

## UK Consumer Confidence Monitor February 2009

### Key Findings

- Consumer confidence strengthened in February –the GfK NOP CCB measure rose 2 points to –35; the Nationwide CCI rose 4 points to 45.
- Forward looking measures in both surveys rose strongly. The GfK NOP measure of future personal finances is up 6 points, the Nationwide measure of household income up 4 points. One reason for the improvement may be the benefit of bank rate cuts on mortgages flowing through to boost household incomes.
- Despite a large number of job losses announced during the month, both the GfK NOP and Nationwide future job measures improved.
- A growing number of people believe the economic climate is right for making major purchases. The Nationwide Spending Confidence Index is at its highest since July 2006 with a particularly strong measure of the climate for making car and house purchases.
- There is a difference between feeling it is a better time to buy and having the desire to spend. GfK NOP's spending intention measure for purchases of household goods fell to a record low suggesting that the favourable spending climate may not flow through to actual purchases. Women's spending intentions worsened in the month and are well below men's spending intentions.
- Households' financial position improved slightly in January with the number of struggling households unchanged at 13%. More households (47%) are saving, up from 45% in January despite savings confidence weakening further in the wake of plunging savings rates.
- Confidence rose in 8 of the 12 regions in February, improving most in Northern Ireland, the West Midlands, the North West and Scotland.
- Last month we predicted that the outlook for confidence in February was very gloomy and the measures were set to fall to new lows.
- Despite the depressing news flow, consumers appear to be coping with adversity. The March confidence indices will provide a key measure of whether consumer confidence and financial well-being really is beginning to turn. We expect the GfK NOP March measure to be between –32 and –36.

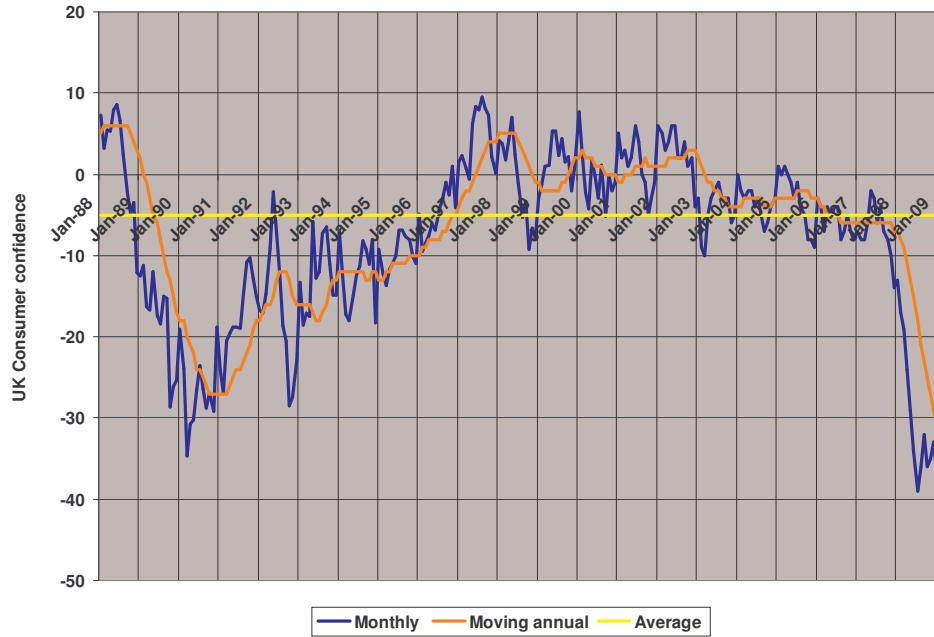
**Last month we concluded:**

*“With a turnaround in economic conditions looking unlikely to happen for some time, we believe consumers finances will come under intense pressure as incomes are squeezed and credit hard to obtain. We believe the GfK NOP CCB is now set to fall to new lows in the near term. The February measure we expect to be between –37 and –41.”*

**Section 1: Changes in headline confidence and across household income bands, regions and age-groups****GfK Confidence up 2 points to -35**

- The Consumer Confidence Barometer (CCB) as measured by GfK NOP for the European Commission rose 2 points in February to –35. This compares with –17 in February 2008. On a 12-month moving annual average basis the CCB fell 1 point to –32. It is down 24 points on the year.
- Economic news flow during February has been generally very negative. The Bank of England projects 2009 UK GDP growth at –4%, much lower than IMF and EU estimates of 2.8%. Stock markets have fallen sharply. The one brighter spot is stronger retail sales volumes in January than expected.
- More people lost their jobs during February with unemployment set to reach over 2.5 million in 2009. Inflation is set to turn to deflation with the Retail Prices Index (against which many wage settlements and costs are benchmarked) up just 0.1% in January reflecting steep falls in mortgage costs.
- During the month, bank rate was cut by a further 50 basis points to 1%, another record low. The perceived relative lack of impact of rate cuts to date is set to result in measures to increase the money supply to stimulate the economy.
- A lack of credit is at the heart of current economic activity. House prices continue to fall with the annual rate around 17% resulting in rising numbers of households in negative equity. 2008 bank results have been dire. Sharply rising bad debts have been reported – particularly by RBS, Lloyds Banking Group and Northern Rock resulting in a further strain on capital and requiring more government support.

