

FULL REPORT & METHODOLOGY • JULY 2010

consumer savings  **Monitor**
ING DIRECT

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Introduction

Johan de Wit



CEO, ING DIRECT (UK)

ING DIRECT
Saving feels good

Welcome to the latest **ING Direct Consumer Savings Monitor**, which covers the second quarter of 2010.

In April we reported that savings had fallen over the first quarter of the year, but I'm pleased to say that we've now seen a significant revival, with balances up 8.7% in the second quarter. Ordinary people's savings have risen and Britons have also managed to pull off a difficult balancing act by paying down their debts at the same time.

It's great to know that Britons are still managing to increase their all important rainy day savings

This is the first time that we've reported unsecured debt as part of the **ING Direct Consumer Savings Monitor** and we can reveal that short-term liabilities like credit cards and personal loans have fallen by around £213 over the period.

This is really positive news, but of course, there is always a downside and our data suggests that the high street has suffered somewhat as a result of Britons' increased prudence.

As ING senior economist James Knightley references later in this report, recent falls in consumer spending may be attributable to Britons' increased desire to stabilise their financial situation.

In the current financial environment, it's great to know that Britons are still managing to increase their all important rainy day savings.

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.

¹ Full methodology on tracking of unsecured debt detailed in Appendix

Key findings

The latest ING Direct Consumer Savings Monitor is based on tracking research conducted in Q2 2010 (April – June)². It reveals the following key information:

Figure 1 - Key Findings

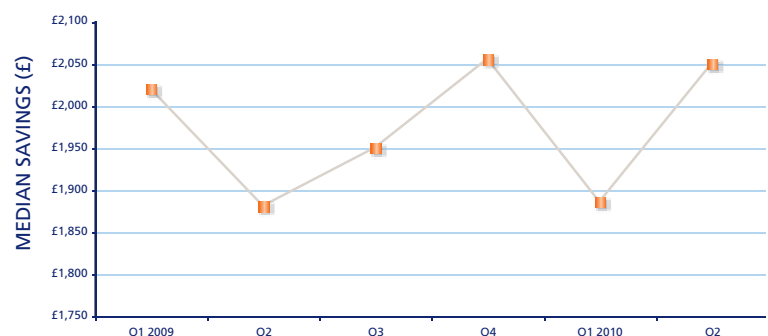
	Median Savings (Stock)	Change	Median Monthly Income (net)	Monthly Income Equivalent (Savings Cushion)
Q1 09	£2,020	-	£1,261	1.60
Q2 09	£1,881	-£149	£1,286	1.46
Q3 09	£1,950	+£74	£1,313	1.49
Q4 09	£2,055	+£113	£1,305	1.58
Q1 10	£1,886	-£182	£1,308	1.44
Q2 10	£2,050	+£164	£1,313	1.56

Source: ING Direct Consumer Savings Monitor

- The ordinary man or woman in the UK currently has **£2,050 in readily accessible cash savings** in banks and building societies
- This is a **rise of £164 (+8.7%)** since the previous quarter, and **+£169** compared to the same period last year
- This figure equates to just over **1.5 times average monthly take home pay**, which currently averages **£1,313**
- Unsecured debt has also fallen during the period, with levels of borrowing on loans and credit cards dropping by **£213 (-7.2%)** to an average of **£2,737** (see figure 4 below)
- Industry figures suggest that consumers are sacrificing spending in order to reduce debts and restock savings (see page 6)

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

Figure 2 - Median savings



² Full details of methodology included in Appendix

Discussion

A savings turnaround?

In the second quarter of 2010 ordinary Britons have seen their levels of accessible savings rise by 8.7 per cent, which now stand at £2,050 – a rise of £164. Compared to the same period last year, Britons have £169 more in available savings.

This is a significant turnaround from the figures for Quarter 1, when savings fell by 8.3% (see fig 2 above). These figures also chime with attitudinal data recorded in March, which indicated a determination among the public to re-build their savings balances (see below), which fell back slightly over the first quarter of the year.

Figure 3 - Per cent stating that they are determined to increase the amount of savings they have this year (March 2010)

TOTAL	Male	Female	16-24	25-34	35-44	45-54	55+
42%	43%	41%	70%	50%	43%	34%	32%

Debt levels

This savings turnaround is explained, in part, by a Christmas debt ‘hangover’ which affected consumers at the start of the year. However it appears that consumers have now reduced debt to a point where they feel more confident saving.

