

FULL REPORT & METHODOLOGY • APRIL 2011

**consumer savings**  **onitor**  
**ING DIRECT**

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## Introduction

Richard Doe



CEO, ING DIRECT (UK)

**ING DIRECT**  
Saving feels good

Welcome to the latest ING Direct Consumer Savings Monitor, the first quarterly report of 2011.

It's two years now since we started tracking the savings of ordinary people in this country and the latest figures largely reflect the same trends that we've seen over the entire period.

The bottom line is that common sense holds sway when it comes to the setting of household budgets. Britons have taken the sensible decision that they need to re-balance their financial lives and start paying off their debts.

Britons are getting their finances into good shape with 31 percent saying they are determined to re-build their savings balances.

People are continuing to face a difficult balancing act and are sensibly continuing to pay down their short-term debt. As you will see in the report that follows, unsecured borrowing has gone down by nearly 5% in the last year alone.

Of course, something has to give and savings have suffered a lot, falling by *more* than 5% over the same period because, quite understandably, consumers have chosen to dip into their savings to re-balance their debts.

Other pressures also weigh down on savings, not least the recent increases we've seen in the prices of everyday goods like food and fuel.

The good news is that Britons are getting their finances into good shape, with 31% saying they are determined to re-build their savings balances. In times like these, it's more important than ever to have that buffer in place.

### 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 Q1 2011 (January-March)<sup>1</sup>. 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

Source: ING Direct Consumer Savings Monitor/Oxford Economics

- The ordinary man or woman in the UK currently has **£1,783** in readily accessible cash savings in banks and building societies
- This is a **fall of £51 (-2.8%)** since the previous quarter, but an overall decline of **£103 (-5.5%)** compared to the same quarter last year
- This figure equates to just under **1.4 times average monthly take home pay**, which currently averages **£1,305**
- Unsecured debt fell slightly during the quarter, with levels of borrowing on loans and credit cards decreasing marginally by **£6 (-0.2%)** to an average of **£2,806** (see figure 8 on page 8), meaning that across the last 12 months' debt has fallen by **£144 (-4.9%)**
- **26%** of Britons have no savings whatsoever

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

<sup>1</sup> Full details of methodology included in Appendix

## Discussion

### 2011 - savings fall during the first quarter

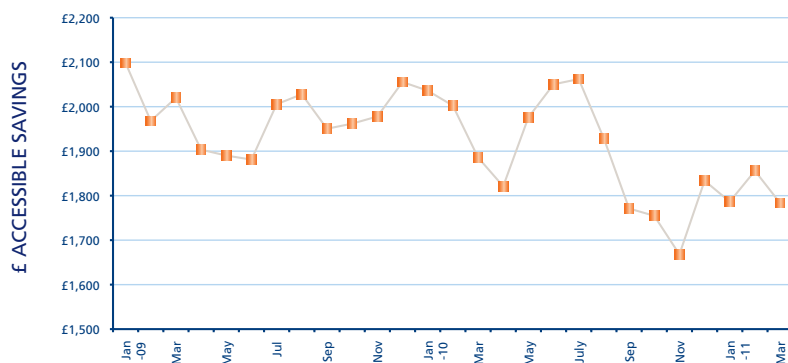
As seen in figures 1 and 2, savings balances have fallen back by nearly £51 (-2.8%) over the first quarter of the year. Although the overall trend across the quarter is downward, there have been considerable monthly variations, with a significant fall in January, followed by a slight increase in February and a return to January levels in March.

The January 'dip' may reflect typical seasonal variation, as Britons use their savings to cover Christmas spending. However, the fact that the fall was sustained to the end of the quarter suggests that we are seeing more than a seasonal effect. This is reinforced if we compare the figures with the same quarter of 2010 – when average savings were over £100 higher than they are now.

Attitudinal research and economic measures indicate that the following factors have put downward pressure on savings:

- Increases in the costs of living (see figure 3 below on government measured CPI inflation) mean that Britons are dipping into their savings to pay for every day goods such as groceries. The monitor shows an increase to 41% in the number of people using savings for everyday essentials.
- There is an increasing concern about unemployment, with 15% now saying that they are 'not confident' that they will keep their job this year. This is the highest the figure has been since the depths of the recession at the end of 2009.
  - This pessimistic outlook is likely to be one of the things motivating people to get their debts under control using their savings to do so.