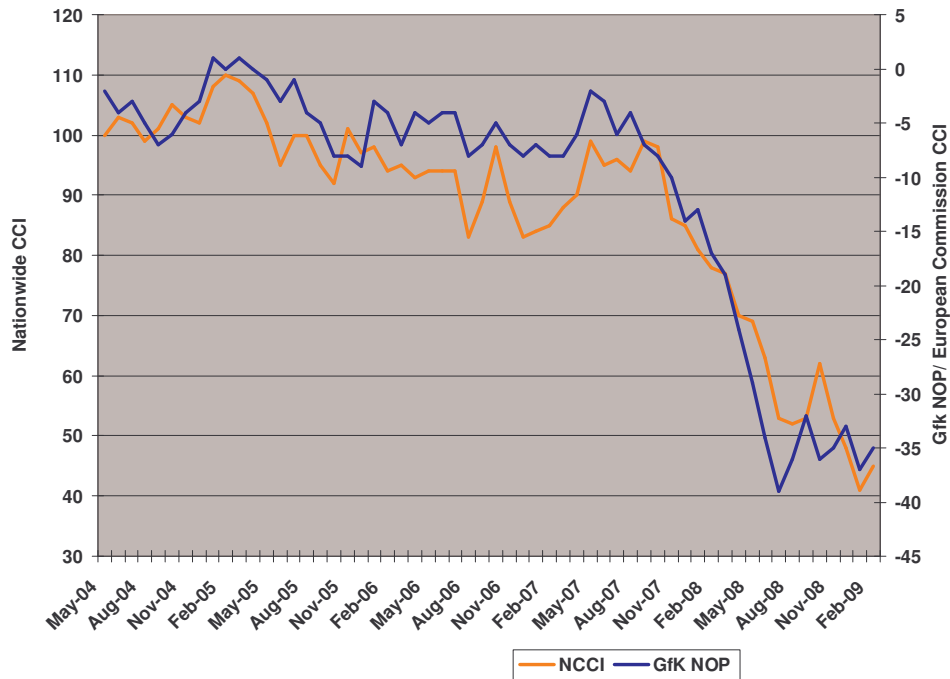
**Figure 1: UK GfK Consumer Confidence Barometer: January 1988 – February 2009**



Source: GfK NOP for the European Commission/ JGFR

## Nationwide Consumer Confidence Index (NCCI) up 4 points to 45

**Figure 2: UK Consumer confidence major indices: May 2004 – February 2009\***



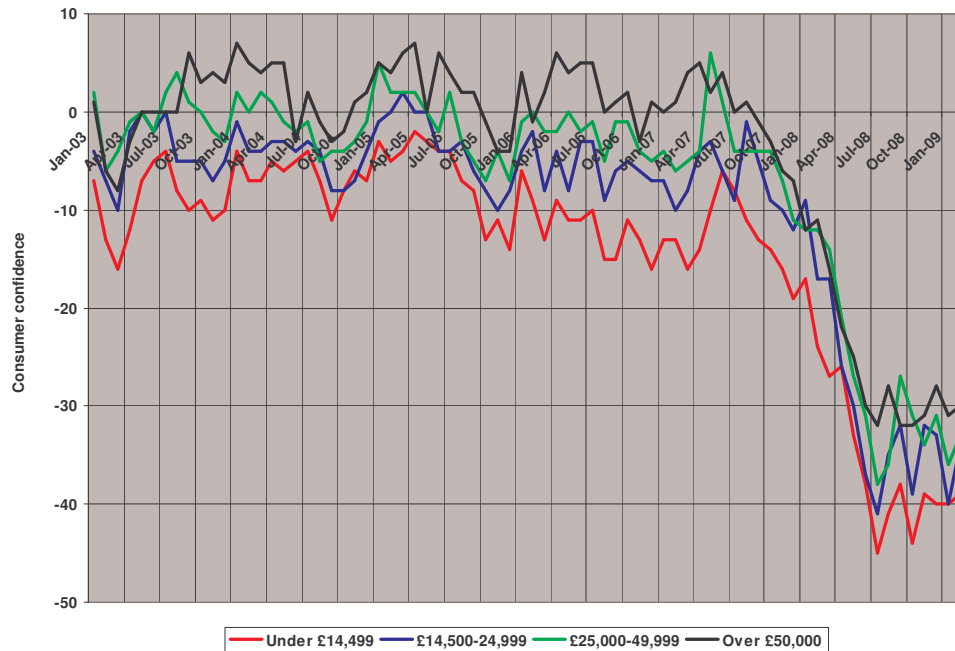
\*non-seasonally adjusted

Sources: GfK NOP for the European Commission / Nationwide/TNS /JGFR

Both indices rose in February, the first time this has happened since May 2007. It is the first time in 4 months that the Nationwide CCI has not fallen to another record low, up 4 points to 45 on the month and down from 78 a year ago. The GfK NOP Index continues to bounce around the –30 to –39 range and may well have bottomed out given the relatively encouraging measure in February against a very depressing news flow. The sharp cuts in interest rates do appear to be making people feel better off.

