

Full report & Methodology • July 2011

consumer savings  **onitor**
ING DIRECT

Contents

Introduction by ING Direct CEO Richard Doe	3
Key findings	4
Discussion	5
- Why have savings fallen?	5
- A positive side: Falling debt	6
- Determination to save	7
Commentary by ING Senior Economist James Knightley	9
Case study: Savings by a Local Area District	10
Methodology	12
Contacts	15

Introduction



CEO, ING DIRECT (UK)



Welcome to the latest **ING Direct Consumer Savings Monitor**, covering the second quarter of 2011.

Since we began tracking the financial behaviour of ordinary Britons in 2009, we've seen a clear trend of people prioritising reducing their debts.

And despite being hit with inflation, tax rises and minimal economic growth, an increasing number have been successful - with levels of debts hitting their lowest point since we began our study.

People have done this through cutting their spending - as seen by reduced consumer spending (according to the latest figures from Office of National Statistics). And when they do spend it's debit cards increasingly taking the strain.

In fact, most people's savings cushion is now equivalent to a little less than 40 days' take-home pay.

However, to properly balance the household finances, Brits have also had to draw down on their savings to make ends meet - a behaviour that has led to savings falling to their lowest level that we've seen during the life of the ING Direct Consumer Savings Monitor. In fact, most people's savings cushion is now equivalent to a little less than 40 days' take-home pay.

And it's not all positive news when it comes to debt either, as while our report shows debt levels moving in the right direction, a significant number of Britons also tell us that their debt situation has got worse.

But there are positive signs for the future, as ING senior economist James Knightley explains in his commentary (page 9), there are positive signs for the future, with levels of employment increasing and several parts of the economy driving the recovery.

We also know that there is a growing desire to rebuild savings, with four in 10 Britons (39 per cent) now stating this as their main financial priority, up from 32 per cent at the beginning of the year.

Finally, when we first set up the ING Direct Consumer Savings Monitor we wanted to simply find out what the true figure for savings was, and how this was changing. Since then we have spoken to over 45,000 savers, which has allowed us to study savings to a level of detail never before produced - down to the Local Area District (LAD) level in 376 separate areas across England & Wales.

This analysis has highlighted the stark difference between savings balances in cities compared to more comfortable rural regions (particularly in the south east) and says a lot about the financial pressures experienced by people living and working in urban areas.

We hope as the ING Direct Consumer Savings Monitor continues to develop we'll be able to carry out similarly insightful examinations of the data - learning more and more about the state of savings in the UK today.

A handwritten signature in blue ink, appearing to be 'JDK', with a horizontal line underneath.

Why do we need the ING Direct Consumer Savings Monitor?

While there is a wealth of industry data on spending, consumer confidence and house prices, there is a lack of information available on the amount of accessible savings people have available.

While the ONS Household Savings Ratio is a comprehensive economic measure, it is unsuitable for our cause because it includes things that most people wouldn't consider as saving. For example, the mortgage, the largest monthly bill, is partly counted as savings because it contributes to the pay-down of debt.

Britain's total 'savings pot' of households' cash and deposits is monitored by the Bank of England. However, simply dividing this total by the adult UK population gives a result that is heavily skewed by the small number of people with very large savings balances. This problem also exists in a range of other survey-based measures.

Key findings

The latest ING Direct Consumer Savings Monitor is based on tracking research conducted in Q2 2011 (April - June)¹. It reveals the following key information:

Figure 1 - Key Findings

	MEDIAN SAVINGS (Stock)	CHANGE	MEDIAN MONTHLY INCOME (Net)	MONTHLY INCOME EQUIVALENT (Savings Cushion)
Q1 09	£2,020	-	£1,246	1.62
Q2 09	£1,881	-£149	£1,276	1.47
Q3 09	£1,950	+£74	£1,285	1.52
Q4 09	£2,055	+£113	£1,283	1.60
Q1 10	£1,886	-£182	£1,307	1.44
Q2 10	£2,050	+£164	£1,305	1.57
Q3 10	£1,771	-£279	£1,304	1.36
Q4 10	£1,834	+£63	£1,299	1.41
Q1 11	£1,783	-£51	£1,305	1.37
Q2 11	£1,684	-£99	£1,306	1.29

