

Full report & Methodology • Quarter 4, 2011

**consumer savings**  **Monitor**  
**ING DIRECT**

## Contents

Introduction by ING Direct CEO Richard Doe .....	3
Key findings .....	4
<b>Discussion</b> .....	5
- Savings recover .....	5
- A dramatic fall in debt levels .....	5
- Savings driver - low confidence? .....	6
- Savings in 2012 .....	8
- Review of 2011 .....	9
Commentary by ING Senior Economist James Knightley .....	11
Methodology .....	12
Contacts .....	14

## Introduction



Richard Doe  
CEO, ING Direct (UK)

It's been a while since we were able to report an increase in savings from the ING Direct Consumer Savings Monitor findings, but we now know that cash reserves rose by just over £70 in the final quarter of 2011.

Consumers have also made good on their promise to limit the use of the plastic over the festive period, a resolution that we identified in previous research. This has led to a fall in the average level of unsecured debt, by a hefty £400, and according to our figures, now sits at a three-year low.

Looking at our consumer confidence figures, it seems that it was the negative economic headlines and personal experience that pushed people towards this more prudent financial behaviour and heightened their determination to restore savings.

Consumers have also made good on their promise to limit the use of the plastic over the festive period, a resolution that we identified in previous research.



And while retailers had to 'wait out' a relatively quiet October and November while consumers put cash away for Christmas, it seems some were rewarded in December with healthy Christmas sales.

However, when looking at the year as a whole, savings levels remain 14.2 per cent down on the previous year (without accounting for inflation), sitting at £1,574. This figure is also a great deal less than the £2,020 balance we recorded when we first began tracking savings at the start of 2009.

Particular groups are also suffering, with middle-aged savers seeing their savings fall significantly in 2011 and low-earners with median balances at a trough of just £397 – the lowest level we've seen so far.

It does appear that the public are sufficiently concerned that many have made saving their number one financial priority, although with the current economic environment, it remains to be seen whether they can continue to build these balances in 2012.

### 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 Q4 2011 (October-December)<sup>1</sup>. It reveals the following key information:

Figure 1 - Key Findings				
MONTH	MEDIAN SAVINGS (Stock)	CHANGE FROM PREVIOUS QUARTER	MEDIAN MONTHLY INCOME (net)	NUMBER OF MONTHS' INCOME (savings cushion)
Q1 2009	£2,020	-	£1,240	1.63
Q2	£1,881	-£139	£1,268	1.48
Q3	£1,950	+£69	£1,273	1.53
Q4	£2,055	+£105	£1,283	1.60
Q1 2010	£1,886	-£169	£1,307	1.44
Q2	£2,050	+£164	£1,305	1.57
Q3	£1,771	-£279	£1,304	1.36
Q4	£1,834	+£63	£1,299	1.41
Q1 2011	£1,783	-£51	£1,305	1.37
Q2	£1,684	-£99	£1,306	1.29
Q3	£1,501	-£183	£1,315	1.14
Q4	£1,574	+£73	£1,318	1.19

Source: ING Direct Consumer Savings Monitor

- The ordinary man or woman in the UK currently has **£1,574** in readily accessible cash savings in banks and building societies
- This is a **rise of £73 (+4.9%)** since the previous quarter, but a **£260 (-14.2%)** decline over the last year
- This figure equates to just under **1.2 times** average monthly take home pay, or **36 days'** worth of income in savings (based on 30 day month)
- **27 per cent** of Britons have no savings whatsoever
- Respondents also reported that their unsecured debt fell significantly during the quarter, with levels of borrowing on loans, credit cards and hire-purchase agreements decreasing by **£405 (-15.4 per cent)** to an average of **£2,224** (see figure 3 on page 5). This is the lowest level recorded since tracking began in January 2009

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

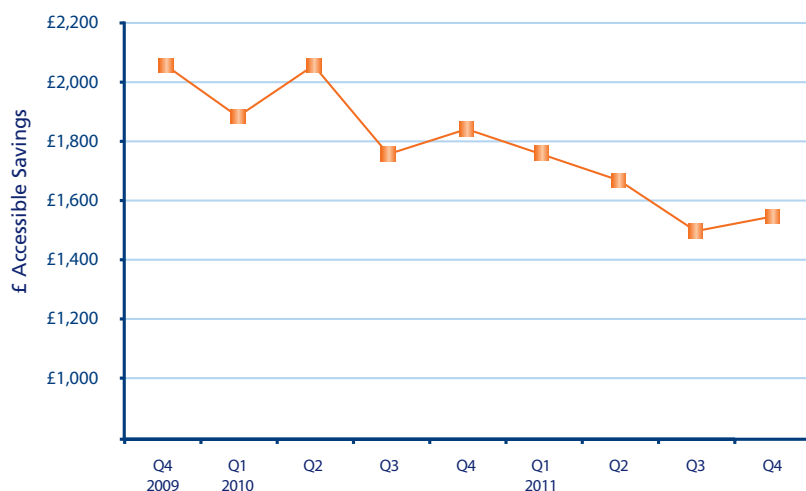
<sup>1</sup> Full details of methodology included in Appendix