Figure 2 - Monthly variation in savings levels since 2009



### Two-year trend

These latest figures mark two years since tracking research for the ING Direct Consumer Savings Monitor began in January 2009. Overall, the longer-term trend reflects what has happened in the most recent quarter.

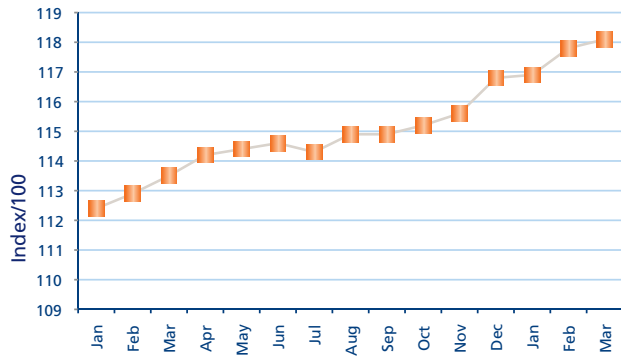
Although savings have fallen by more than £237 (- 11.7%) over the period, there was also a marked decline in short-term debt, which has fallen by 4.8% even since we began measuring it in January 2010.

Again, the overall figures show that Britons are managing a delicate balancing act, being keen to get their short-term debt under control and using their savings to do so.

It's also evident that people's ability to save has been impacted, as inflation increases, unemployment rises over the long term and household incomes remain relatively static.

## Discussion

Figure 3 - Consumer Price Index (CPI) Inflation (Office for National Statistics)



### Savings motives

As seen in figure 4 below, the primary motive for saving remains the desire to build up funds for use in an emergency, although we have also seen a statistically significant increase (six percentage points) in the number of people saving towards their summer holidays.

There has also been a significant increase in the number of people saving for home improvements, demonstrating that many homeowners are having to stay put in a low interest rate environment until the housing market improves

Figure 4 - Reasons for saving

	Q1 2010	Q1 2011
To build up an emergency buffer	33%	46%
To get married	5%	5%
To go on holiday	30%	36%
To cover bills e.g. electricity gas etc	10%	13%
To pay off credit card	6%	9%
Home improvements	14%	20%
To have a baby	3%	4%
Buy a new car	8%	10%
Buy a second hand car	6%	7%
Buy a new TV	4%	4%
Deposit for a new property	11%	12%
Other	8%	11%

A retrospective look at the reasons why savings are being drawn down illustrates the effect that the increasing cost of living is having on savings balances. There has been a significant increase in the number of people using savings in order to pay for day-to-day expenses such as food and energy, all of which have been subject to recent inflationary pressure.

## Discussion continued

Figure 5 - Reasons for drawing on savings

	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Paying for day-to-day expenses such as bills, or groceries	41%	44%	42%	47%	40%	38%	38%	41%
Paying off credit cards, loans, or hire purchase agreements	18%	20%	20%	21%	19%	18%	17%	18%
Paying for a holiday	32%	29%	27%	29%	34%	32%	22%	26%
Paying for home improvements or home repairs	19%	21%	22%	20%	21%	21%	19%	23%
Buying a car, or pay car-related expenses	16%	16%	15%	12%	12%	12%	13%	12%
Buying clothing, gadgets or other 'leisure shopping'	14%	11%	14%	13%	13%	11%	16%	13%
Spending money on entertainment, or eating/drinking out	11%	12%	12%	12%	11%	11%	12%	12%
Paying for other things for children	7%	9%	10%	7%	6%	11%	10%	9%

### Those most affected

As seen in the demographic breakdowns (fig. 6), certain cross sections of society have also seen their savings fall more than others over the last 12 months.

