

UK High Earners Confidence Monitor - June 2010

Key Findings

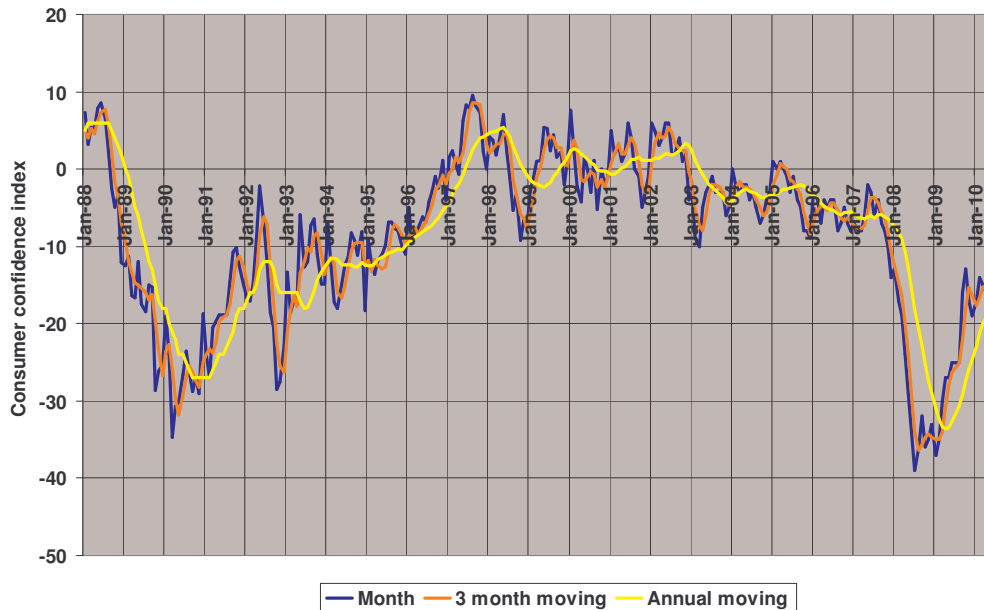
- High earners confidence rose 1 point in June and is up 5 points on a year ago. The GfK headline measure fell by 1 point to –19, its fourth successive decline.
- 2 of the 5 high earner sub-indices rose in June, 2 fell and the measure of economic optimism is unchanged, although down from –1 to -10 on the quarter.
- The biggest rise is in high earners' attitude to the present economic situation compared to over the past 12 months. In June the measure rose 9 points to –35, its highest level in over 2 years.
- More high earners believe the spending climate for major purchases of household goods is better – the measure is up 1 point to –16, compared to a 3-point fall to –24 among all adults.
- Both measures of household finances stumbled in June with the backward measure of household finances down 4 points to –10 and the forward measure down 2 points to 7, its lowest measure since July 2009.
- A dampener on future household finances is the rise in unemployment expectations, up 4 points on the month, and at a 6-month high.
- Current Inflation and inflation expectations saw big improvements in June, possibly boosted by the rising pound.
- Overall spending confidence is unchanged in June. The 1 point rise in the spending climate offset by a 1 point fall in spending intentions at -15. In the past quarter spending confidence is down sharply from –18 in March to –31 in June.
- Savings confidence fell 5 points in June. While savings intentions rose 1 point, rising stock market volatility and lower savings rates resulted in a 6 point fall in the savings climate measure
- The current financial position of high earning households is unchanged in June with a rise in net savings households to above its 6-month average.
- This month's survey is very much a first view of the post-election attitude to the new coalition government. Among higher earners it appears broadly neutral, among all adults more downbeat.
- Next month's report will show the attitudes of high earners to the Emergency Budget, with the overall impact likely to be fairly negative given the short term effects on the job outlook, and rising uncertainty in a broader global context about economic recovery. Discretionary spending will be controlled in the coming months as a mood of austerity takes hold.