Source: ING Direct Consumer Savings Monitor

- The ordinary man or woman in the UK currently has **£1,684 in readily accessible cash savings** in banks and building societies
- This is a **fall of £99 (-5.6 per cent)** since the previous quarter, and a **£366 (-18 per cent)** decline compared to the same quarter last year
- This figure equates to just under **1.3 times average monthly take home pay**, or **39 days' worth of take home pay**
- **26 per cent** of Britons have no savings whatsoever
- Respondents also reported that their unsecured debt fell dramatically during the quarter, with levels of borrowing on loans, credit cards and hire-purchase agreements decreasing by **£293 (-10 per cent)** to an average of **£2,513** (see fig. 5 on page 7), meaning that since the start of 2010 debt has fallen by **over £400 per person (-15 per cent)**.

Unless otherwise stated, all data in charts and tables are sourced from the ING Direct Consumer Savings Monitor.

¹ Full details of methodology included in Appendix

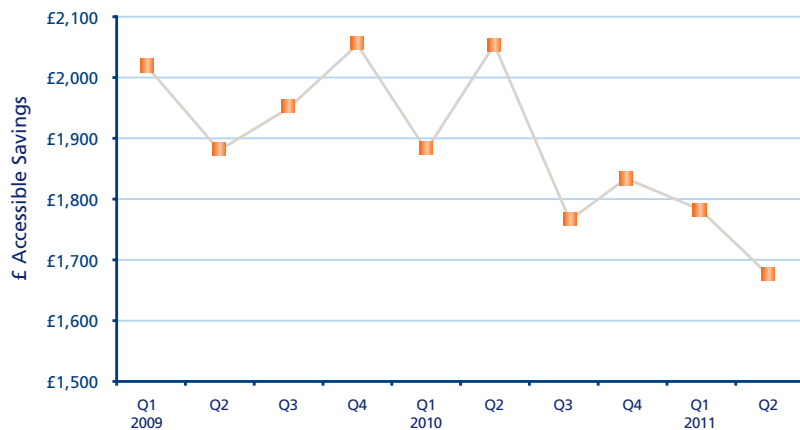
Discussion

Why have savings fallen?

The most glaring finding from this quarter's results is the degree to which savings levels have fallen - hitting their lowest levels since the ING Direct Consumer Savings Monitor began tracking ordinary Britons' savings balances at the beginning of 2009.

But why have savings fallen to such a low level?

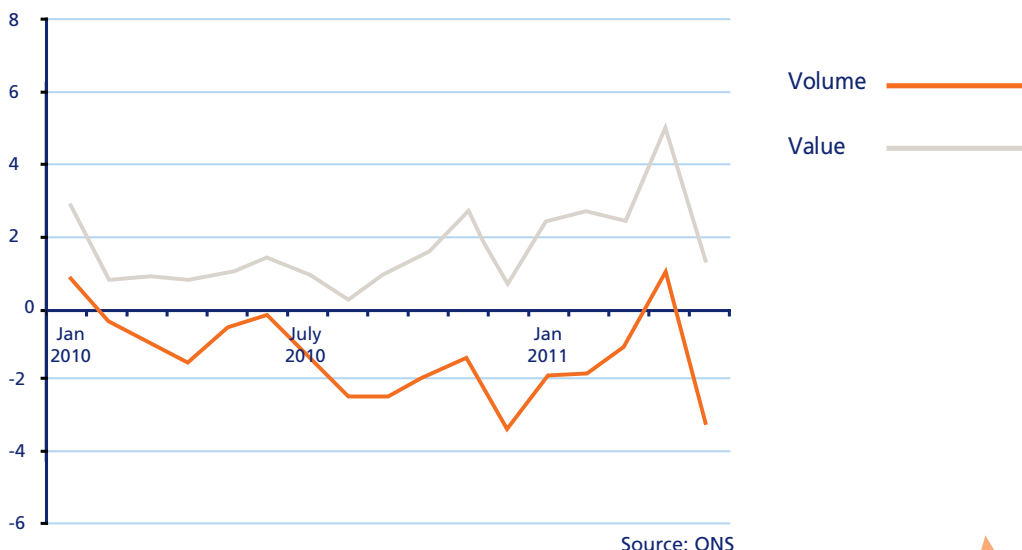
Figure 2 - Quarterly variation in savings levels since 2009



Household spending power has fallen dramatically in the last 12 months - according to ONS real household disposable income figures (June 2011) - as wages fail to keep track with the cost of living.

