activity survey*, carried out by GfK NOP for financial research consultancy JGFR found some 1 million fewer people financially engaged compared to June and some 2 million fewer than the turn of the year.

One feature of the financial turbulence of the past year had been to make people more pro-active in managing their finances but the latest survey suggests that this pro-active approach has faded.

Some 37 million people expect to save, invest, borrow or repay debt in the coming months, down from an estimated 37.7 million in June, 39.6 million in December and 37.4 million a year ago.

Of these there are some 400,000 fewer people who are regarded as financially active "undertaking 2 or more activities" some 27.8 million compared to 28.2 million in June and below activity levels at the turn of the year.

Last December 29.4 million expected to be financially active as they reacted to the financial storm "1 million more than at the start of the banking collapse a year ago.

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

"Everyday new data is released that supports either the optimistic or pessimistic view of the underlying economic trends. The financial activity survey data that is collected alongside consumer confidence data reflects the mixed state of the consumer mind. Levels of browsing, viewing and window-shopping may hold up well in the coming months reflecting this more optimistic mood, but good merchandising and marketing skills will be needed to generate sales from cautious consumers with their hands on their wallets"

Drop in headline JGFR Activity Index to lowest since June 2008

Overall activity measured by the JGFR Financial Activity Index (based on a 2-quarter moving average) is down 2.2 points at 94.0 on the quarter and down 5.1 points on December and little changed on a year ago.

Slump in expected life & pensions activity

Fewer people intend to save/invest currently "down from 66% to 64% on the quarter.

While cash savings intentions continue to be strong "particularly in expected ISA demand and for regular savings accounts" prospects for life and pension providers and advisers fell sharply this quarter following two quarters of relatively strong intentions.

34% of adults (some 17 million) expect to contribute to a life or pension scheme compared to 39% (some 19.7 million) in June. The JGFR Life & Pensions Index (87.5) fell back from 94.7 in June to its lowest since March 2008.

Weaker household finances on the back of rising job losses, a lack of faith in pensions following recent publicity and fewer people feeling the need or having confidence in providers to protect them, may all have been factors in this quarter's collapse in intentions.

Investment sentiment flat

Despite surging stock markets investor sentiment is flat with a notable drop in investment intentions among higher earners. The JGFR Equity Buying Index is little changed on the quarter at 96.4 and compares to 100.0 a year ago.

In comparison the JGFR Government and Corporate Bond Index is much higher (135.5) and compares to 111.3 in September 2008.

Slight pick up in consumer credit usage expected

A feature that the JGFR data has highlighted for the past 2/3 years is the relative weakness of consumer credit usage. Demand for consumer credit increased in the quarter. Some 14% of the population expect to take out consumer credit, up from 12% in June and a year ago.

The overall JGFR Consumer Credit Index rose slightly on the quarter from 84.8 to 85.1, and is up from 76.9 a year ago, although remains historically depressed. Consumers have shown no desire to revert (even if supply was available) to past levels of borrowing.

Debt repayment intentions higher

Indeed consumers have been busy paying back debt over the past year – each quarter between 24-32% of adults intend to pay down or repay debt.

In the latest survey 26% of adults intend to repay debt, up from 25% in September and 25% a year ago. Over the past year an average of 27% of adults have been intending to repay debt compared to 23% in the previous year.

Weak autumn housing market in prospect

Housing market prospects, which surged in the spring have fallen back to the depressed levels of a year ago in the past two surveys. The spring bounce, which involved a notable rise in outright owners taking out a mortgage (probably on behalf of their offspring) and on cash buyers reappearing, appears over.

The JGFR Mortgage Intentions Index slumped to 61.4 from 80.1 in June and is close to its survey low of 60.9 last December.

The JGFR Property Purchase Intentions Index fell to 78.5 from 85.4. The London Property Purchase intentions Index is considerably higher – although down compared to June (134.3 v 156.0) and compares to 119.9 a year ago.

East Midlands top in expected savings and investment activity

There are notable differences in financial activity in prospect across the regions – intended financial activity is greatest in the East Midlands where it is highest in savings and investment. Most intended borrowing activity is in the West Midlands and Yorkshire Humberside. People repaying debt are found more in East Anglia and London.

Top 5 bank brands market share at survey record

Reliance on the big bank brands is at a record survey level. The leading five brands have a 69% market share as main financial services providers, up from 67% in June and 64% a year ago.

Barclays replaced Lloyds TSB as the leading provider this quarter, although the latter is the leading provider averaged over the past four quarters.

NatWest has the highest proportion of its customers expecting to borrow by overdraft – who will no doubt be delighted that the bank recently announced it was slashing overdraft rates.

Notes

*The Financial Activity Survey (FAS) is undertaken quarterly by GfK NOP and runs alongside the UK Consumer Confidence Barometer (CCB) undertaken for The European Commission. For the autumn FAS and September CCB interviews were held over the telephone with 1,999 adults aged 16+ between September 4-13.

The FAS asks consumers about their intended savings, investment and borrowing activity in the next 6 months covering 18 categories of activity:

Cash deposits, ISAs, regular savings schemes, child trust funds, regular pension contributions, regular life insurance contributions, lump sum life and pension contributions, equity purchases directly or through unit trusts, government or corporate bond purchases, selling shares or unit trusts, personal loans, overdrafts, credit/store cards, car finance plans, mortgages, property purchase, withdrawal of savings/capital, paying down/ repaying debt.

The survey has been undertaken since March 2002.

Each survey also asks about which institution people regard as their main financial services provider.

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