## Sentiment up in all income bands

**Figure 3:** Consumer confidence by household income band January 2003- February 2009



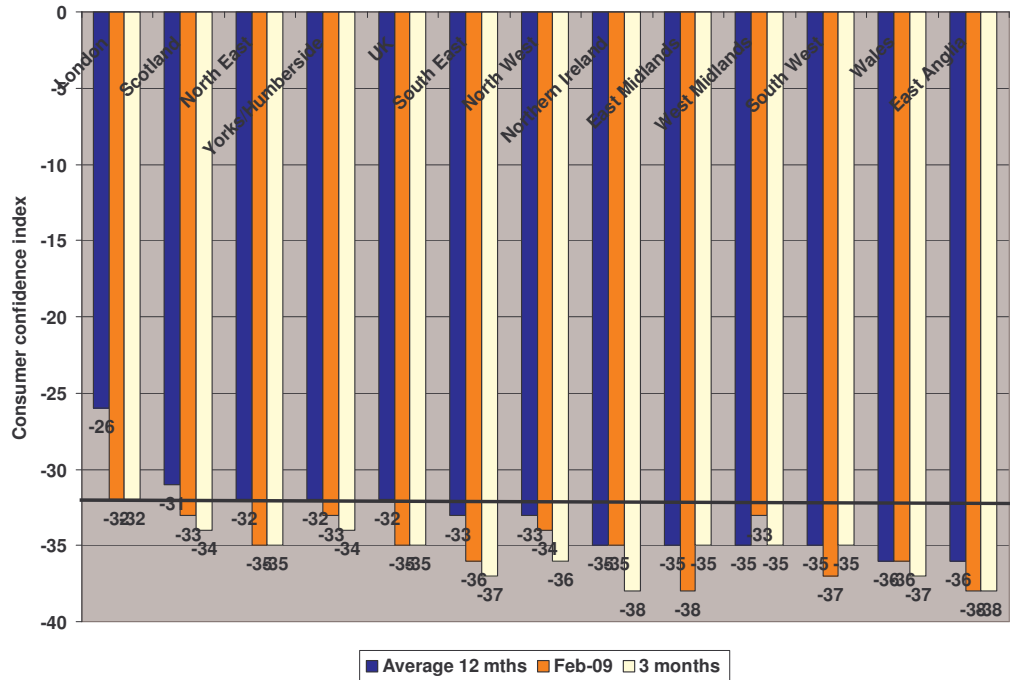
Source: GfK NOP for the European Commission / JGFR

### Key points:

- Confidence rose in all income bands in February and appears to be bottoming out
- Sentiment in the £14,500-24,999 household income band is most volatile, rising 6 points to –34 following a 7-point fall in January. A year ago sentiment was –17.
- In the top and bottom income bands confidence is up 1 point to –30 and –39 respectively, and down 15 points and 19 points compared to February 2008.
- The £25,000-49,999 income band covers 2 income bands that often diverge. Sentiment is up 6 points in the £25,000-34,999 income band to –32 while it is unchanged at –33 in the £35,000 –49,999 earnings band. Overall in the £25,000-49,999 household income band confidence is up 3 points to –33.

## Confidence up in 8 out of 12 regions

**Figure 4:** Regional confidence: Standard Regions, average past 12 months, February 2009, past 3 months



\*horizontal black line shows UK annual average for confidence  
 Source: GfK NOP for European Commission / JGFR

### Key points:

- Confidence is up in 8 of 12 regions, unchanged in two and down in two.
- Biggest rise is in Northern Ireland, up 11 points to -35 and reversing last month's steep fall.
- Sentiment also showed larger gains in the West Midlands, up 7 points to -33 and in the North West and Scotland (both up 4 points to -34 and -33 respectively).
- Confidence is unchanged in the North East (-35) and East Midlands (-36) and fell by 2 points in the South West to -37 and by 1 point in Wales to -36.
- Currently confidence is highest in London on a monthly (-32), 3-monthly (-32) and 12-monthly basis (-26), although the gap between London and the other regions is narrowing on the former two measures. A year ago sentiment in London was -11.
- Weakest monthly, 3-monthly and 12-monthly confidence is in East Anglia

## **Bounce back in confidence among young**

- Following the slump in young peoples' confidence last month confidence picked up strongly in February, up 8 points to –23. Main driver for the improvement is an improvement in personal finance and general economic expectations.
- Confidence also picked up strongly in the 50-64 age-group, up 5 points to –37. This improvement occurred despite falling asset prices, interest rates and rising job losses during the month. It is this group's highest measure since last September. This group are also more optimistic about personal finances and general economic sentiment in the coming 12 months.
- In the 30-49 age group confidence rose 1 point to –36 and is unchanged at –38 among the over 65s. In the former group improvements to personal finances were offset by weakening general economic sentiment
- A reason for the improvement in personal finances among under 65s will be the benefit many mortgagors will receive from low interest rates
- A pick up in men's confidence (+4) relative to women (+1) helped boost the overall CCB