Consumers have responded by cutting down on spending. As seen in the ONS Retail Sales Index, volume of sales have been largely down on 2010 levels. Yet the value of these sales is higher than last year due to price rises and the VAT increase - meaning consumers are effectively buying less but paying more (see fig. 3 below, with value in positive YoY change and volume in negative YoY change).

Figure 3 - Year on year % change on retail sales (volume and value, to May 2011)



Discussion continued

As a result, many consumers have been forced to rely on their 'last line of defence', using savings to meet everyday expenses (see fig. 4 below). In fact, this is the most common reason that people tap into their savings at the moment. And of course, lower wages in real terms means that savers find it more difficult to top up their reserves.

Figure 4 - Reasons drawing on savings

	2010			2011	
	Q2	Q3	Q4	Q1	Q2
Paying for day-to-day expenses such as bills, or groceries	40%	38%	38%	41%	45%
Paying off credit cards, loans, or hire purchase agreements	19%	18%	17%	18%	19%
Paying for a holiday	34%	32%	22%	26%	29%
Paying for home improvements or home repairs	21%	21%	19%	23%	19%
Buying a car, or pay car-related expenses	12%	12%	13%	12%	12%
Buying clothing, gadgets or other 'leisure shopping'	13%	11%	16%	13%	14%
Spending money on entertainment, or eating/drinking out	11%	11%	12%	12%	10%
Paying for other things for children	6%	11%	10%	9%	6%

In the years prior to the financial crisis, it was often the case that consumers used short-term lending, such as credit cards and loans to ride out more difficult times. However, for the majority of the public today, this is an option they would rather not rely on and the aversion to using short-term credit has been one of the strongest themes of our research over the last two and a half years.

This resistance to borrowing has also been reflected in recent figures released by the British Retail Consortium (June 2011), which showed a 13 per cent fall in the use of credit cards in the last year, with the use of debit cards far more common (up 16 per cent).

A positive side: Falling debt

There is certainly a positive side to the dramatic fall in savings levels that has been occurring, in that levels of unsecured debts have also fallen.

Average debts on credit cards, unsecured loans, and hire-purchase agreements currently stand at £2,513 having fallen by 10 per cent over second quarter of 2011 (£293). This is the lowest level seen since we began measuring this figure at the start of 2010.

Discussion continued

Figure 5 - Levels of unsecured debts

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Unsecured debts	£2,950	£2,737	£2,680	£2,812	£2,806	£2,513

As a result of this fall - we calculate (based on extrapolations from the survey results) that around 4.8 million (10.4 per cent) Brits will have become free of such unsecured debt in the last year and an additional 7.5 million (16.3 per cent) will have less debt today than they did this time last year (see fig. 6 below).

However, a significant number have also struggled to realise their financial aspirations in a difficult climate, with the equivalent of 5.3 million people (11.5 per cent) reporting that their unsecured debts are greater than they were 12 months ago.

Figure 6 - Debt status

	%	No. (millions) Adults
I do NOT currently have any consumer credit - but I did have some debts of this type at this time last year	10.4	4.8
I do NOT currently have any consumer credit - and did not have any at this time last year either	48.4	22.3
I DO currently have some consumer credit - and it is MORE than it was at this time last year	11.5	5.3
I DO currently have some consumer credit - and it is ROUGHLY THE SAME as it was at this time last year	13.5	6.2
I DO currently have some consumer credit - but it is LESS than it was at this time last year	16.3	7.5

Determination to save

Despite the fall in savings balances, we have also seen a distinct growth in people's determination to re-stock their reserves. Four in 10 Britons (39 per cent) now state this as their main financial priority, up from 32 per cent at the beginning of the year (see fig. 7 below).