## Discussion

### Savings recover

While median savings levels remain low, the final quarter of 2011 saw a minor recovery, with savings rising by 4.9 per cent (£73) to stand at £1,574. This is the first recorded quarterly rise for a year, but was not enough to reverse an overall annual fall of 14.2 per cent (-£260).

Figure 2 - Quarterly variation in savings levels since 2009



This modest recovery was driven by a strong October and November (+4.7% and +4.3% month on month change respectively), with savers using some of their reserves in December (-4.0%). (see figure 6 on page 7 for more on this.)

Savers now have a little over one month's worth of take home pay in accessible cash reserves, although this differs dramatically depending on age and earnings (see page 9 for more information).

### A dramatic fall in debt levels

In terms of overall impact on the household balance sheet, the recorded fall in unsecured debt outweighed the rise in savings. Average borrowing on credit cards, hire purchase agreements and personal loans fell by 15.4 per cent (-£405) to rest at an average of £2,224 (see figure 3 below). The annual change is even greater, at 21 per cent (-£588) and currently sits at a three-year low.

Figure 3 - Determination to save									
	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
UK	£3,046	£2,950	£2,737	£2,680	£2,812	£2,806	£2,513	£2,629	£2,224

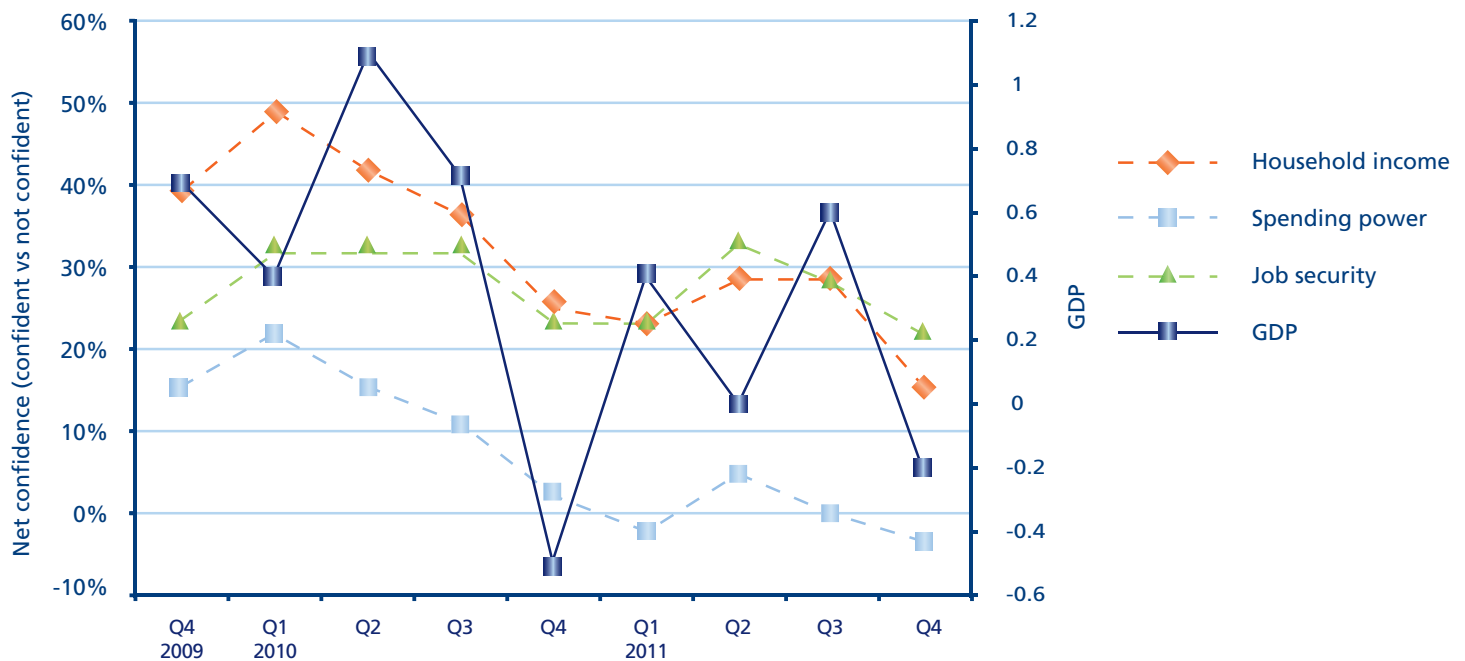
As a result, when looking at combined savings and debt, the average Briton is £478 better off over the quarter, though still in a net deficit when taking debt from savings.