## **Section 2: Analysis of consumer confidence indices**

### **3 out of 5 GfK NOP sub-indices improve in February**

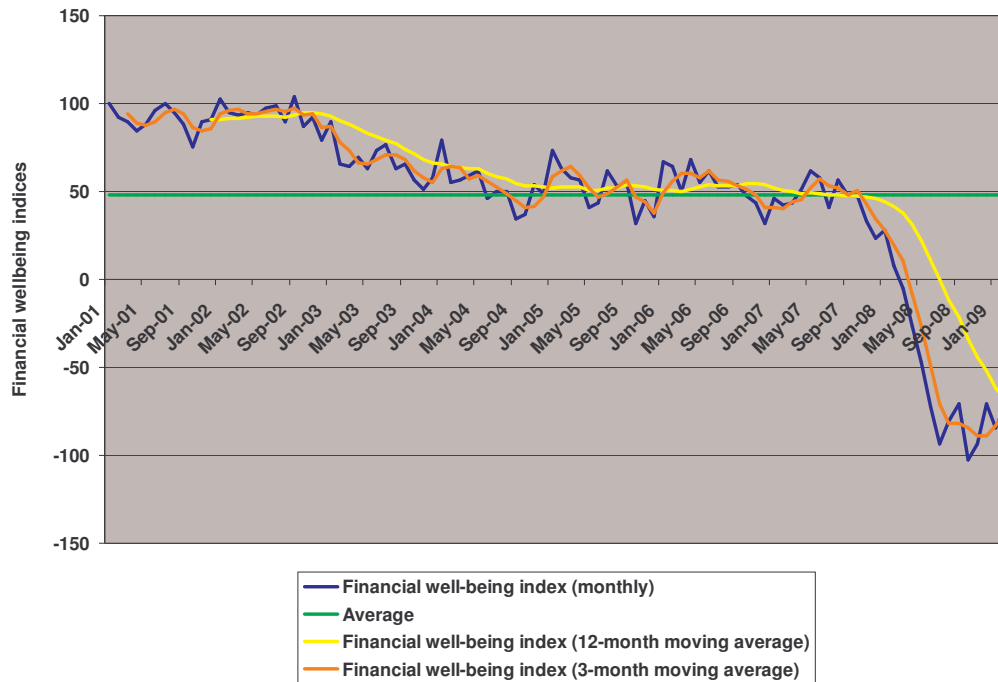
- The measure of the financial situation of households over the past 12 months is unchanged month-on-month at –18. It is down 17 points year-on-year.
- The measure of the expected financial situation of households over the next 12 months gained 6 points to -8 on the month and is down 14 points compared to a year ago.
- The general economic situation measure in the UK over the past 12 months is down 2 points at –82 on the month. It is 42 points below a year ago.
- The general economic measure in the UK in the coming 12 months improved 8 points on January at –40 and compares to –29 in February 2008.
- The measure of consumer attitudes to making major purchases in the current general economic situation is up 3 points to –24 on the month and is lower by 5 points year-on-year.

## GfK personal finance measures and JGFR Financial Wellbeing Index improve in February

The combined GfK measure of the past and future financial situation of households is -26, up 6 points on January and above the 6-month average of -28. The forward-looking measure of personal finances (-8) is the best since last May (-4).

The JGFR Financial Wellbeing Index (-72) rose 13 points in February and appears to have found the foot of the cliff and may be on the long climb back to reflect improving prosperity. The 3-month moving average suggests this may be the case, rising for the second successive month off the November-December bottom. The current measure is also well below the 6-month average (-82). Improved personal finance and spending measures boosted the index. It is 80 points lower than a year ago. Another improved measure in March will add to the belief that the consumer mood may be turning more positive.

**Figure 5:** UK Financial Wellbeing Index\* January 2001 – February 2009



\*based on 2 measures of personal finances, 2 measures of spending confidence and net proportion of households saving

Source: GfK NOP / European Commission / JGFR

## Mixed GfK general economic sentiment measures in February

The cut in Bank Rate to a historic low of 1%, much lower 2009 growth projections by the Bank of England, poor trading in major industries – particularly automobiles and housing – and the

February sell off in stock markets have led to the economy entering uncharted waters where unconventional monetary measures are being considered to boost the economy.

Combined backward and forward looking indicators of general economic sentiment rose 6 points from January's record low to -122, although both the 3 month and 12 month moving averages continue to move lower. A year ago the combined measure was -69.

The JGFR Index of future personal finances and general economic sentiment over the next 12 months using GfK data posted a strong gain in February, up 14 points to -48, its best score since last November.

### Surge continues in Nationwide Spending Index

Of the three Nationwide sub-indices comprising the NCCI one fell and two rose in February:

- **The Present Situation Index** (how consumers feel about the current economic and employment situation) fell 4 points to 20, its lowest ever level and down from 76 a year ago. Compared with February 2008 (-9%) the balance of people believing the UK economy position is good is -84%, down 10 points on January. Consumer sentiment about the jobs market continues to be weak. 23% of people believe there are many/ some jobs available, unchanged on January but well down on a year ago (53%).
- **The Expectations Index** (how people feel about the economic and employment situation in 6 months time) is up 9 points at 61, and compares to 79 a year ago. Fewer people (43%) now believe the economic situation will worsen in the next 6 months compared to 53% in January and 46% a year ago. In the GfK NOP survey 61% of the population believe the general economic situation will get worse (36% a lot worse) in the next 12 months compared to 67% (43% a lot worse) in January.
- The net balance of people expecting more jobs to be available in 6 months time improved to -47%, up from -52% in January, and a big downturn in outlook from a year ago (+8%). The net balance of people expecting their income to be higher in 6 months time is up from -4% to 0% month-on-month, the biggest monthly rise since August 2007.
- **The Spending Index**, reflecting consumers' perceived willingness to spend on household goods and major purchases, surged a further 10 points to +104, the highest measure since July 2006. Since the sharp cut in interest rates in October, the spending index is up 46 points. Significant falls in the price of major purchases such

as cars or houses may reflect consumers recognition that there are bargains available if they are in a position to buy.