Figure 7 - Determination to save

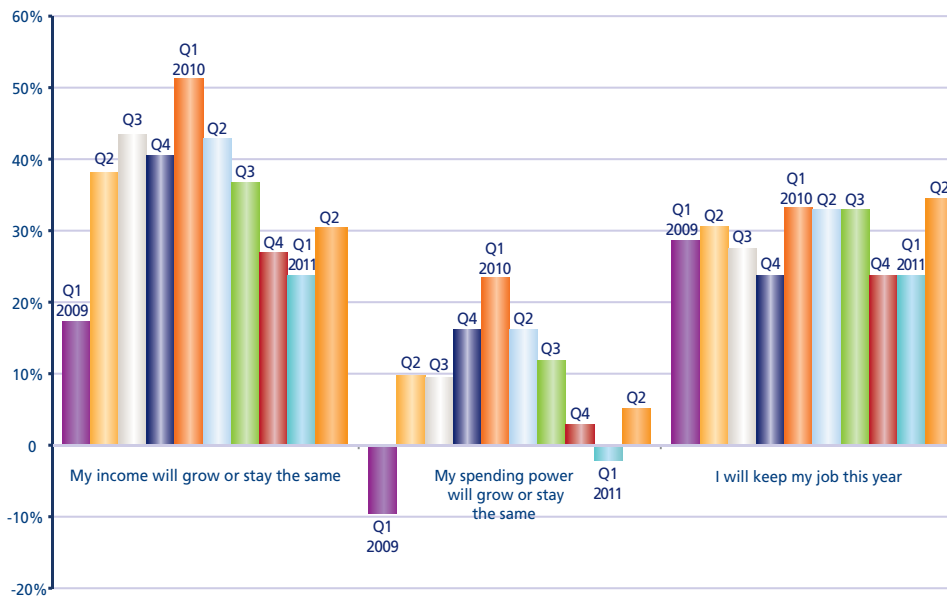
	Q4 2010	Q1 2011	Q2 2011
Saving is main priority	31%	32%	39%

Discussion continued

There has been a notable increase in consumer confidence over the quarter, though levels still remain relatively low.

This marks a turn around in the recent trend of falling (or stagnant) consumer confidence, particularly in relation to household income (up six points), spending power (up seven points) and job security (up 10 points).

Figure 8 - Consumer confidence



Economist Commentary



James Knightley
ING Senior Economist

It is no surprise to see another substantial fall in liquid savings balances given the economic headwinds battering the household sector. The same old story of wages failing to keep pace with the cost of living continues to drive these developments and this is unlikely to change in the second half of this year. Food prices are likely to rise further based on what has already happened to agricultural commodity prices while pre-announced gas and electricity tariff increases by utility companies will further squeeze household finances. We therefore suspect we will see households continue to run down savings to help finance expenditure and pay down debts.

However, we may start to see this trend reverse in 2012. The jobs market is recovering with more than half of all the jobs lost during the recession now having been recreated. Admittedly, the bulk of the new jobs have been part-time, but over the past 12 months there has been a real acceleration in full time employees. Indeed, London, the East of England and the East Midlands now have more people in work than they did before the recession started. Hopefully other regions in the UK will soon start to catch up with Bank of England and British Chambers of Commerce data pointing to robust hiring intentions by private sector companies. If this is the case, we would expect wage growth to gradually accelerate over the next few years.

We are also hopeful of a relatively sharp fall in inflation next year. Commodity prices have subsided in recent months and with the VAT hike dropping out of the annual comparison we suspect that wages could finally grow faster than the cost of living. This has not happened for four years. Add in the cash flow boost from potentially £5bn in compensation payments relating to the miss-selling of payment protection insurance and household finances could show significant improvement.

While such a development would be a positive outcome for the household sector, it does not necessarily guarantee that savings will start to rise as households could choose to continue paying down debts and/or spend more. However, given households' clear desire to save more based on this survey, we suspect that the downward trend we have seen through the life of the ING Direct Consumer Savings Monitor will come to an end during 2012.

Case Study

A detailed dissection of savings by area (LAD)

Having questioned 45,000 savers since the start of 2009 we have been able to map the characteristics of our respondents (age, earnings, tenure and marital status) onto the population characteristics of households in every one of England & Wales' 376 local area districts (LADs). This has allowed us to estimate median household savings in each of these areas, creating a 'savings map' of England & Wales.

The findings have revealed a stark difference between those living in urban and rural areas.

The local areas with the highest savings levels are primarily in the rural South East, with Chiltern (£15,712), Mole Valley (£15,435) and South Bucks (£15,132) leading the way. These figures are around five times our UK average of £3,225 per household.

Yet many of the country's largest cities sit at the foot of the ranking, with Manchester (£569), Nottingham (£776) and Newcastle (£931) included among the most poorly performing areas.

