

The 'Consumer Spring' to continue on the back of pension pot pay-outs

Contributed by JGFR
Monday, 20 April 2015

As consumers bask this spring with sentiment, financial wellbeing and the feel-good factor at multiyear highs, coalition government pension reforms are set to transform family finances in the coming years as more people seek to withdraw pension pots in whole or in part. This will create major opportunities for the financial services industry.

Following evidence in the 2015 ComPeer / JGFR Financial DIY Report of up to 5 million over 55s considering cashing in their pension pot(s) in whole or in part, the Q2 JGFR/GfK Financial Activity Barometer finds a record number of adults (some 5 million), especially over 55s, intending withdrawing or receiving cash from a deposit, life insurance company or pension fund in the next 6 months.

Consumers look set to invest some of the funds in cars and property, with the JGFR Car Finance Purchasing Plan Index at a 12 year survey high (145.7), compared to 106.4 a year ago. While property purchase intentions have fallen back from a record level last quarter, likely to be affected by election uncertainty, the overall JGFR Property Purchase Intentions Index (on a 2-quarter moving average basis) is at its highest since September 2005.

Many recipients of cash lump sums look set to repay / pay down debt with the quarterly measure at a survey record-high and the JGFR Debt Repayment Index surging to 109.4, its best score since Q4 2005/Q1 2006.

Net debt repayment (the difference between borrowing and debt repayment intentions) jumped on the back of borrowing slipping back from very strong intentions in Q1. A fifth of adults intend to borrow, little changed on a year ago. The JGFR Borrowing Index edged down 1 point on Q1 to 93.7, but is 9 points higher than a year ago (see chart below)

Overall activity Savings/investment activity Borrowing activity Debt repayment The major changes to pensions and uncertainty around long term insurance and pension savings are likely factors reducing life & pension intentions in Q2, which weighed on the JGFR Savings / Investment Intentions Index, down 4 points to 105.7, but is up 3 points on a year ago.

ISA intentions are well up at the start of the new tax year, with just over 4 out of 10 adults intending putting money into an ISA, little changed on Q1, but up on Q2 2014. The JGFR ISA Index is above the 140 level for the fourth successive quarter highlighting the strength of ISAs as a financial savings/investment vehicle.

Junior ISAs/Child Trust Funds are less appealing in Q2 following very strong demand in recent quarters. The JGFR Junior ISA/ Child Trust Fund Index dropped 16 points to 96.9, its lowest level since Q2 2014.

Around a third of adults intend placing a cash deposit, little changed on Q1 or a year ago, and around the long term average. A record proportion of people (18%) intend to be regular savers in the coming months, which may reflect the desire to get on the property market and/or to take advantage of higher regular saving rates.

Investor sentiment cooled further in Q2, from last year's bullish mood, although it remains above the long term average and a year ago. The JGFR Equity Buying Index shed 9 points to 125.4. More investors are considering selling shares in Q2, although well below the proportion of potential purchasers. There is little change in the proportion of people (7%) intending buying corporate or government bonds.

With much talk of deficit reduction and increasing borrowing rather than cutting spending in general election debates, consumers have for much of the past 5 years been cutting their own spending and prioritising debt repayment. However, some loosening of the purse strings is apparent over the past year with more people indulging themselves with greater consumer credit usage.

All types of consumer credit have seen increases in the past year, especially car finance plans, overdrafts and credit card borrowing. With high margins on overdraft and credit card borrowing consumer finance businesses should see strong profit growth. High levels of debt repayment and strong household finances should provide some reassurance to lenders on credit quality.

Mortgage demand continues to rise from the weak levels of 2010-2013. The JGFR Mortgage Intentions Index is at its

highest since June 2006 but satisfying this demand will be impossible given the lack of available mortgage finance. Current demand would suggest quarterly mortgage approvals of some 700,000 which would require additional funding of billions of pounds above current levels which in a tightly regulated market seems increasingly impossible to supply. Many people will be seeking to use their pension pots, savings and housing equity to self-fund family property portfolios.