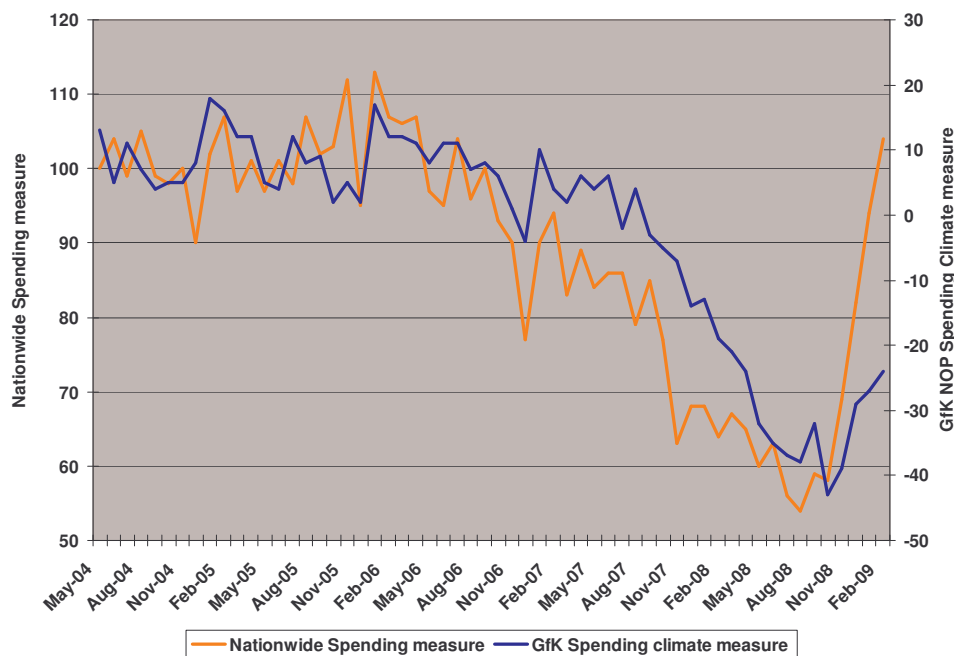
## Section 3: Spending and saving confidence

### Spending confidence measures mixed

Consumers' view of whether this is a good time to make major purchases improved in February as many retailers continue to discount goods heavily.

The GfK NOP spending climate measure is up by 3 points to -24, its best score since April 2008. A year ago the measure was -19. Despite the much better spending climate, this may not translate into improved sales value. The spending intentions on major purchases (household goods) fell a further 1 point to a new record low of -40 (-22, February 2008). Spending confidence is weaker among female shoppers (-48 v -33 for male shoppers). It fell on the month by 4 points compared to a 1 point rise among male shoppers. By age groups spending intentions rose slightly among the youngest and 50-64 age groups, but fell 5 points to a record low (-44) among the key spending 30-49 age group.

**Figure 6:** Spending confidence on major purchases May 2004 – February 2009



Sources: GfK NOP / European Commission / Nationwide / TNS / JGFR

**Key points:**

- Both spending measures track sentiment on whether it is a good time to make major purchases. In the Nationwide survey the Spending Index comprises two sub-measures - on a car/house and on household goods such as electricals or furniture. The monthly GfK measure only covers household goods.
- Both measures have tracked each other well for most of last year. In recent months the two measures, while moving higher, have done so at markedly different rates. In the past three months the Nationwide Index has shown a 'bungee' bounce rising to a 3-year high suggesting great pent up demand. There is however a difference between feeling it is a better time to buy and having the desire or money to spend.
- Nationwide's spending confidence on major purchases (such as a house or car) rose in February for the fourth successive month. The net balance of people believing it to be a good time to buy surged to -3% compared to -18% in January and -44% a year ago. This is the best balance (albeit negative) since January 2006.
- The proportion of people thinking it to be a bad time to make a major purchase improved to 43% from 51% in January and is down from a peak of 68% last August. A year ago it was 55%.
- The outlook for sales of household goods (televisions, washing machines etc) is slightly weaker than in January. In the Nationwide survey a net balance of 30% of people believe it to be a good time to buy – down from 34% in January but higher than a year ago (24%). On a 3-month moving average the net balance is up sharply from +18 in January to +27 in February.
- In the GfK NOP survey a net balance of -23% of people believe it is a good time to make purchases of household goods, up from -26% in January.
- Overall prospects look far more promising for retailers this spring if the economic measures start to generate actual spending.

