New Year Demand For Savings, Investment And Borrowing Products Slumps - Weak ISA Sales Season In Pro

Contributed by JGFR
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UK consumers are dis-engaging from financial services products. This is the message from the New Year UK Financial Activity Barometer* carried out for financial research consultancy JGFR by GfK NOP*

Commented John Gilbert, Chief Executive of JGFR :
â€œThe latest survey highlights the lack of trust and confidence consumers now have in many financial services products. The key ISA sales season is going to be tough. There is a danger that the slump in demand, together with rising cost pressures on businesses, in part resulting from the growing regulatory burden, will put jobs at risk in retail financial services in the coming yearâ€•

In the recently published New Year 2012 UK Financial Activity Bulletin** the report found just 65% of adults intend to save, invest, borrow or repay debt in the next 6 months, the lowest proportion in the surveyâ€™s 10-year history.

Demand for savings, life insurance / pensions and investment products is especially weak. Only 54% of consumers intend to save or invest, compared to 63% a year ago and a survey average of 66%.

Low deposit and bond returns and high volatility of shares may now mean low inflows in future for providers.

Borrowing intentions are also at historic lows with 11% intending to borrow compared to 13% a year ago and a survey average of 19%. While fewer people expect to repay / pay down debt (21% of adults compared to 26% in December 2010) net debt repayment continues to be higher than average highlighting consumers desire to relieve the burden of indebtedness.

All JGFR Financial Activity Indices at or close to record lows
All the JGFR Financial Activity Indices fell on the quarter. The headline JGFR Activity Index dropped to a survey low of 85.5, down from 88.8 in September and 92.3 a year ago.

The JGFR Savings and Investment Activity Index also fell to a survey low of 86.3, down 6 points on the quarter and dropping from 98.2 a year ago.

A temporary pick up in borrowing intentions in the autumn FAB prevented the JGFR Borrowing Activity Index also hitting a survey low, although the index dropped 4 points on the quarter to 57.6, slightly higher than 55.0 in the New Year 2011 survey.

With borrowing in decline, the JGFR Debt Repayment Index is close to a survey low, down 4 points on the quarter and 10 points on the year to 73.5.

This weak level of intending activity is also likely to reflect stretched finances. In the GfK NOP Consumer Confidence Barometer, 48% of households are â€˜ just making ends meetâ€™ compared to 44% a year ago and only 40% of households are currently saving (43%, December 2010).

7 million fewer adults financially engaged than at end 2009
The size of the consumer exodus from financial services is considerable. In the past two years some 7 million fewer adults are financially engaged â€“ intending to save, invest, borrow or repay debt. The numbers of financially active consumers â€“ intending to undertake 2 or more from 18 categories of activity is down by 6 million (4 million in 2011).

Currently some 23.6 million adults intend to undertake 2 or more financial activities, down from 27.6 million a year ago. Of these, some 10.2 million intend to undertake 4 or more financial activities, a fall of 2.6 million in the past year. There is a big fall in intending activity among young people -this may in part reflect high unemployment â€“ and in middle/lower earners â€“ many in households â€˜making doâ€™ with little money left over each month.

Cash products lose appeal
A combination of very low deposit rates and the squeeze on incomes have reduced the demand for cash-based products. For most of the past decade, around 35% of adults have intended to place a cash deposit. In the past year the average has fallen to around 28%. With the need for greater levels of retail funding among financial institutions and a scarcity of deposits, rates are likely to be forced higher.

ISA demand has fallen steeply in the past quarter, down from 34% of adults intending to pay into an ISA, to 28% in the current survey, having held up fairly well during the year. This compares with 35% of adults a year ago. The fall this quarter is likely to reflect the squeeze on household budgets and the poor investment climate.

Fall of around 2.5 million consumers intending to contribute to life and pension schemes
With far fewer people intending to pay into life & pension schemes in prospect, the New Year is set to be a challenging one for the life and pension industry which also has to focus on the introduction of two industry-changing initiatives - pension auto-enrolment and the Retail Distribution Review.

Both regular pension contributions and regular life contributions fell sharply in December.

22% of adults intend making a regular pension contribution, down from 28%of adults for most of the past two years. Amongst workers, only a third intends to make a regular pension contribution compared to 43% in September and a year ago.

Regular life insurance contributions fell to a survey low with just 15% of adults intending to make contributions, down from 19% in September and 20% a year ago.

On a slightly more positive note intentions to pay in a lump sum to a life or pension scheme improved after falling sharply in September but are below the level a year ago.

Worrying times for retail investment businesses
Investor confidence is also at a survey low with more people intending to sell shares/unit trusts than buy shares/unit trusts. This is the first time in the FAB that more people intend to sell rather than buy securities. At the same time there is little change in people (around 6%) intending to invest in government or corporate bonds, which have proved popular in the past two years. Wealthier investors appear to be switching from equities to bonds â€“with inflation-linked bonds a likely choice.

Overall 10% of adults intend to purchase shares, unit trusts or government/corporate bonds, down from 12% last quarter and 14% a year ago. There are 2.5 million fewer intending investors in shares directly or through equity based investments than at the start of 2011.

Bank of Mum & Dad helping to support housing market
The housing market outlook for the first half of 2012 shows no sign of picking up and may slow down further. Housing market confidence covering mortgage intentions and property purchase intentions is at a survey low. The JGFR Housing Confidence Iindex fell to 43.9 from 58.2 in September and 53.4 a year ago. There are fewer prospective cash buyers this quarter, but a notable increase in outright owners intending to re-mortgage, which may be used to fund childrenâ€™s property deposits.

The South East, Yorkshire / Humberside and Wales set to see greatest financial product demand
Financial product demand is far from uniform across the UK. The past year has seen shifting patterns of demand. Among the regional hotspots are:

Cash Deposits (28% all adults)
Wales (36%), South East (33%), Yorkshire / Humberside (33%)

Life / pensions (32% all adults)
Wales (47%), South East (41%), Yorkshire / Humberside (38%)

ISA (28% of all adults)
Wales (35%), South East (33%), South West (33%)

Stocks, shares and bonds (10% of all adults)
Wales (16%), South East (14%), South West (13%)

Housing market activity (4% mortgage and property purchase, all adults)
London (8%, property purchase, 6% mortgage), South West (8% property purchase, 6% mortgages)

*The Financial Activity Barometer is a quarterly survey of consumersâ€™ savings, investment, borrowing and debt repayment commissioned by JGFR from GfK NOP. It has been running since March 2002 and sits on the same omnibus survey of 2,000 adults aged 16+, representative of the UK population, used to undertake the UK Consumer Confidence Barometer for The European Commission. As a result a more detailed view of the UK consumer is obtained with cross-analysis between the two surveys.

**The New Year 2012 UK Financial Activity Bulletin was published on January 12 and provides detail findings on the financial mood of the consumer.

About JGFR
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