

Is a summer bounce in prospect for the UK economy?

For the first time in many months the consumer dashboard is far more positive. At the same time the overall Economic Sentiment Indicator (ESI) for the UK produced by the European Commission in May, covering industry, services, retail trade, consumer confidence and construction, improved from 99.5 to 102.4, above its 6-month average of 101.4.

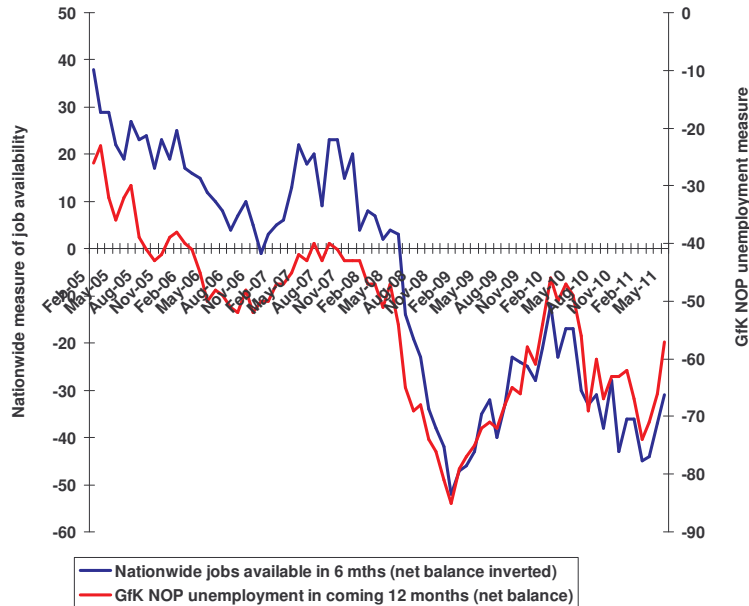
Chart 1: ESI and Services Confidence Indicator (SCI), June 2008- May 2011



Source: European Commission / JGFR

Chart 1 shows the ESI and important SCI (accounting for some 75% of UK GDP) both rebounding in May following falls from March-post-recession-highs in April. Both measures are fairly positive and may point to better than expected growth in Q2. The latest SCI measure (-4) is well above its 6-month average of -9.

Chart 2: Employment expectations, February 2003- May 2011

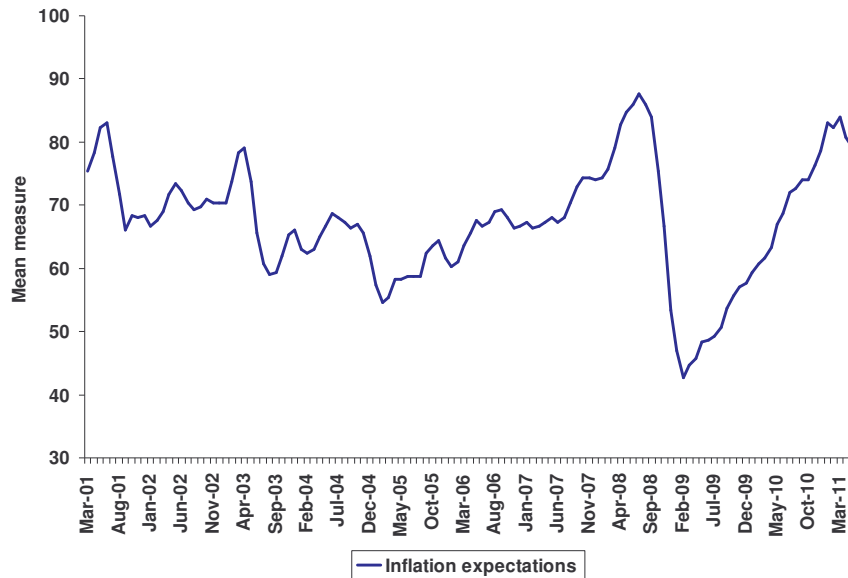


Source: GfK NOP / European Commission / Nationwide / JGFR

Both GfK and Nationwide jobs measures have picked up in recent months. The May Nationwide confidence data shows the best jobs outlook since January. Latest official National Statistics figures show a rise of 80,000 on the 3-months to April in employment to 29.24 million and a fall of 88,000 in the number of unemployed to 2.43 million, the biggest drop in unemployment since the 3 months to August 2000

Inflation expectations may be turning lower

Chart 3: Inflation expectations, March 2001 - May 2011*



* 3-monthly moving average

Source: GfK NOP / European Commission / JGFR

The steep, unrelenting rise in the GfK mean measure of inflation expectations over the past two years may have peaked.