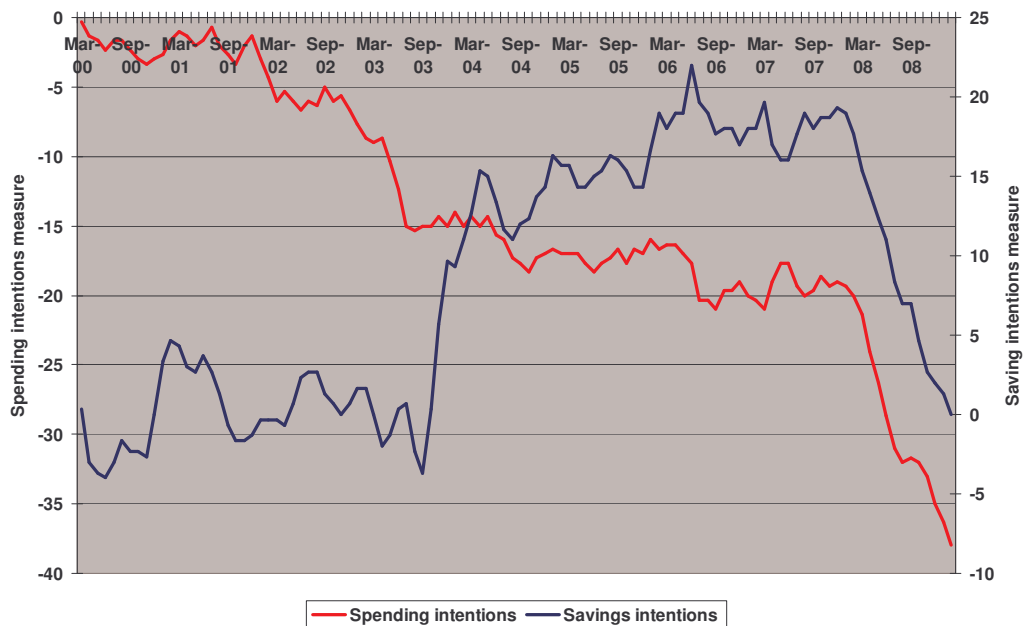
**Further drop in savings confidence****Key points**

- Events surrounding the stability of banks and the safety of savers' deposits caused a major loss of savings confidence in October and this has continued. The 350 basis points cut in bank rate and continuing stock market volatility have not made for a good savings climate. Many savers feel they are the unwitting victims of the banks imprudence and are being unfairly penalised.
- The measure of the savings climate fell 7 points to -25, and is down 48 points on a year ago. It is the lowest score this decade.
- 34% regard it as a good time to save, down from 37% in January and a half of the 68% who were positive about saving in February 2008.

- The proportion of people thinking it a very good time to save is unchanged at 12% and down from 20% a year ago.
- Fewer adults are likely to save in the next 12 months (48%) than in January (50%), and well down on a year ago (60%). Among likely savers the proportion 'very likely' to save is unchanged at 20% on the month and down from 26% a year ago.
- The mean measure of saving intentions is unchanged at -3 on the month. A year ago the measure of savings intentions was +16.
- Overall savings confidence, combining both measures (-28), is down 7 points on the month and well below the 6-month average of -1.

Figure 7 shows how both GfK NOP spending and savings intention measures have declined sharply on a 3-month moving average basis as households retrench. Many households will have decided to repay debt rather than save or spend. The spending climate and personal finance data suggests that an upturn in spending intentions may well take place in the second quarter.

**Figure 7:** Spending and savings intentions: March 2000 – February 2009\*



\*3-month moving averages – spending on major purchases such as furniture and electrical goods  
Source: GfK NOP / JGFR

**Section 4: Households financial position**

## Households financial position much weaker than a year ago

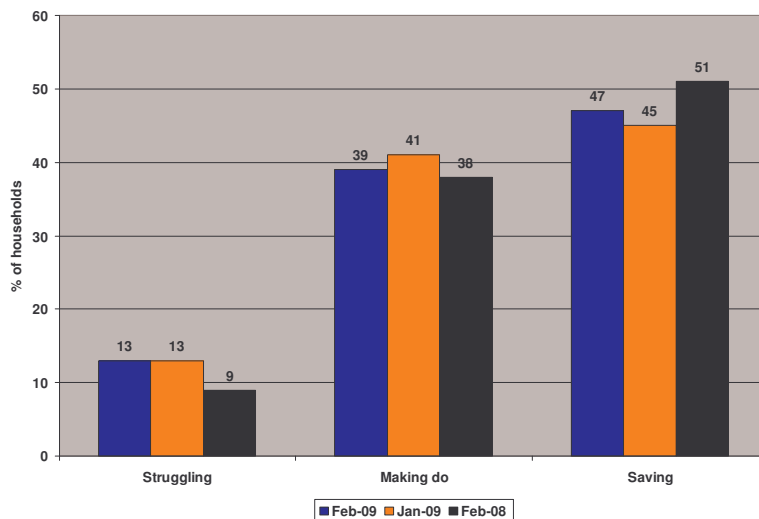
Households financial position improved slightly in February. The overall measure of households' financial position is up 1 point on the month to +18. It is much weaker than a year ago (+24). A higher positive score means financially healthier households.

Households financial score is a mean measure based on the proportions of people categorising their household as saving (a little or a lot), making do and struggling (running down savings / falling into debt).

By segment, the lowest scores are found among people in the lowest household income group (-6, down 1 point on the month) and the over 65s (+9, unchanged on the month). Higher proportions of these groups (15% in the former and 14% in the latter) are drawing on savings. Savings withdrawals among these groups are down on January, but are well up on a year ago. This may reflect a combination of factors - more financial pressure, concern over the safety of banks and little interest earned on savings.

Income, unsurprisingly, is a key discriminator of a household's financial position – top earning households have the highest score (+47), up 2 points on the month but down 5 points on February 2008 (+52). All other income bands showed falls between 5-7 points.