Figure 6 - Median savings by age, gender and marital status

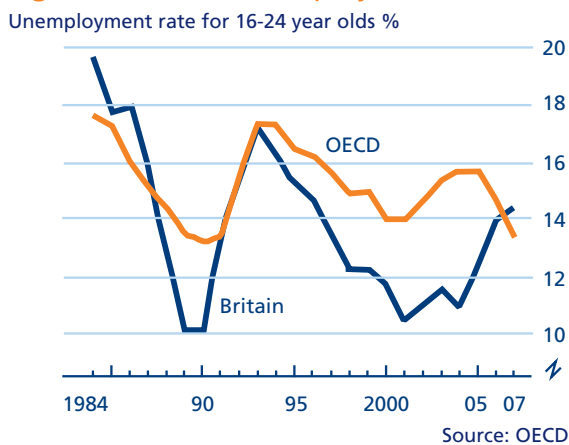
AGE	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	CHANGE IN THE LAST YEAR	CHANGE IN THE LAST 6 MONTHS
18-24	£965	£832	£758	£645	£491	£496	-40%	-23%
25-34	£990	£902	£866	£774	£678	£619	-31%	-20%
35-44	£1,555	£1,576	£1,515	£1,359	£1,215	£1,127	-29%	-17%
45-54	£2,553	£2,687	£2,701	£2,743	£2,730	£2,584	-4%	-6%
55+	£5,481	£5,329	£5,350	£5,220	£5,122	£5,183	-3%	-1%
<b>GENDER</b>								
Men	£2,839	£2,720	£2,753	£2,664	£2,605	£2,638	-3%	-1%
Women	£1,604	£1,614	£1,590	£1,514	£1,408	£1,284	-20%	-15%
<b>MARITAL STATUS</b>								
Single Women	£948	£918	£941	£942	£907	£887	-3%	-6%
Single Man	£2,058	£1,835	£1,836	£1,699	£1,530	£1,583	-14%	-7%
Married Woman	£2,236	£2,179	£2,139	£1,936	£1,764	£1,753	-20%	-9%
Married Man	£3,639	£3,410	£3,452	£3,508	£3,417	£3,456	1%	-1%
<b>INCOME</b>								
Low (< £22K)	£800	£750	£701	£667	£627	£595	-21%	-11%
Medium (£22K-£47K)	£2,652	£2,539	£2,622	£2,471	£2,326	£2,247	-11%	-9%
High (>£47K)	£5,668	£5,485	£5,272	£5,076	£4,785	£4,734	-14%	-7%

## Discussion continued

### Savings winners and losers continued...

- **Young people** – one of the most notable continuing trends of the past 12 months has been the fall in savings among the youngest section of adult society (18-24). Savings levels in this group have fallen by 23% in the last six months alone and by 40% since the same time last year. There was a very modest increase in this quarter of around 1% (from £491 to £496) - certainly not enough to make up the shortfall. This phenomenon is not surprising given the well-publicised increase in youth unemployment, as detailed in fig 7 below.

Figure 7 - Youth unemployment rate (ONS)



- **Low earners** – the savings levels of those earning less than £22,000 a year have also fallen disproportionately compared to other groups in society over the last 12 months (by 21%). This trend has continued apace over the past quarter, when balances fell by a significant 5% (to £595).

### Reducing short-term debt remains a priority

Despite a general decline in savings levels in 2010, Britons continue to make progress in reducing their debts, with levels of unsecured debt down by 4.9% over the past 12 months.

Our attitudinal research also suggests that consumers are keen to pay down debt, which helps to explain the longer-term decline in ordinary people's saving (see fig 1 and fig 8).

Figure 8 - Levels of unsecured debts

	Q1 2010	Q1 2011	% CHANGE
Unsecured debts	£2,950	£2,806	4.9%

## Discussion continued

### Consumer confidence

There has been a notable drop in consumer confidence over the quarter (see Fig 9), which has in turn had an impact on attitudes towards saving. Most notably (see Fig 10 below), confidence in the job market remains low, with 15% now having no confidence that they will keep their job this year. This reflects concern about government-led public sector job cuts. This consumer pessimism may be feeding into the overall desire for families to rebalance their finances in preparation for tougher times.