In the past two months inflation expectations have fallen by 11 points and with oil and commodity prices weakening, this may result in further falls in inflation expectations. The 3-month moving average, which is often a good indicator of a turning point in expectations, also improved for the second successive month in May.

Household finances much improved in May

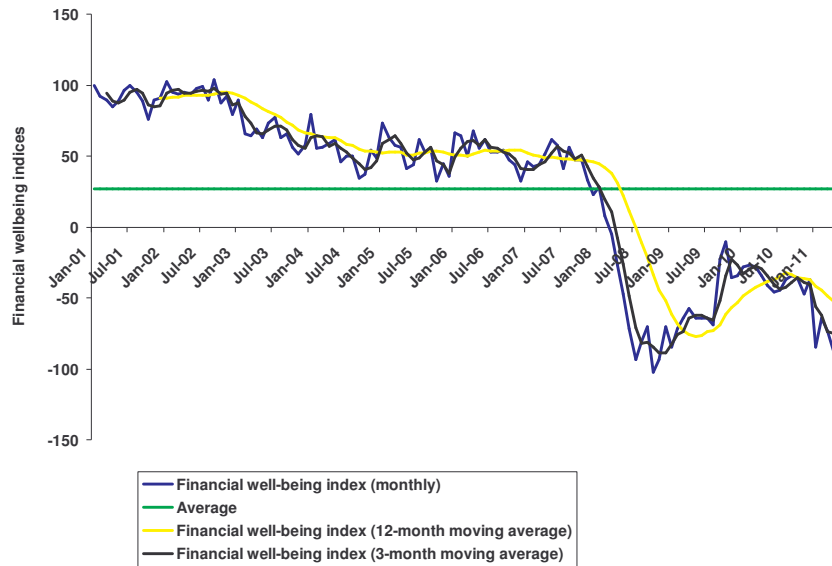
More households have been struggling and fewer saving in the past year as household finances have come under pressure. The combination of job uncertainty, weak earnings growth and high inflation has resulted in consumers seeking to restructure their finances to meet the changed economic circumstances.

May's GfK consumer confidence survey shows a notable jump in the measure of household finances – up to 18 from 16 in April and its best level since last September. More households are currently saving (48%) than in April (43%) and above the 6-month average of 43%.

The improvement in household finances is reflected in a big jump in the JGFR UK Financial Wellbeing Index in May. Compared to April the measure jumped 34 points to - 54, its biggest monthly rise since August 2009. The 3-month moving average moved higher for the first time since last September. All measures comprising the Index improved in May.

Spending confidence rose 7 points to - 55 in May. This measure may be expected to move higher as consumers become more optimistic about the future.