**Figure 8:** Households financial position, UK - February, January 2009, February 2008



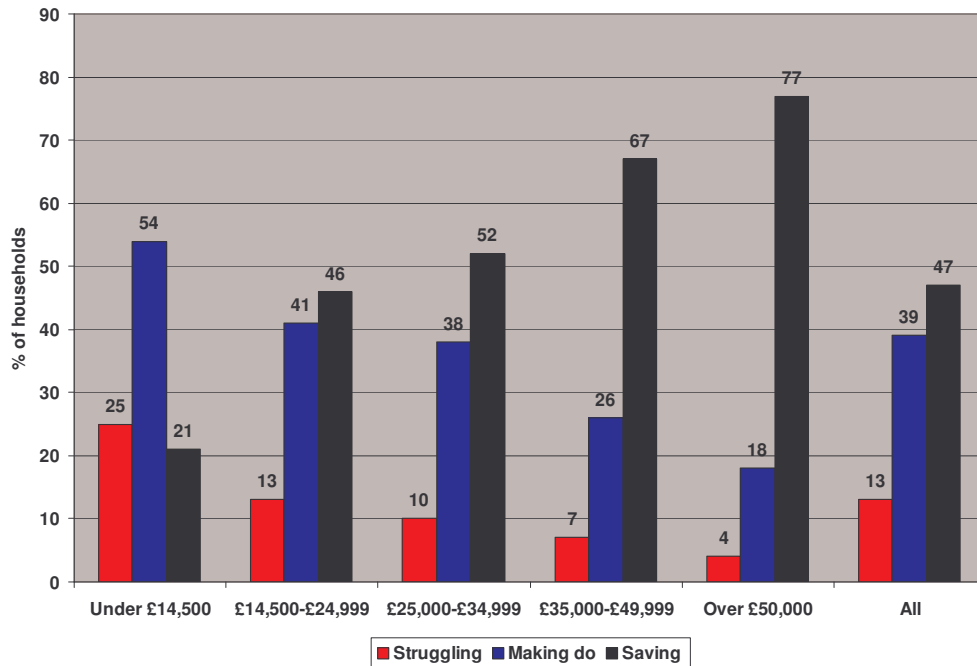
\*not all year columns will add up to 100 as there are a small number of 'don't knows'  
Source: GfK NOP / European Commission / JGFR

### Key points:

- More households are saving and fewer making do than in January.

- 47% of households (some 12.3 million) are saving, up from 45% in January, although down on 51% (some 13.3 million) in February 2008
- Fewer households are making do (39%) compared to January (41%)
- The number of indebted households rose in February from some 1 million (4%) to some 1.2 million (4.6%).
- 8% of households (some 2.1million) are running down savings, down from 9% in January and up from 6% a year ago.

**Figure 9:** Households financial position, UK by income band (%)\*, February 2009



\*the data will not always add up to 100 as there are a few 'don't knows' and rounding effects

Source: GfK NOP / European Commission / JGFR

**Key points:**

- Biggest monthly change is in more savings households in the £14,500-24,999 and in the £25,000-£34,999 household income bands – up from 37% to 46% and from 46% to 52% respectively.
- More savings households are found in the £35,000-49,999 income band, up from 64% to 67%
- There is little change in the financial position of households in the top and bottom income band
- Compared to a year ago there are far fewer saving households across the income bands and more struggling households.

## Section 5: Inflation and jobs

### Inflation expectations at decade low

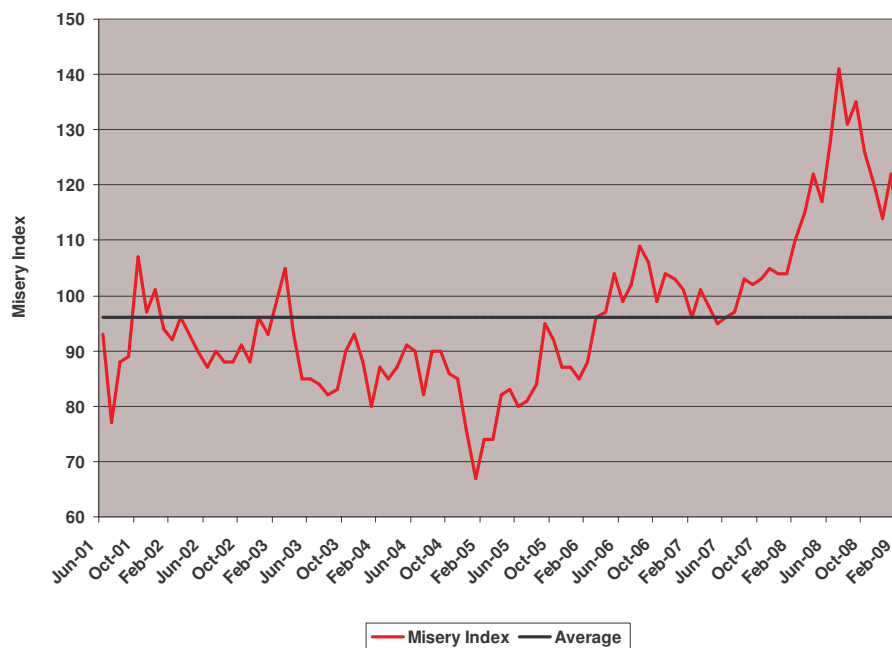
Two questions are asked in the GfK NOP CCI about changes in consumer prices. One question is backward looking over the past 12 months, the second question asks about the development of consumer prices in the coming 12 months. The lower the measure, the less people feel prices are rising.