Section 1: Changes in headline confidence and among high earners

GfK headline consumer confidence down 1 point to -19

- Consumer confidence fell in June, down 1 point to -19 and the fourth successive month of declines. It is the lowest score since last December and 6 points lower than a year ago. The survey was undertaken before the June Emergency Budget.
- It is only the fourth time since 1988 that there have been 4 or more consecutive quarters of falling confidence (June-October 1992, September-December 2007, February-July 2008, March-June 2010).
- The 3-month measure is down 2 points on the month at -18. The 12-month measure of consumer confidence is unchanged at -18 – the first month the 12-month measure has not improved since a year ago.
- Once the monthly measure falls below a score of -20 it suggests a quarter of negative growth or recession is likely. Next month’s data will be closely watched
- A double-dip in confidence as in the early 1990s seems increasingly likely

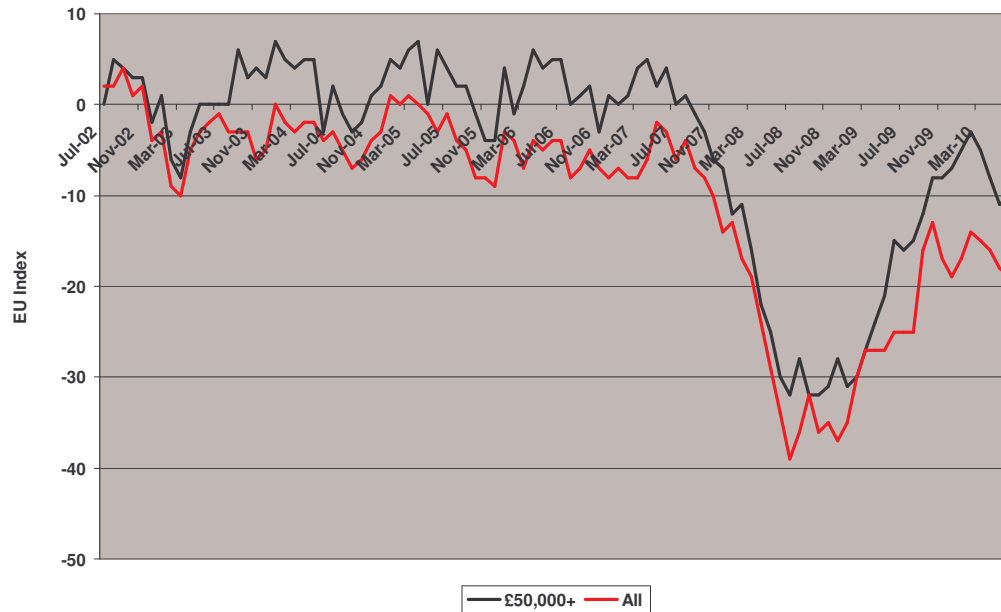
Figure 1: UK consumer confidence January 1988 -June 2010



Source: GfK NOP for the European Commission/ JGFR

Slight improvement in high earners confidence

Figure 2: High earners consumer confidence January 2003- June 2010



Source: GfK NOP for the European Commission / JGFR

Key points:

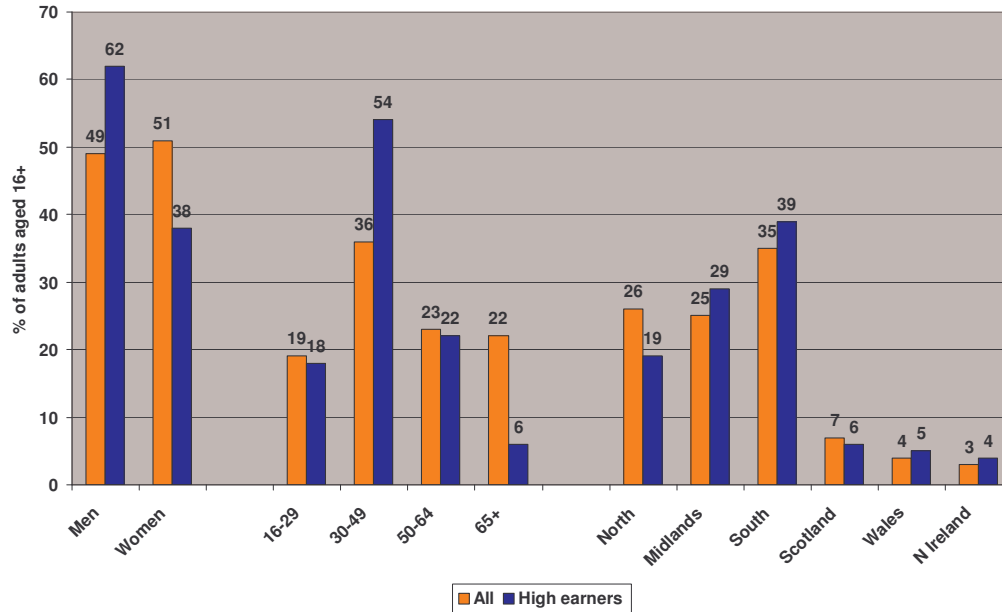
- Confidence among high earners (-10) is up 1 point on the month – the first rise since February. Figure 2 shows however that recent small 1 point rises may signal subsequent sharp falls - August 2007 & February 2008
- Compared to a year ago confidence is 5 points higher. Confidence in other income groups fell in June.
- The gap between highest and lowest income band widened in June to its highest (18 points) since January (21 points)

Profile of high earners

High earners comprise between 12-17% of the adult population, the numbers varying with each sample and depending partly on the numbers of people refusing to disclose income. Sample profiles will vary but broadly greater proportions of higher earners are found among men, in the 30-49 age-group and among people living in the south of England.

In the May survey a change by GfK to adopt General Government Regions rather than Standard Regions resulted in moving respondents from the South East to a larger East of England region (part of the Midlands). This resulted in the profile changing with a lower proportion of high earners in the South and more in the Midlands.

Figure 3: Profile of high earners, June 2010



Source: GfK NOP / JGFR

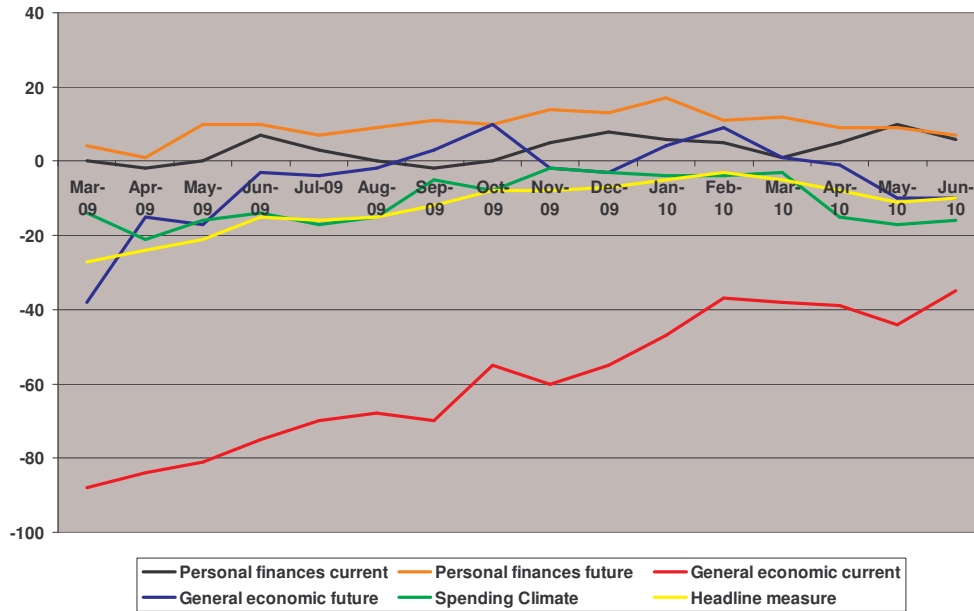
Section 2: Analysis of consumer confidence indices

2 of the 5 GfK high earners sub-indices down in June

- 4 out of 5 sub-indices fell in the headline GfK index (CCB) compared to 2 among high earners
- Only the measure of household finances expected in the next 12 months rose (by 1 point to -2) in the headline CCB
- In the high earner index, the measure of the present general economic situation compared to 12 months ago rose sharply (up 9 points to -35, down 1 point CCB to -46); the measure of the economic situation in the next 12 months is unchanged (-10, down 3 points to -12, CCB)
- The measure of the spending climate is up 1 point at -16. In the CCB the spending climate measure (whether it is a good time to buy major household goods) fell 3 points to -24 on the month.