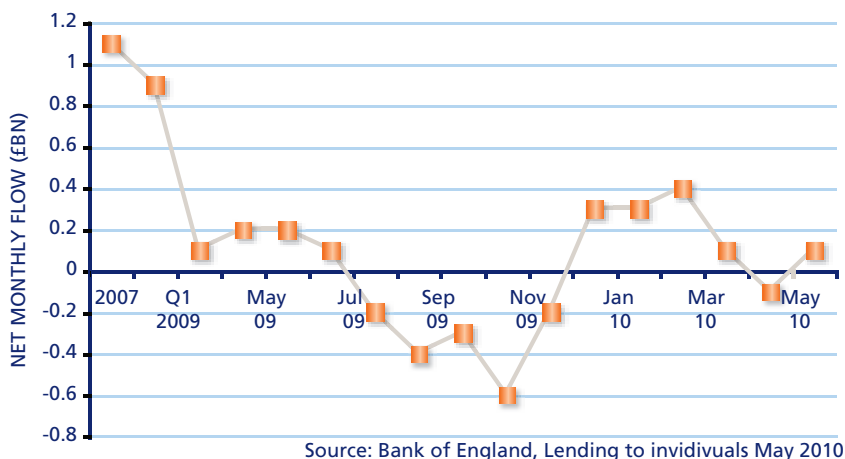
For the first time, we are publishing unsecured debt figures that are recorded in the **ING Direct Consumer Savings Monitor**. In the last three months, consumers have been able to cut down their debts, with unsecured borrowing falling by £213 to an average of £2,737.

Figure 4 - Unsecured debt

Period	Q2 2009	Q1 2010	Q2 2010
Unsecured debt	£3,195	£2,950	£2,737

These figures concur with Bank of England data available to May 2010 (published June 29) which suggests a falling trend in the use of unsecured lending (seen in Fig 5 below)

Figure 5 - Unsecured lending (Bank of England)

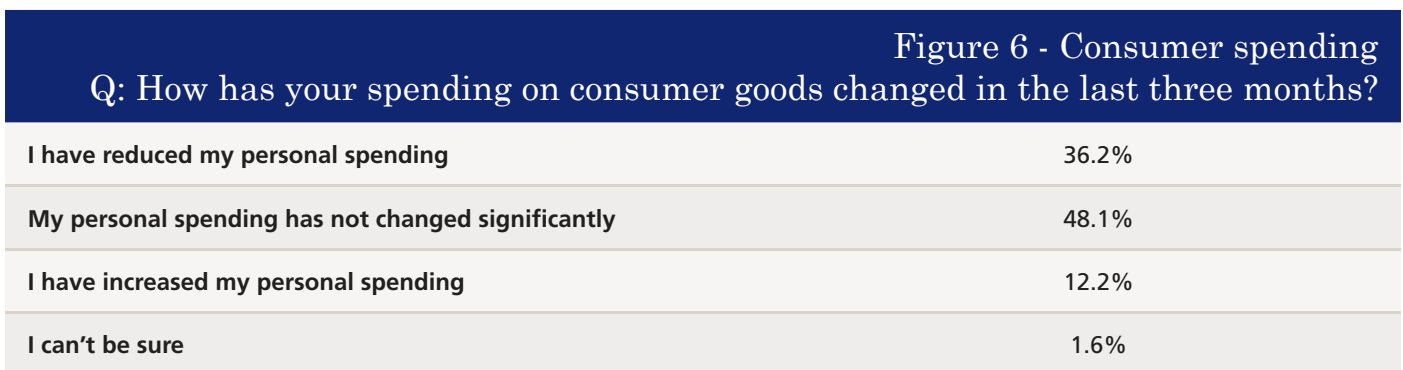


Discussion continued

Spending

With consumers prioritising savings and debt reduction in the second quarter of the year, the high street has inevitably suffered, with spending down on last year in May and June according to the CBI.³