Furthermore, despite being the earnings capital of the UK, five of London's boroughs sit in the bottom 10 areas - showing the degree to which many Londoners are struggling to do more than make ends meet. These areas are Hackney (£749), Islington (£751), Lambeth (£753), Tower Hamlets (£776) and Southwark (£808).

And even the wealthiest areas of London struggle to break into the top of the savings league table, with Kensington & Chelsea (£5,348) and City of London (£5,322) sitting 35th and 36th respectively.

Yet not all urban areas follow this trend. The city with the highest levels of saving is St. Albans (£12,345) and the 'best off' town is Epsom & Ewell (£14,047).

Surprisingly, the correlation between earnings and savings wealth is weaker than one might think, with the 'best off' areas tending to be characterised by an older population (who have therefore been saving for longer), who tend to live in couples or alone - with children having flown the nest.

Case Study continued

Figure 9 - Savings by LAD - Top and bottom 10

Highest saving local area/per household	Median savings level/£
Chiltern	15,712
Mole Valley	15,435
South Bucks	15,132
Waverley	14,178
Epsom and Ewell	14,047
Horsham	14,031
South Oxfordshire	13,303
Vale of White Horse	13,202
Three Rivers	12,949
Elmbridge	12,922
Lowest saving local area/per household	
Norwich	959
Newcastle Upon Tyne	931
Southwark	808
Liverpool	805
Nottingham	776
Tower Hamlets	776
Lambeth	753
Islington	751
Hackney	749
Central Manchester	569

Full list available upon request (see contacts on page 15)
or viewable at www.consumersavingsmonitor.co.uk/savings-comparison.html

Appendix: Methodology

In order to establish an accurate and up-to-date profile for ordinary UK adults and reflect trends in the profile of UK adults through 2009 and 2010, researchers drew upon a range of sources including the British Household Panel Study, the DWP Financial Resources Survey (FRS), and the HM Revenue & Customs Marketable Wealth data.

Based on this profile, a sample of 1,300 people deemed to be fully representative of UK adult population, up to and including the 95th percentile of savings wealth, is selected on a monthly basis by PureProfile, a leading online quantitative research panel. This sample includes approximately 1,000 savers (approx 25 per cent of UK population do not have savings). In order to prevent any time discrepancy, the sample is interviewed over the same seven day period beginning in the last week of every calendar month. The sample is asked an identical standard series of tracking questions every month. These tracking questions commenced in January 2009 and are run on a monthly basis. Quotas are continually monitored and adjusted to take account of any changes in the profile of UK savers, using FRS and the quarterly nationally representative waves of the ING Consumer Savings Monitor research.

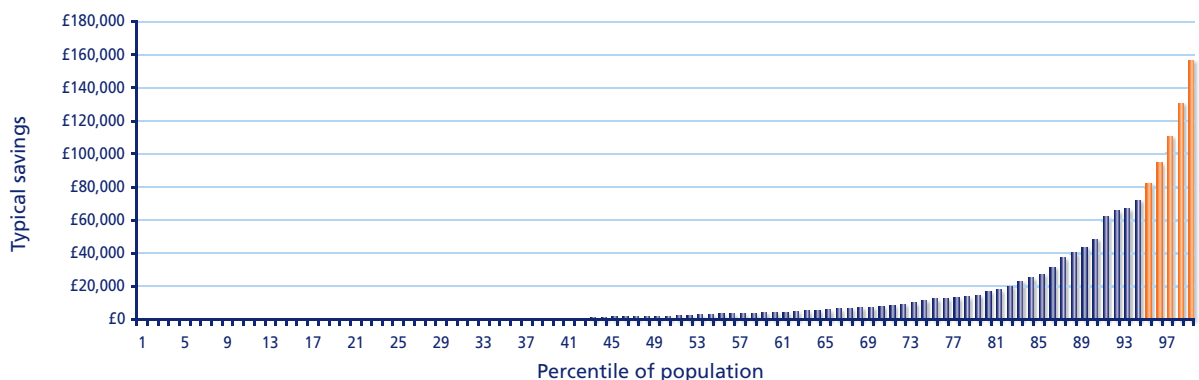
The figures are published quarterly and are based upon 'three month' rolling averages. Monthly and quarterly figures are centred on the first day of the final month in that quarter in question (e.g. our March, or Q1 figures, are 'centered' on March 1st - an average of samples collected Jan 27th to Feb 4th, Feb 25th to March 4th, and March 27th to April 4th).

