The 'Consumer Spring' to Continue on the Back of Pension Pot Pay-Outs

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As consumers bask this spring with sentiment , financial wellbeing and the feel-food factor at multi-year highs, coalition government pension reforms are set to transform family finances in the coming years as more people seek to withdraw pension pots in whole or in part. This will create major opportunities for the financial services industry.

Following evidence in the 2015 ComPeer / JGFR Financial DIY Report of up to 5 million over 55s considering cashing in their pension pot(s) in whole or in part, the Q2 JGFR/GfK Financial Activity Barometer finds a record number of adults (some 5 million), especially over 55s, intending withdrawing or receiving cash from a deposit, life insurance company or pension fund in the next 6 months.

Consumers look set to invest some of the funds in cars and property, with the JGFR Car Finance Purchasing Plan Index at a 12 year survey high (145.7), compared to 106.4 a year ago. While property purchase intentions have fallen back from a record level last quarter, likely to be affected by election uncertainty, the overall JGFR Property Purchase Intentions Index (on a 2-quarter moving average basis) is at its highest since September 2005.

Many recipients of cash lump sums look set to repay / pay down debt with the quarterly measure at a survey record-high and the JGFR Debt Repayment Index surging to 109.4, its best score since Q4 2005/Q1 2006.

Net debt repayment (the difference between borrowing and debt repayment intentions) jumped on the back of borrowing slipping back from very strong intentions in Q1. A fifth of adults intend to borrow, little changed on a year ago. The JGFR Borrowing Index edged down 1 point on Q1 to 93.7, but is 9 points higher than a year ago (see chart 1 attached)

All types of consumer credit have seen increases in the past year, especially car finance plans, overdrafts and credit card borrowing. With high margins on overdraft and credit card borrowing consumer finance businesses should see strong profit growth. High levels of debt repayment and strong household finances should provide some reassurance to lenders on credit quality.

Mortgage demand continues to rise from the weak levels of 2010-2013. The JGFR Mortgage Intentions Index is at its highest since June 2006 but satisfying this demand will be impossible given the lack of available mortgage finance. Current demand would suggest quarterly mortgage approvals of some 700,000 which would require additional funding of billions of pounds above current levels which in a tightly regulated market seems increasingly impossible to supply. Many people will be seeking to use their pension pots, savings and housing equity to self-fund family property portfolios.

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*TheQ2 Financial Activity Barometer was undertaken by GfK NOP on behalf of JGFR among 1,900 adults aged 16+ representative of the UK population. It is the 52nd quarterly report and is housed on the same UK omnibus as the UK consumer confidence survey produced for The European Commission. The FAB asks consumers about their intending purchase/ activity intentions across 18 categories of saving, investment, borrowing and debt repayment behaviour. Special analysis can be undertaken.

The Q2 Financial Activity Barometer analysing the survey results will be published on Wednesday April 22nd

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