#### Key points:

- In February the inflation measure looking back over the past 12 months improved 6 points to 63. It is 19 points better than a year ago (82). 28% of respondents believe prices had 'risen a lot', down from 32% in January and 52% last September.
- The measure of consumers' inflation expectations – an important aspect of the MPC's monthly deliberations – improved by 6 points, registering 40 compared to 46 in January. It is the lowest inflation expectation measure this decade. Compared to February 2008 (+78) it is 38 points better.
- 12% of consumers expect prices to increase more rapidly in the next 12 months, down from 19% in January and below a year ago (21%).

### Misery Index improves to best level since January 2008

Figure 10: JGFR Misery Index: January 2001- February 2009

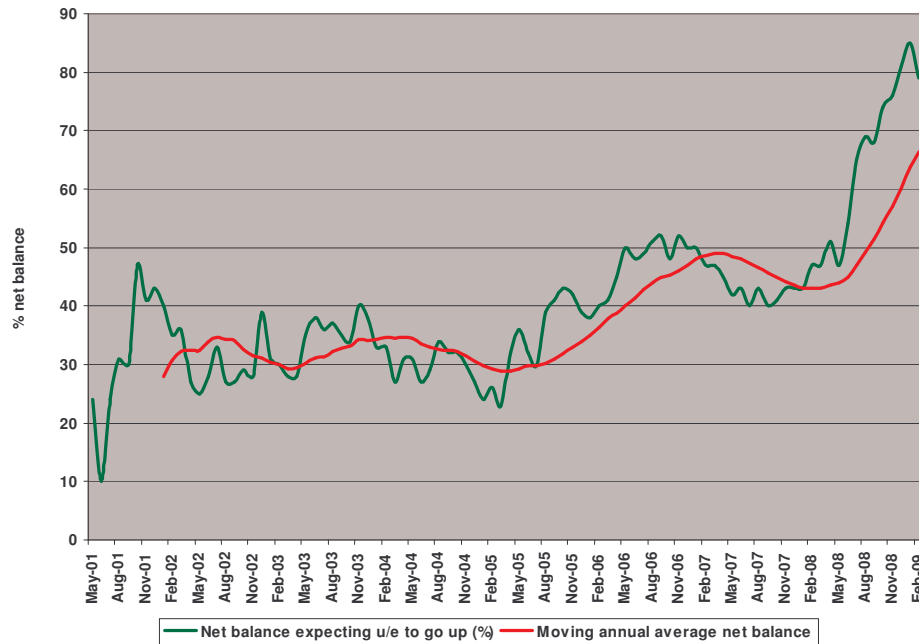


Source: GfK NOP / European Commission / JGFR

The JGFR Misery Index (see Figure 10) - a combined measure of inflation and unemployment expectations – improved by 13 points to 109 in February to its best level since January 2008. It is 13 points above its long-term average (96). Both inflation and unemployment expectations improved during the month suggesting that the outlook may not be so gloomy as forecast in January.

### Surprise fall in unemployment expectations

**Figure 11:** Unemployment expectations in next 12 months January 2001- February 2009\*



\*net balance of adults expecting unemployment to rise  
 Source: GfK NOP / European Commission / JGFR

#### Key points:

- Unemployment expectations in the next 12 months fell surprisingly sharply in February despite large numbers of job losses. The GfK NOP mean measure improved 9 points on the month, from +76 to +69, and compares to +32 a year ago. It is the best score since last November (a higher measure indicates more people expect job losses to grow).
- The net balance of people expecting unemployment to rise (Figure 11) improved from +85% in January to +79% in February and is up from +47% a year ago. The 12-month moving average deteriorated further, falling a further 2 points in February and is the ninth successive month of decline.
- In the latest Nationwide survey the proportion of people who are positive about the current employment situation is unchanged at 23% on the month and down from 53%

a year ago. The net balance of people believing there are many /some jobs available is -41%, 3 points lower than in January. A year ago a positive balance of 30% of adults thought many / some jobs were available.

- The Nationwide job outlook in the next 6 months is more positive in February, mirroring the GfK NOP survey. The net balance of people expecting many/some jobs to be available is up on the month from -52% to -47%. 18% of adults expect many/some jobs will be available, up from 15% in January but well down on 39% a year ago.

## Appendix

### Methodological Notes to surveys

#### GfK NOP

- GfK NOP conducted the survey amongst a sample of 2,001 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 February was conducted between 6-15 February 2009
- The figures contained within the Consumer Confidence Barometer have an estimated margin of error of +/-2%
- The next results are available on Tuesday 31 March
- 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 Spring *Financial Activity Bulletin* was published on Tuesday April 14th

#### Nationwide

- Nationwide's CCI is based on a monthly survey representative of the UK population. For February, the TNS research for Nationwide took place from 19 January – 15 February among 1,000 people. The next Nationwide CCI is scheduled for release on 8 April 2009.

Any published material need to be sourced either GfK NOP / European Commission / JGFR or Nationwide/ TNS/ JGFR or GfK NOP / European Commission / Nationwide / TNS / JGFR

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