Chart 4: UK Financial Wellbeing Index*, January 2001 – May 2011

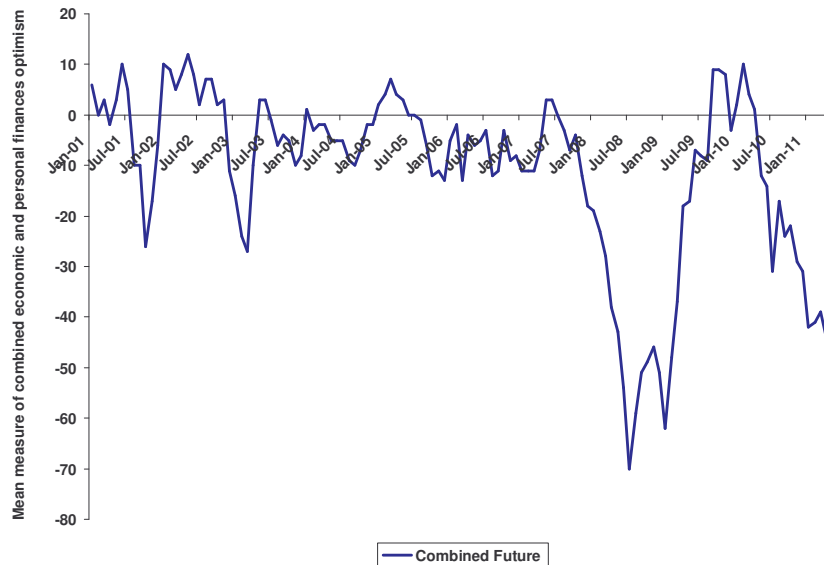


*index comprises of 2 measures of personal finances looking back over 12 months and looking forward over 12 months, proportion of net saving households and spending confidence – a measure of the spending climate for major purchases and of spending intentions in the next 12 months compared to the past 12 months

Source: GfK NOP / European Commission / JGFR

Optimism returns

Chart 5: Consumer optimism about the economy and personal finances Jan 01-May 11



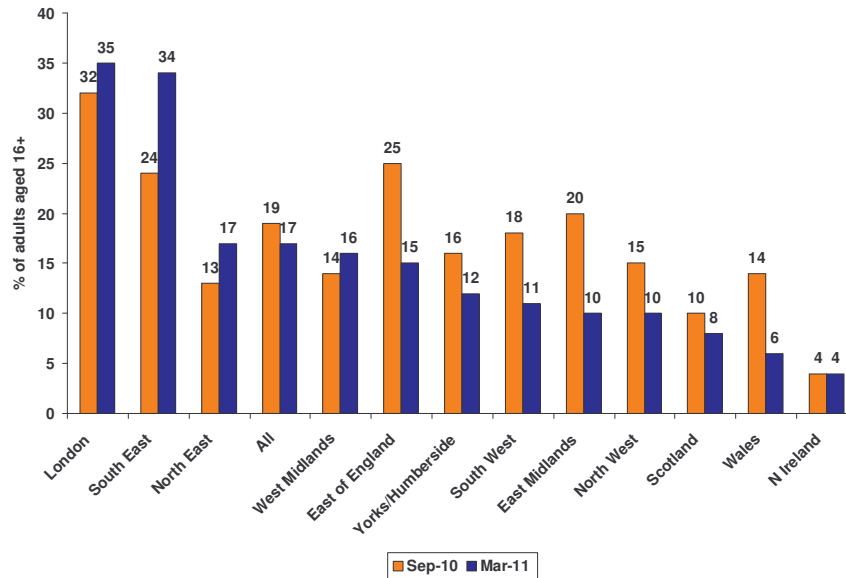
Source: GfK NOP / European Commission / JGFR

A hugely popular Royal Wedding together with warm spring sunshine and increasing anticipation of the London Olympics may be behind the wave of optimism in May. The combined measure of personal and economic optimism jumped 26 points to -18 in the month, its best level since last August.

Olympic ticket demand may have muddled spending data in May

May spending data – particularly on major purchases - may have been affected by the large amount of money withdrawn to fund Olympic ticket purchases. The JGFR Olympics Barometer found some 9 million adults intending to purchase Olympic tickets – in line with intended demand in September and a year ago – and far in excess of the numbers (2 million) reported by LOCOG. Spending in London and the South East may have been weaker than expected because of the strong demand for tickets