Recent tax increases have also had an effect on individuals' perceptions of their own wealth and spending power. Such changes in attitude need not necessarily have a negative effect on saving, but it would seem that their financial circumstances are preventing people from saving more, even if they would like to. This is something that James Knightley builds on in his commentary later in this report.

Figure 9 - Consumer confidence

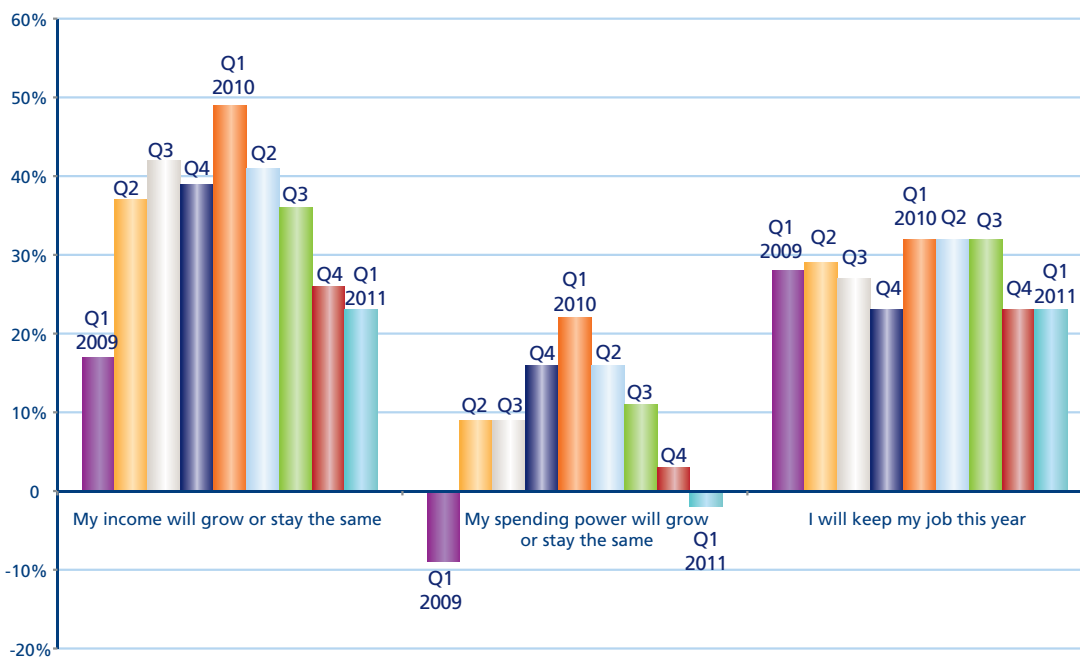


Figure 10 - Unemployment concerns

I PERSONALLY WILL KEEP MY JOB THIS YEAR	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Not very confident	10%	10%	11%	14%	15%

## Discussion continued

### Prospects for the rest of 2011

As James Knightley explains on page 11, the effects of rising prices on savings cannot be underestimated, particularly when combined with negative economic news about job losses and tax increases. However, the most recent CPI figures suggest that inflation has fallen back slightly and if this continues, it may encourage saving over the rest of 2011 and beyond.

It's also encouraging that consumers are looking to consolidate their financial position by paying down short-term debt. As the economy recovers and household finances are re-balanced, the prospects of consumers building up their savings balances in future are improved.

## Economist Commentary



James Knightley  
ING Senior Economist

The squeeze on household finances is clearly evident in the latest ING Direct Consumer Savings Monitor. With incomes failing to keep pace with the cost of living, taxes going up and benefits being cut, households are increasingly dipping into their savings in order to maintain their lifestyle. This is particularly evident amongst younger households and also those on lower incomes, which have cut their level of savings by more than 20% over the past year.

Once again, this contrasts with the Bank of England saving data that shows household saving deposits surged in January and dipped modestly in February. Unlike the ING Direct Consumer Savings Monitor, this measure of deposit savings is heavily influenced by the very wealthy who see much larger volatility in incomes and who often make substantial changes in their portfolio of assets e.g. moving between stocks and shares and cash deposits. As a result it tells us little when analysing the behaviour of the typical saver in the UK.