- Both current and future measures of household finances fell in June. The former is down 4 points to 6 (CCB down 1 point to -13), the latter down 2 points to 7. The biggest gap with the overall index is in the current measure of household finances (20 points), slightly narrower than in May (23 points). This gap highlights the relatively stronger financial position of higher income households.

Figure 4: Changes in sub-indices of high earner headline confidence measure, March 2009-June 2010



Source GfK NOP / JGFR

Key points:

- The 9-point rise in the measure of the present financial situation in households compared to 12 months ago has narrowed the gap between top and bottom confidence measures. This sharp rise in the high earner measure relative to a 1-point fall overall, may reflect the change of government being seen more positively among this segment.
- Trends in attitudes towards the general economic situation, both current and into the future, are largely reflected in the household finance measures, with an improvement in the current financial position of households relative to their expected future financial situation
- Growing uncertainty about the future – both in the general economy and household finance situations - is reflected in a weaker spending climate measure
- Job worries brought on by public spending cuts and tax rises as a result of the Emergency Budget will add to the tough economic outlook.

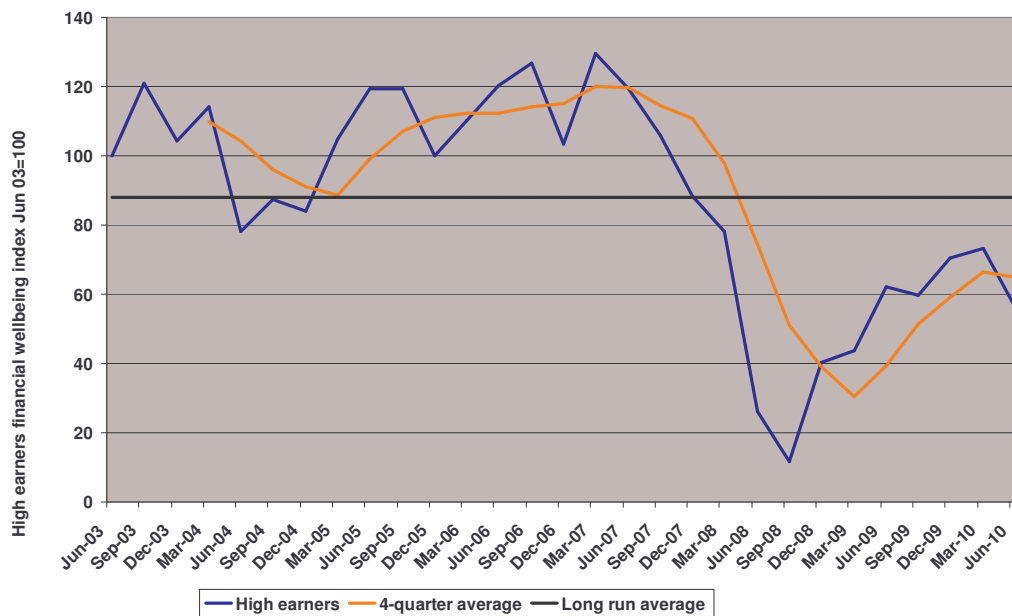


- The combined measure of backward and forward personal finance measures fell 6 points to +13, below its 6-month average of +16. It is below its level of +17 a year ago.

Quarterly JGFR High Earners Financial Wellbeing slumps by 17 points

The JGFR High Earners Financial Wellbeing Index is a measure combining spending confidence, household savings, personal finances and property purchase intentions. It is designed to cover both financial and spending confidence. It is undertaken quarterly.