## Discussion continued

### Savings driver - low confidence?

Over the period that we have been tracking consumer confidence, its component features have broadly followed in line with GDP figures (with a three month lag), growing or remaining stable during periods of reported growth and falling when GDP contraction occurs. Yet in the fourth quarter of 2011, the weight of negative economic news in the Eurozone had a negative effect on confidence components (similar to a decline in GDP) despite a reported growth in GDP (Q3) (see figure 4 below).

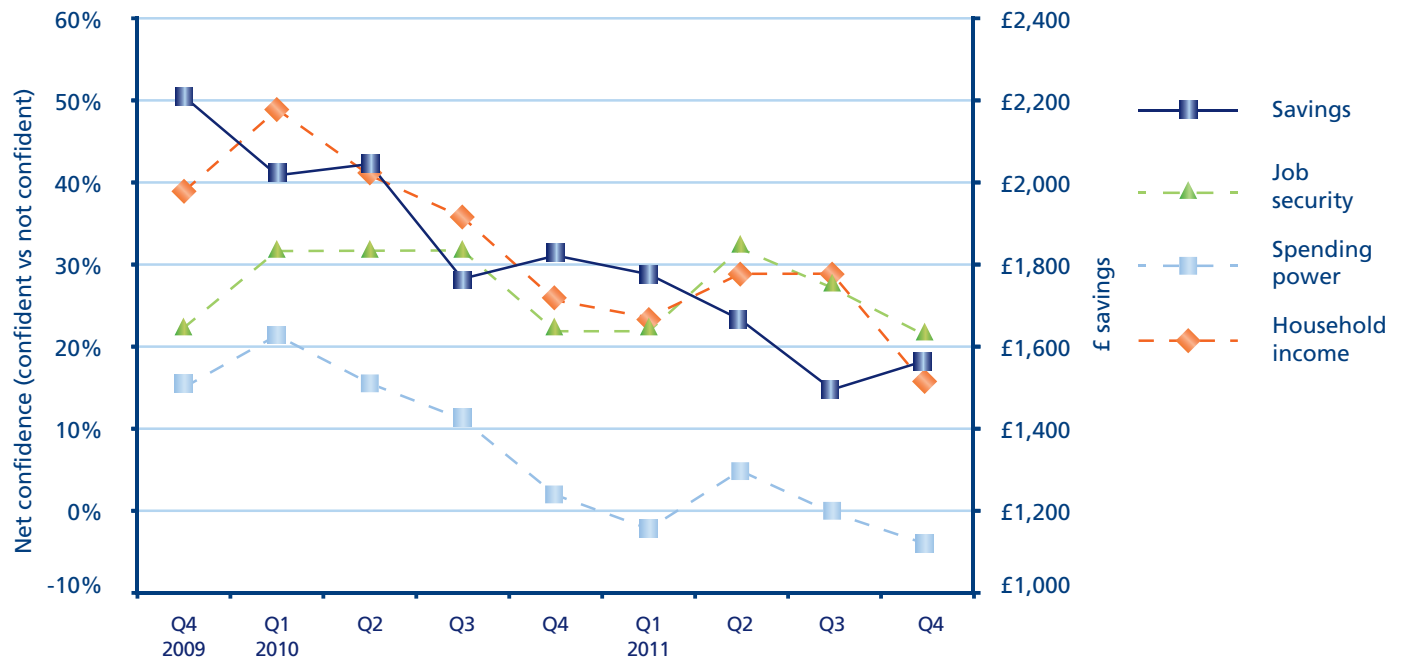
Figure 4 - GDP vs Components of Consumer Confidence



The relationship between consumer confidence and saving is a more complex one. Savings levels have been falling alongside confidence over the last two years, but as confidence hit a three year low in Q4 2011 (see figure 5 on page 7), savings rose moderately.