Unfortunately, we don't see anything over the next three to six months that will alter the path of savings behaviour as measured by the ING Direct Consumer Savings Monitor. Increasing commodity prices, particularly food and energy, will continue to feed through to the high street and fuel bills so real incomes will remain under downward pressure. Households will therefore continue to be faced with the question of whether to cut saving or cut spending with the former more likely in our view.

Policy-makers will be hoping that households do indeed continue to run down savings to finance spending since any downturn in consumer spending could jeopardise the economic recovery. The survey responses in the report suggest to us that this is still the most likely path for savings behaviour. Furthermore, job insecurity will also remain a key issue as public sector job losses accelerate. Consequently, the trend for households to look to pay down debts using their savings is also likely to persist.

Nonetheless, we believe there is a good chance that households will be able to partially rebuild their savings next year. Despite the current pessimism regarding the state of the labour market, private sector employment is rising and we believe that this can more than offset public sector job losses. Consumer price inflation should also slow given we do not anticipate any further VAT rises while we doubt that commodity prices will be able to rise at the same rate that they have over the past couple of years. With nominal wage rates likely to pick-up, households should experience a rise in their real disposable incomes, which can be used to fund higher saving once again in 2012.

## 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 from 2009 through to 2011, 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 1000 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.

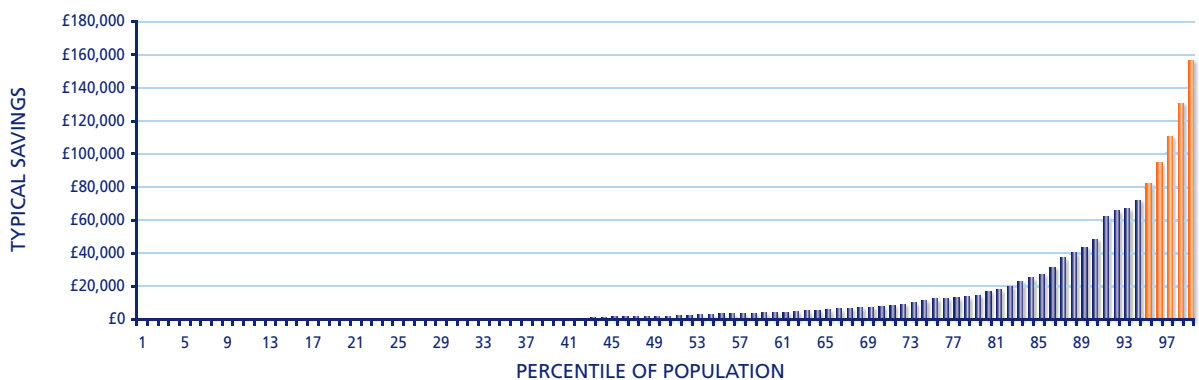
The figures are published quarterly and are based upon 'three month' rolling averages. Monthly and quarterly figures are centred on the first day of the final month in that quarter in question (e.g. our March, or Q1 figures, are 'centred' on March 1st – an average of samples collected Jan 27th to Feb 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 11). 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 11 - 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 pg 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.

- **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).

## Appendix: Methodology continued

- Debt calculation continued...

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.

## Contacts and further information

For more information on this report, please contact:

Martin Rutland  
ING Direct  
Email: [martin.rutland@ingdirect.co.uk](mailto:martin.rutland@ingdirect.co.uk)  
Tel: 01189 381969  
410 Thames Valley Park Drive  
Reading  
RG6 1RH

For information on economic outlooks regarding savings, please contact:

James Knightley  
ING Bank N.V.  
Email: [james.knightley@uk.ing.com](mailto:james.knightley@uk.ing.com)  
Tel: 020 7767 6614  
ING Bank N.V.  
60 London Wall  
London  
EC2M 5TQ

Mark Cliffe  
ING Bank N.V.  
Email: [mark.cliffe@uk.ing.com](mailto:mark.cliffe@uk.ing.com)  
Tel: 020 7767 6283