Figure 5: UK High Earners Financial Wellbeing Index* June 2003 – June 2010



*based on 2 measures of personal finances, 2 measures of spending confidence, net proportion of households saving and measure of property purchase intention
Source: GfK NOP / European Commission / JGFR

The JGFR High Earners Financial Wellbeing Index (56) slumped by 17 points on the quarter as spending confidence and property purchase intentions both fell sharply. It is the lowest measure of financial wellbeing since March 2009. Returning to its long run average of 88 seems further away. The 4-quarter moving average fell slightly in June but is almost double a year ago. It is above the quarterly measure for the first time since September 2008 –breaking the steady upward progress since the low of March 2009 – and is a more negative signal.

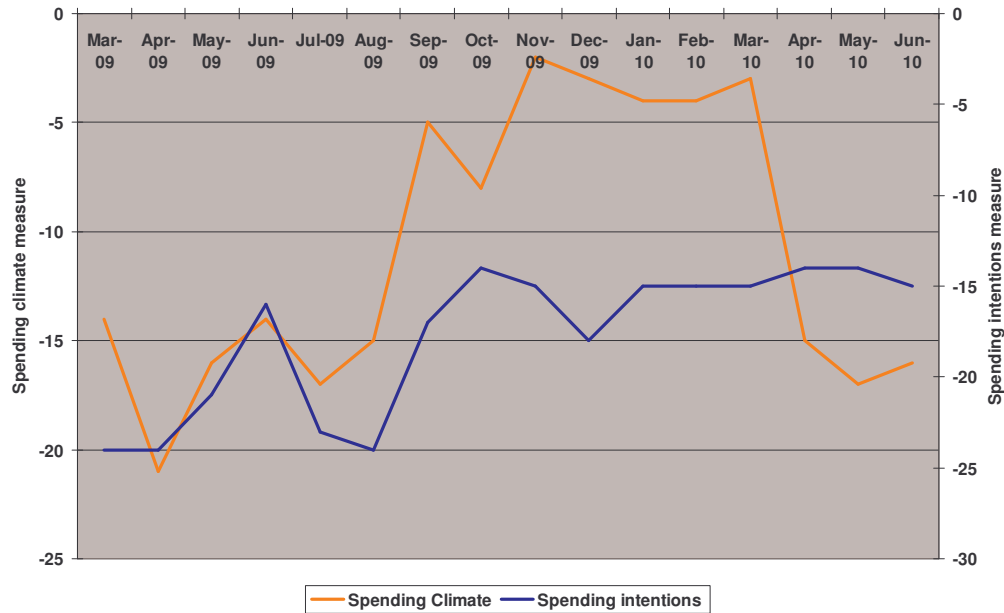
Section 3: Spending confidence

High earners spending confidence unchanged in June

Spending confidence among high earners is unchanged in June. Over the quarter it is down 12 points from –18 in March to –31 in June.

Spending confidence comprises two sub-measures – the climate for making major purchases of household goods - and of spending intentions – the expectation of spending more on major purchases such as furniture and household goods in the next 12 months compared to the past 12 months. Since June 2003 when the high earners index started, the long-term average of spending confidence is –15. In May the combined confidence measure fell to –31, its lowest score since last August.

Figure 6: Changes in spending confidence measures, March 2009- June 2010



Source: GfK NOP / European Commission / JGFR

Key points:

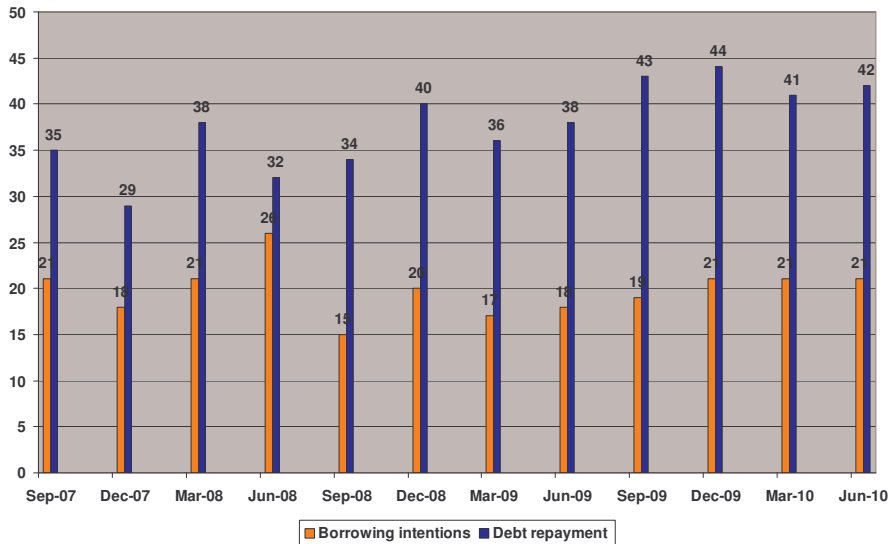
- High earners positive attitude towards the spending climate in the second half of last year has collapsed in the past quarter with the ending of stimulus measures and the threat of tax rises and spending cuts.
- Compared to the perception of the spending climate, high earners spending intentions on major purchases of household goods have been steady in recent months and shows a better spending outlook than the headline climate measure.
- Demand for new multi-media digital equipment induced by the World Cup may be underpinning spending intentions
- 21% of high earners believe it is a good time to make major purchases. This compares to 18% in May and 22% a year ago. Slightly more high earners believe it to

be a bad time to make major purchases of household goods (36%) compared to 35% in May and 41% a year ago. A reduced proportion of high earners (39% from 44% in May) believe it is neither the right or wrong time to make major purchases (compared with 31% overall)

- 20% of high earners expect to spend more on major purchases in the coming year compared to 17% in May and 16% a year ago. A net balance of -18% of high earners expect to spend less (-19% May and -23% a year ago)

Spending confidence on major purchases has in the past decade depended on the ready availability of credit. The UK Financial Activity Survey (commissioned from GfK by JGFR) tracks borrowing intentions quarterly. Figure 7 shows how borrowing and debt repayment intentions have changed in recent quarters.

Figure 7: Borrowing and debt repayment intentions among high earners, September 2007-June 2010



Source: GfK NOP / JGFR

Key points:

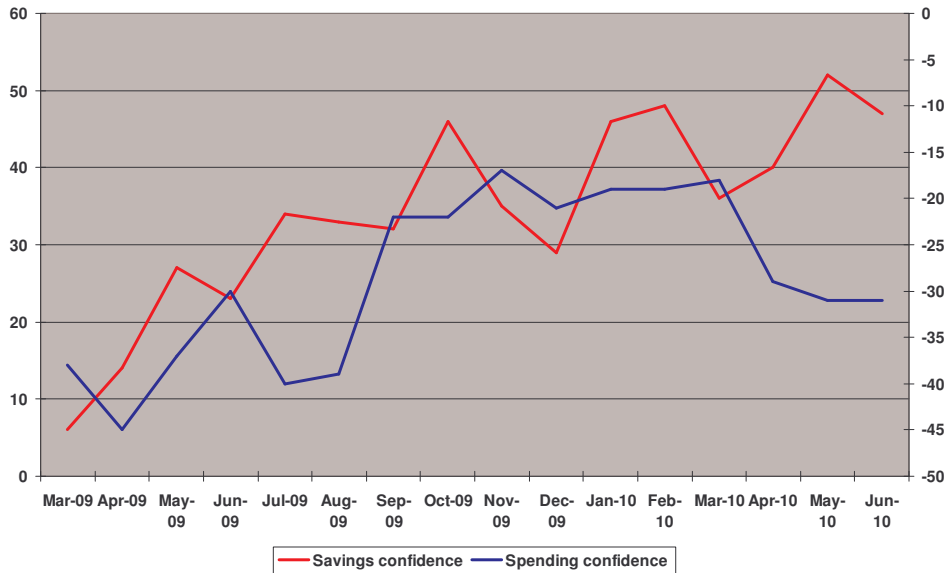
- While borrowing intentions have held up well in the past year buoyed by mortgage demand – more high earners have been intending to repay or pay down debt and fewer borrow by consumer credit.