## Discussion continued

Figure 5 - Falling confidence & savings



Whether these factors are so solidly linked remains to be seen, but it is a possibility that confidence fell low enough to impact on consumer behaviour, resulting in Britons *saving* more of their disposable income in the run up to Christmas.

This theory bears out when comparing monthly saving patterns with high street spending. As you can see in figure 6 below, savings grew considerably in October and November, before falling in December, with high street spending subdued during October and November.

So it's sensible to assume that consumers stayed away from the high street while they saved for Christmas, returning in strength in December. This would also explain why consumers were better able to plan their use of credit (as seen in figure 3), being less likely to have to rely on credit after a couple of months of 'stocking up' on savings for Christmas.

Figure 6 - Saving and spending		
MONTH	SAVINGS (% change on previous month)	RETAIL SALES
October	+4.7%	+1.0%
November	+4.3%	+0.4%
December	-4.0%	+2.6%

Source: ONS Retail Spending (Year on year monthly vol. of sales, SA)

## Discussion continued

### Savings in 2012

As savings levels fell throughout 2011, the determination to restock these balances began to rise (see fig 7 below), reaching a peak during the last quarter of the year. While this is a good sign, savers have found it difficult to deliver on their savings ambitions in the past, so in a shrinking economy it will remain difficult to contribute to a savings recovery in 2012, especially bearing in mind other economic factors (outlined in James Knightley's commentary on page 11) such as inflation, unemployment and spending patterns.

Figure 7 - Top financial priority

	Q4 2010	Q1 2011	Q2	Q3	Q4
<b>Saving more</b>	31%	32%	39%	39%	41%
<b>Paying off credit cards/loans</b>	25%	28%	30%	28%	30%
<b>Paying more off mortgage</b>	15%	14%	12%	12%	11%
<b>Other</b>	29%	26%	19%	22%	18%

## Discussion continued

### Review of 2011

As discussed on page five, we recorded a moderate recovery in savings in Q4, although this rise wasn't enough to reverse an overall trend of falling savings across the whole of the year of 14.2 per cent (£260).

This annual fall was greater than the annual fall recorded across 2010 of 10.8 per cent (£221), suggesting consumers struggled more than ever to save in 2011. However, 2011 was a better year for cutting down on debt, with unsecured debt falling at nearly three times the rate it fell in 2010 (-20.9% compared to -7.7%). This is detailed in figure 8 below.

Figure 8 - Savings and debt 2009 - 2011

	2009	2010	2011
<b>Savings</b>	£2,055	£1,834	£1,574
<b>Annual change (£)</b>	-	-£221	-£260
<b>Annual change (%)</b>	-	-10.8%	-14.2%
<b>Debt</b>	£3,046	£2,812	£2,224
<b>Annual change (£)</b>	-	-£234	-£588
<b>Annual change (%)</b>	-	-7.7%	-20.9%
<b>Savings less debt</b>	-£991	-£978	-£650
<b>Annual change (£)</b>	-	£13	£328
<b>Annual change (%)</b>	-	+1.5%	33.5%

Yet when looking at the demographic data in figure 9 (page 10) it is clear that certain groups suffered more than others in 2011.

Those aged 45-54 saw their savings sliced in half (-50 per cent). As detailed in the previous quarter's research, these people face greater fixed costs and are more at the mercy of increasing costs of fuel, utility bills, groceries and child care.

Low earning savers (earning less than £22k) also saw their savings fall by 32 per cent, to a three year low of just £397.

Of the key demographic group, young savers were the only major winners in 2011, with those aged 18-24 and 25-34 growing their accessible savings by 13.7% and 41.8% respectively.

## Discussion continued

Figure 9 - Savings by demographic and income level

	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	ANNUAL CHANGE
<b>UK</b>	£1,834	£1,783	£1,684	£1,501	£1,574	-14.2%
<b>Age</b>						
<b>18-24</b>	£461	£670	£478	£685	£524	+13.7%
<b>25-34</b>	£557	£657	£725	£614	£790	+41.8%
<b>35-44</b>	£1,049	£1,323	£1,141	£1,119	£707	-32.6%
<b>45-54</b>	£2,727	£2,076	£2,212	£1,336	£1,361	-50.1%
<b>55+</b>	£5,077	£5,590	£3,995	£4,549	£4,806	-5.3%
<b>Earnings</b>						
<b>&lt;£22k</b>	£582	£619	£398	£467	£397	-31.8%
<b>£22k-£47k</b>	£2,383	£1,984	£1,987	£1,770	£2,064	-13.4%
<b>£47k+</b>	£5,060	£4,940	£5,007	£3,807	£4,039	-20.2%