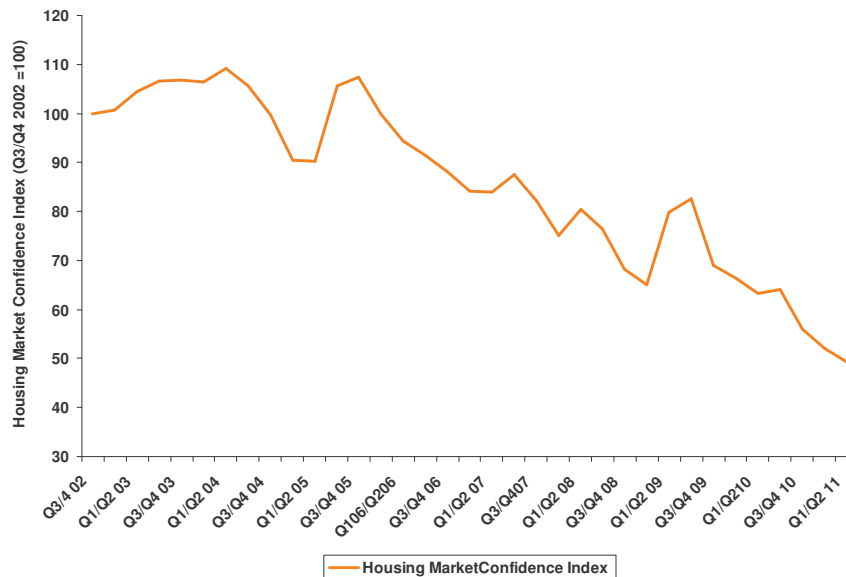
Chart 6: Regional demand for Olympic tickets, September 2010, March 2011



Source: GfK NOP / JGFR

Will housing demand recover in the second half of 2011?

Chart 7 Housing market confidence, June 2002 – March 2011*



*2-quarter moving average basis

Source: GfK NOP / JGFR

A key to improved consumer spending will be an improvement in housing market sentiment. JGFR tracks both mortgage and property purchase intentions in the quarterly Financial Activity Barometer running alongside the GfK consumer confidence survey.

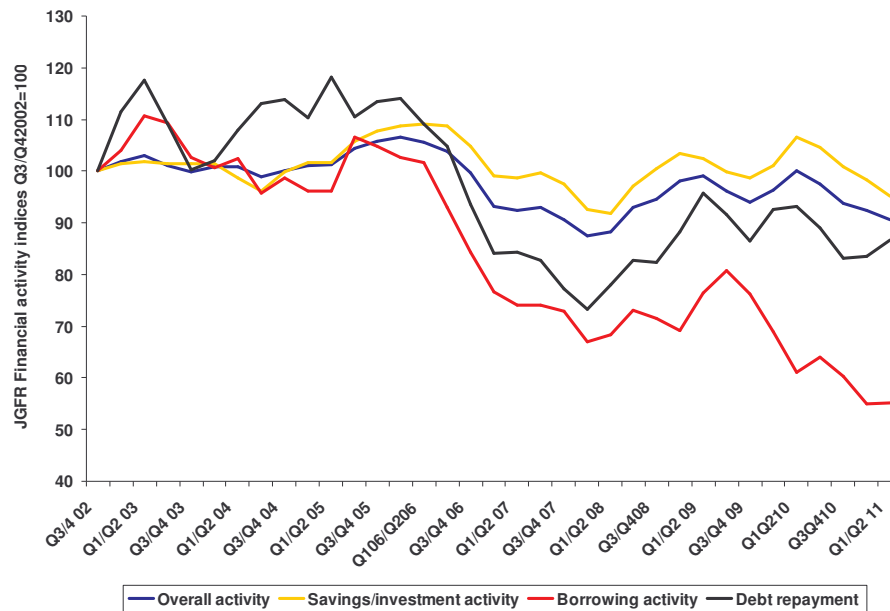
The mood since Spring 2010 towards housing has been extremely gloomy. With consumer confidence returning and interest rates set to remain low and with more lenders offering higher LTV mortgages some recovery in the housing market may be anticipated.

Repay debt, save or borrow?

Repaying debt has been a feature of the past two years as consumers respond to the new economic climate. Borrowing demand has fallen away despite the low interest rate environment. Fewer people intended to save or invest in March as rising inflation, low interest rates, economic and financial markets uncertainty and stretched household budgets took their toll.

The Q3 UK Financial Activity Barometer covering saving, investment, borrowing and debt repayment intentions will show whether there has been any shift in the slump in financial activity that has seen the JGFR Financial Activity Index retreat over the past year from a 3 1/2 year high of 100 in March 2010 to 90.3 in March 2011.