- **Median figures**

In order to define as accurately as possible what the 'ordinary' Briton has set aside, our study uses median figures throughout. Our research partners have also used independent data to create a model for the UK savings distribution at the top end of the scale, which represent the wealthiest five per cent of the population who are systematically under-represented in all 'nationally representative' polling. This allows us to maintain the consistency and accuracy of the survey sample in order to find the true 'man in the middle'. For comprehensibility and given the fact that non-experts may not understand the word 'median' alone, we take the word 'average' to refer to median figure - both with respect to income and saving levels.

In practice, our focus on the median average UK adult delivers figures on average savings that are around four to eight times lower than mean averages. This is because mean averages are skewed hugely towards the wealthier end of the savings scale (Fig. 10). Our focus on the median UK saver thus delivers a far more accurate view of the savings levels of 'the man in the middle'.

Figure 10 - Model of savings distribution across UK population



Source: FDS International

Appendix: Methodology continued

- **Definition of 'savings'**

We define savings as monies held in bank accounts as a form of cash reserve. This includes cash held in traditional savings accounts including cash ISAs, as well as 'spare cash' held as a buffer in current accounts and funds held in fixed term accounts that can be accessed (with or without penalty). It does not include equity ISAs or accounts where cash is locked away for months/years.

- **Confidence intervals**

Confidence intervals have been calculated on the basis of effective sample size, taking into account design effects (i.e. weighting) upon the data and are available from FDS International.

- **Percentage of monthly income and savings as 'multiplier' of income**

In order to calculate the percentage of monthly income being saved and map this onto savings, FDS research used historic data on gross domestic income obtained from Bank of England / ONS trend series derived from the Expenditure and Food Survey. For full details of the government definition of gross domestic income is available upon request from FDS International (see contacts on page 15).

In order to carry forward this trend data to the present day, with monthly figures, we use a proprietary forecasting model based upon government figures, which is checked against forecasts produced by leading economics forecasters Oxford Economics.

- **Interest rates**

Interest added by savings providers to savers' balances is taken into account using latest monthly CACI data on interest for total stock of savings. All figures include interest accumulated.

- **Historic data**

In order to reconstruct trends in levels of savings among ordinary UK adult savers between 1982 and 2008, researchers have drawn upon Bank of England trend data on retail deposits from individuals (excluding discontinuities), HM Revenue & Customs Marketable Wealth data (excluding housing), the British Household Panel Study, DWP Financial Resources Survey and Expenditure and Food Survey (prevalence of saving) and industry data (CACI) and retrospective recall questions (on accessibility of savings) in the April wave of our savers survey. Historic data on incomes is obtained from Bank of England / ONS trend series derived from the EFS.

Appendix: Methodology continued

- **Debt calculation**

As part of the ING Direct Consumer Savings Monitor quarterly tracking, we ask survey recipients to record their current level of outstanding unsecured debts from credit cards, overdrafts, personal loans and hire-purchase agreements. Outstanding debts refer to those remaining after bills have been paid (so credit paid off in full each month would not be included).

Using this data we produce a mean average. In tracking debt levels, the mean average gives a better indication of average debt levels among UK people than the median. This is because the distribution of debt is considerably different to that of savings, in that a larger number of people report having no debt than report having no savings.

Therefore if we were to report on the median debt we would calculate a figure that is either zero or very small, which would not give us a sensible indication of average debt levels among the typical UK person. Therefore in this instance we have chosen to use the mean figure as this is better suited to the distribution of debt.

- **LAD Calculation**

Our model for median savings at Local Area District level is based upon analysis of composite nationally representative quarterly surveys (1,300 participants per quarter). Using this we have been able to build a linear regression model to reveal which variables best predict levels of household savings, and then to derive from this model estimates for median household savings in various Local Area Districts.

Local Area District level data was collated from a variety of sources, including Census data, Government Actuaries' Dept. projections for population by age, DCLG data on tenure, and National Statistics (2006-based) average household income estimates.

The modelling process revealed four key predictors of how much a household has in savings. These were:

- Level of income
- Tenure of household
- Marital status of household (single adult vs. couple)
- Age of adult household members

The final model was created by profiling each Local Area District of the UK on each of these four dimensions, and deriving from these demographic profiles estimates for the median level of savings in each area.

Contacts and further information

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