## Economist Commentary



James Knightley  
ING Senior Economist

High inflation continues to act as a massive drag on the UK economy and consumer behaviour in particular. Wages have failed to keep pace with the cost of living for over four years, meaning that while households say they want to save more, it has been difficult to achieve in reality. However, now that unemployment is rising and job insecurity is increasing, households appear to be making greater efforts to try and build a safety buffer - hence the rise in savings and decline in borrowing seen in this survey.

Unfortunately, higher saving and lower borrowing in an environment of falling real incomes has led to a decline in consumer spending and prompted a contraction in 4Q11 GDP. With consumer finances remaining under pressure, austerity measures prompting a decline in government spending and the Eurozone sovereign debt crisis hurting exports to the UK's main trading partners, it is difficult to see where any economic growth will come from. Indeed, given the uncertain economic backdrop, businesses will remain reluctant to invest and hire new workers, meaning that a technical recession is likely to be confirmed by the 1Q12 GDP report.

That said we are more optimistic regarding the second half of the year. Tax changes will put an extra £1bn in the pockets of low and middle income earners while compensation payments from the miss-selling of payment protection insurance will also help boost household finances. Key will be the much anticipated sharp drop in inflation, which could finally allow real incomes to turn positive in late 2012. Furthermore, assuming we do get some form of resolution to the Eurozone sovereign debt crisis then a return of risk appetite could push asset prices higher and help boost both consumer and business confidence.

Such an outcome may encourage firms to invest and get the recovery back on track. This would allow rising saving and the paying down of debts, yet leave households with enough cash to spend more and generate more economic growth. It is also possible that the Olympics and the Diamond Jubilee will help to lift the mood and encourage a little more dynamism within the UK economy.

However, we are a long way away from that right now and further Bank of England quantitative easing remains highly probable in the coming months. As a result, we are likely to see little change in household saving behaviour with individuals stating an aim to improve their finances, yet being limited by a lack of income.

## 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 2009-11, 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 (approximately 27 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.

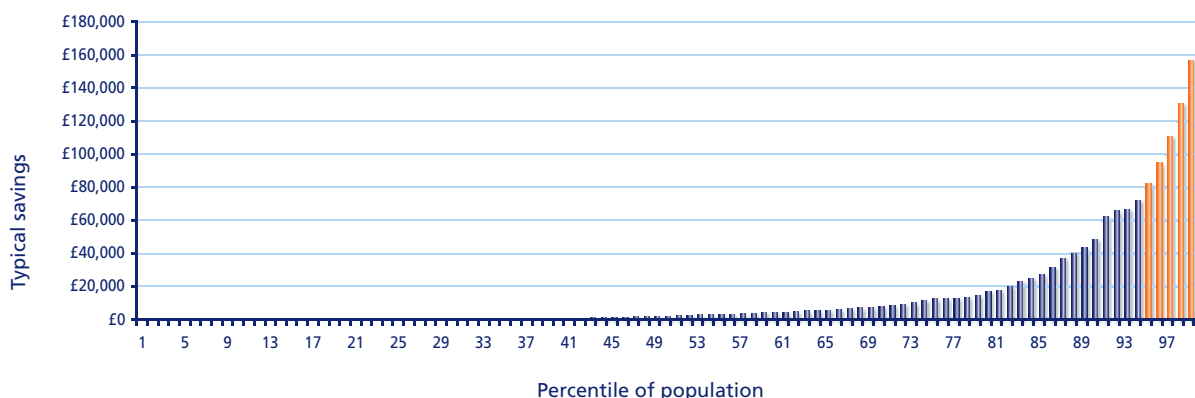
The figures are published quarterly and are based upon 'three month' rolling averages. Monthly and quarterly figures are centred on the first day of the final month in that quarter in question (e.g. Our March, or Q1 figures, are 'centred' on March 1st - an average of samples collected January 27th to February 4th, February 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 (figure 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. Full details of the government definition of gross domestic income is available upon request from FDS international (see contacts on page 14).

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 (EFS - prevalence of saving), 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).

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  
Mobile: 07795 247275  
410 Thames Valley Park Drive  
Reading  
RG6 1RH

Billy Nelson  
FDS International  
Mobile: 07905 198346

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