Chart 8: UK Financial Activity Index Q3/Q4 2002 – Q1/Q2 2011



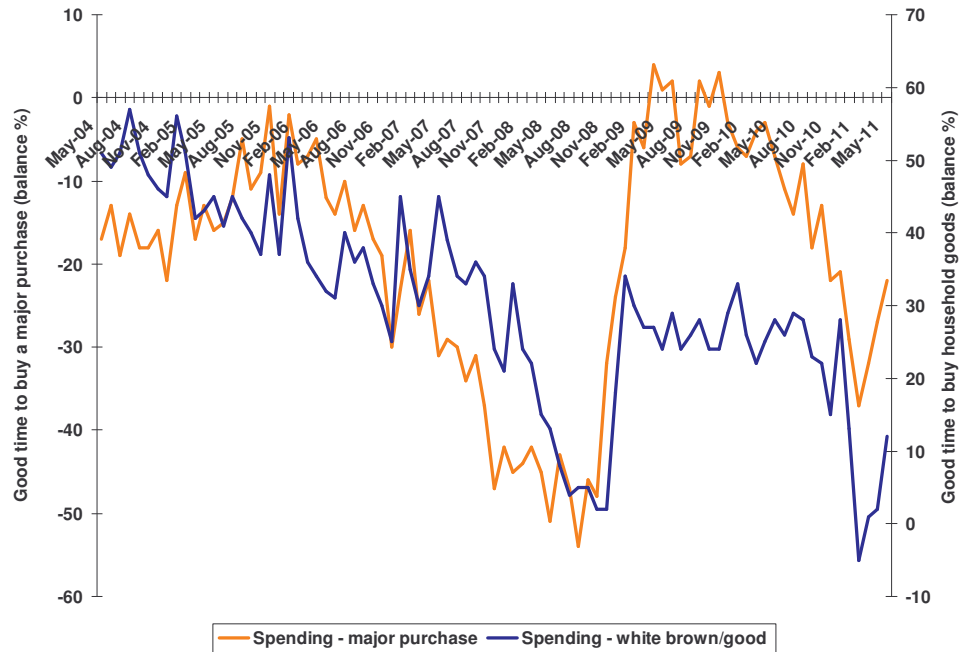
*2-quarter moving average
Source: GfK NOP / JGFR

Are spending and borrowing set to increase in the summer months?

A pick up in personal loan and car finance demand in June from the near record low levels of March would suggest improving spending confidence among consumers and a boost to retailers and car dealerships – and a further sign that the economy may be pulling out of the gloom of recent months.

Such a pick up looks more likely following the big rise in the Nationwide Spending Index in May, up 16 points to 79, its best level since last December. The Index covers both major purchases on cars or houses and on household goods.

Chart 9 Spending confidence, May 2004-11



Source: Nationwide/ TNS / JGFR

About the market analysis / reports of JGFR

- For more detailed analysis of the mood of the consumer JGFR produces regular monthly commentary in The UK Consumer Confidence Monitor and quarterly analysis of the intended savings, investment, housing and borrowing activity of consumers in the UK Financial Activity Barometer.
- JGFR also produces an analysis of the leading main financial services providers each quarter – a market in which the main high street bank brands are dominant – and look likely to be subject to a coming shake up in the autumn. Several regular surveys of consumer attitudes towards banks have been undertaken covering issues such as the threat posed by the new retail bank offerings, packaged accounts and the need to split the banks into separate retail and investment bank entities.
- Every March and September JGFR produces a London Olympics Consumer Barometer that has been undertaken since June 2005 providing unique tracking coverage.
- JGFR/ComPeer produce an annual Financial DIY report exploring the degree to which consumers take financial advice and who is regarded as their main financial services advisor.
- JGFR also conducts periodic studies on sport and charities, on financial services buying channels, on the rise of mobile and social networking and on the mass affluent.
- Client presentations / workshops on the financial behaviour of consumers can also be arranged



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