

Debt Reduction A Priority for Consumers, Says Q1 Financial Activity Barometer (FAB)

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Just as the autumn budget has seen the government renew its commitment to debt reduction, so consumers in the coming months have placed debt repayment as a key priority. The Q1 2013 GfK / JGFR UK Financial Activity Barometer (FAB) recorded a drop in consumers intending saving, investment and borrowing activity in the next 6 months, down from a 2-year high in September.

Fewer people intend to save, invest, or borrow quarter-on-quarter, but there is a big rise in people intending repaying debt, to the highest since December 2010.

All Q1 2013 measures are better than a year ago when the headline measure was at a decade low. The GfK / JGFR Financial Activity Barometer (based on a 2-quarter moving average) gained 2 points to 92.3, its best level in 2 years pointing to better activity levels in prospect compared to a year ago. Of the 3 sub-indices the JGFR Debt Repayment Index jumped 11 points to 84.8, its best score since March 2011. More people are intending repaying debt rather than saving, with cash deposit intentions at a decade low in the wake of miserly deposit rates. Many people appear to be repaying short term debt taken out to pay for the festive season.

Overall the JGFR Savings & Investment Index is unchanged on the quarter at 92.4, and up 6 points on a year ago boosted by stronger investment activity in the past 2 quarters. ISA demand is little changed on September but has fallen back over the past two years from the record highs of 2010. Pensions have been much in the news in recent months following auto-enrolment, expected changes to pension tax relief and ever-lower annuity rates.

The good news for pension providers / advisers this quarter is of a bounce back in regular intended pension contributions from a decade-low in September. The overall JGFR Life & Pension Index is down slightly on the quarter and little changed on a year ago.

In September there was a surge in intended investment activity – both buying and selling equities and bonds directly, or through collective funds. The latest investor sentiment data shows weaker demand in prospect and much less intended selling.

Overall the proportion of intending investors (14%) is down from 19% on the quarter but up from 10% a year ago. The headline JGFR Equity Buying Index gained 8 points to 104.5, a 2-year high. Expected housing market activity saw sharp improvements in both mortgage and property purchase intentions in September but a weak outlook for London. Despite some weakening in the current FAB in both indicators, the 2-quarter JGFR Housing Confidence Index is at its strongest (61.6) since June 2010 suggesting a continuation of the improved activity levels predicted in September and now being reflected in actual housing market data.

Cash buyers as in September make up around a third of prospective buyers. There is little evidence of any pick up in first time buyer demand, unless supported with family finance. Housing market confidence among Londoners is sharply higher.

Net credit usage is set to be much weaker in the coming months despite the Funding for Lending scheme designed to increase consumer and small business borrowing.

Demand for consumer credit has fallen back – with just 9% of adults expecting to use consumer credit in the coming months, compared to 12% in September. Despite the quarterly decline, the headline 2-quarter GfK JGFR Consumer Credit Index edged 1 point higher to 70.0, its best in 3 years. Activity varies considerably between regions with the South West and North East hosting the most financially active populations (undertaking 2 or more savings, investment or borrowing activities) in prospect.

Commented John Gilbert, Chief Executive of JGFR:

“The widespread negative media reaction to the autumn statement has had a notable impact on confidence and activity. The more positive mood of consumers this autumn has seen some pick up in house purchase approvals and new car registrations. Investors have been more active as stock markets have steadily improved. In the coming months while expected activity is up on a year ago, consumers have turned more cautious, and placed debt repayment as a priority, which points to

financial services business volumes likely to slow in the first half of 2013.â€•