Savings confidence lower in June

High earners have the highest propensity to save which may impact on spending confidence. In Figure 8 spending and saving confidence (the sum of the mean measures of whether

people believe it a good time to save in view of the economic climate and of how likely people are to save any money in the next 12 months) are tracked against each other in the past year.

Figure 8: Spending and savings confidence, March 2009 – June 2010



Source: GfK NOP / European Commission /JGFR

Key points:

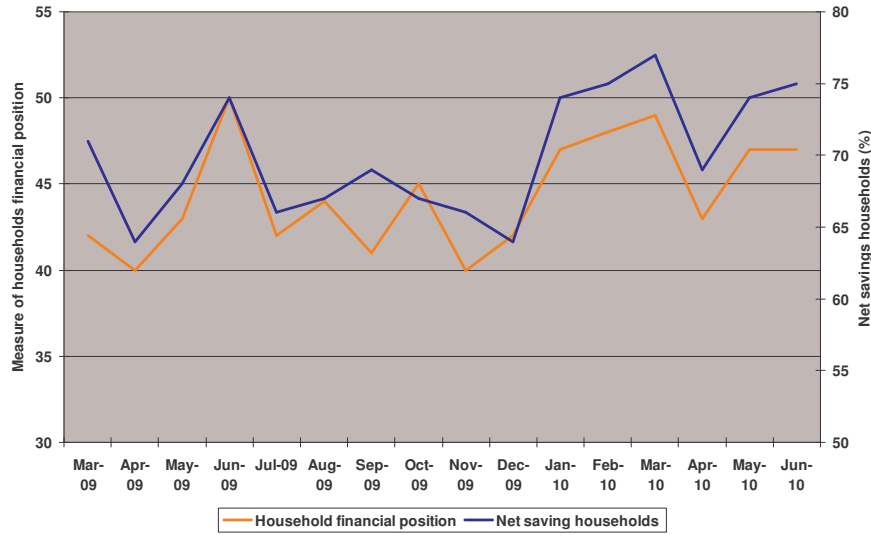
- Savings confidence weakened in June on the back of a sharp fall in the savings climate measure – down 6 points reflecting the falling stock markets and continuing low interest rates.
- The gap between spending and savings confidence narrowed in June, although spending confidence in the past quarter has become relatively much weaker
- Despite the weakening savings climate, more high earners are likely to save in the next 12 months. The mean measure rose 1 point to 46, its best since February. A year ago the measure was 33.

Section 4: High-income households financial position

High-income households financial position unchanged in June

Survey respondents are asked whether they are saving a lot, saving a little, just making ends meet, running down savings or falling into debt. Figure 9 shows the mean measure of high-income households current financial position, and is shown since March 2009 together with the proportion of net savings households (savings households less households running down savings or falling into debt)

Figure 9: High-income households financial position and net savings households, March 2009- June 2010.

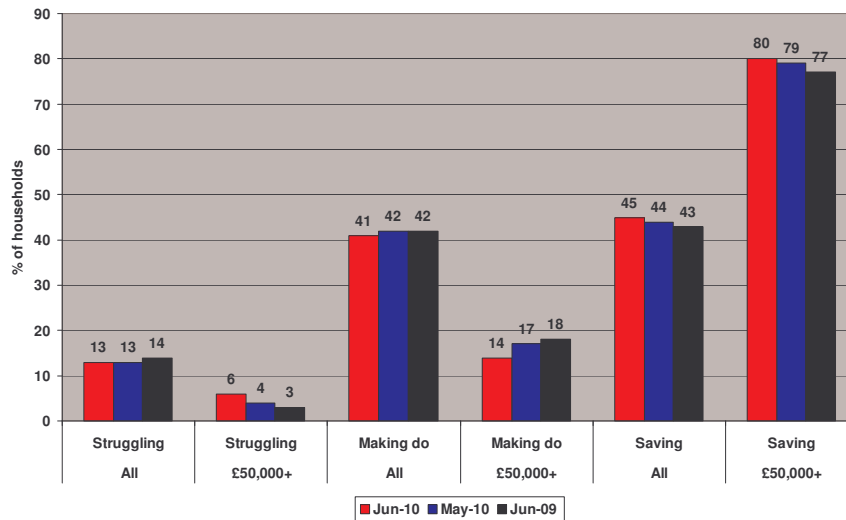


Source: GfK NOP / European Commission / JGFR

Key points:

- The June mean measure of high-earning households financial position is unchanged at 47 on the month and down from 50 a year ago.
- While the proportion of net saving households increased in June to 75% from 74% in May, there are more struggling households in June, up from 4% to 6%.
- There has been a general rise in the number of net savings households over the past six months compared to the summer/autumn of last year

Figure 10: High-income households financial position, UK – June, May 2010, June 2009



*not all year columns will add up to 100 as there are a small number of 'don't knows'
 Source: GfK NOP / European Commission / JGFR

Key points:

- High-income households are far more likely to save, and less likely to be making ends meet, running down savings or falling into debt.
- In June the number of high-earning saving households rose from 79% to 80%, above a year ago (77%) and just above the 6-month average of 79%.
- Fewer high earning households are making do (14%, down from 17% in May) and more struggling (up from 4% to 6% on the month). In June 2009, 18% of households were making do and 3% struggling.
- Among struggling households more are drawing down savings rather than running into debt

Section 5: Inflation and jobs**Big gains in inflation measures; fear of more job losses**

Two questions are asked in the GfK NOP CCB about changes in consumer prices. One question is backward looking over the past 12 months, the second question asks about how people view the development of consumer prices in the coming 12 months. The lower the measure, the less people feel prices are rising.

- Among high earners the inflation measure looking back over the past 12 months is substantially lower in June at 54, considerably below the overall measure (72). 10% (24% overall) of respondents believe prices had 'risen a lot', down from 20% in May. The rise in the value of the pound making holidays cheaper may be a reason for the sharp fall in the past inflation measure.
- In line with the big improvement in past inflation perception in the month, fewer high earners (16%) than in May (20%) but more than a year ago (11%) expect prices to increase more rapidly.
- The measure of high earners inflation expectations improved by 9 points to 61 compared to May (70). The measure is 18 points worse than a year ago.
- Falling inflation expectations will help to ease the pressure on the MPC to raise interest rates and may help to boost spending among high earners if perceived inflation continues to fall in the coming months.

Figure 11: Inflation and unemployment expectations*, March 2009-June 2010



*Falling unemployment measure represents improving jobs picture

Source: GfK NOP / European Commission / JGFR

Key points:

- In June inflation and unemployment expectations diverged following several months of moving in the same upwards direction.
- Unemployment expectations fell for the second successive month, down from 37 to 41 (a higher measure shows higher rates of expected unemployment), to its lowest level since last December, although much improved on a year ago (58). High earners views on job prospects are identical to the overall figure.
- 70% of high earners expect unemployment to rise, a worsening from 67% in May and heading back towards the level of 84% a year ago. Poorer job prospects will increase spending caution among higher earners.

Appendix

Methodological Notes to surveys

GfK NOP

- GfK NOP conducted the survey amongst a sample of 2,000 individuals aged 16+ on behalf of the European Commission.
- Quotas are imposed on age, sex, region, social class and income to ensure the final sample is representative of the UK population.
- Interviewing for the month of June was conducted between 4 June 2010 and 20 June 2010



- The figures contained within the Consumer Confidence Barometer have an estimated margin of error of +/-2%
- The next results are available on Friday 29 July
- The survey asks 12 questions covering personal finances (past and future), general economic situation (past and future), inflation (current and future), unemployment, current purchasing climate, consumer spending, saving (current climate, saving intention, current status). Three 3-monthly questions are asked covering car purchasing, home purchasing, home improvements (July, October, January, April). There is also a quarterly regional report.
- Every December, March, June and September the Financial Activity Bulletin* reports on consumers intended savings, investment and borrowing activity. The underlying survey uses the consumer confidence survey enabling cross-analysis.

*The Summer 2010 *Financial Activity Bulletin* is to be published on Wednesday 14 July

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