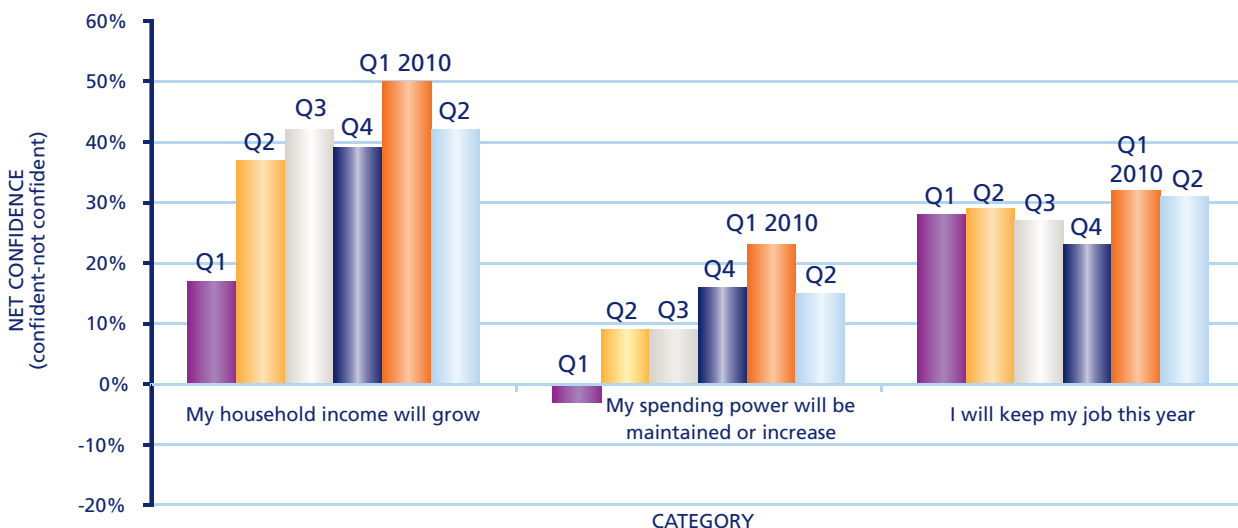
While some industry figures paint a brighter outlook for spending,⁴ data from the **ING Direct Consumer Savings Monitor** shows the majority of consumers either reducing or stabilising their spending, rather than spending more (Fig 6).



Source: ING Direct Consumer Savings Monitor

Furthermore, consumer confidence levels (Fig 7) are down significantly since the beginning of the year, suggesting that Britons are more likely to be reluctant to spend in the near future.

Figure 7 - Q: How confident do you feel about each of the following?



³ Confederation of British Industry Distributive Trades Survey

⁴ ONS Retail Sales Index - retail sales up 1.7% for Q2 2010

Discussion continued

Savings priorities

The desire to pay down debt has also had an impact on Britons' savings priorities. As the table below shows, more than a quarter are now saving for specific items as opposed to putting them on credit and fewer are saving specifically to have a financial 'safety net' in place.

Figure 8 - Saving priorities						
Q: Most important reason for saving?						
	Q1 2009	Q2 09	Q3 09	Q4 09	Q1 2010	Q2 10
To be able to make purchases without borrowing	16%	17%	18%	24%	23%	27%
To have a financial buffer or cushion in case of unexpected events	50%	49%	48%	43%	45%	42%

Yet what we are 'saving up for' remains fairly constant, with holidays, home improvements and dealing with impending bills the main savings goals. Meanwhile, the number of people saving for house deposits has fallen slightly, perhaps reflecting the quieter housing market compared with the start of the year.

Figure 9 - Saving goals						
Q: Are you currently saving for any of the following specific items or events?						
	Q1 2009	Q2 09	Q3 09	Q4 09	Q1 2010	Q2 10
To build up an emergency buffer	34%	37%	32%	31%	35%	33%
To get married	4%	3%	4%	5%	5%	5%
To go on holiday	22%	25%	25%	30%	30%	30%
To cover bills	9%	10%	8%	8%	11%	10%
Home improvements	11%	12%	15%	14%	14%	14%
To have a baby	3%	2%	3%	4%	3%	3%
Buy a new car	5%	6%	7%	8%	7%	8%
Buy a second hand car	6%	7%	6%	6%	6%	6%
Buy a new TV	3%	4%	4%	5%	4%	4%
Deposit for a new property	9%	9%	8%	11%	12%	11%
Other	9%	9%	8%	8%	8%	8%

Discussion continued

Savings barriers

As shown in figure 10, nearly two thirds of Britons (62 per cent) were able to add to their savings in the last quarter, the highest level recorded since tracking began in Q1 2009.

Figure 10 - Savings patterns					
	Q2 2009	Q3 09	Q4 09	Q1 2010	Q2 10
Overall, I/we have added money to savings in the past three months	55%	47%	54%	57%	62%
Overall, I/we have taken money out of savings in the past three months	27%	35%	32%	29%	22%
Overall, my/our savings have neither been added to nor taken away from in the past three months	18%	18%	14%	15%	16%

Unfortunately, the other side of the story is that more than a third of Britons (38 per cent) were unable to add to their savings, or had to draw down on them. Among the reasons cited, price rises appear to be a significant factor, which suggests that inflation, particularly of commodity prices, may be playing a role.

Figure 11 - Q: Have any of the following things prevented you from saving in the last 12 months?

I've had my wages frozen or cut	11%
I've been made redundant	5%
My bills have increased	41%
The price of things I regularly buy have increased	44%

Discussion continued

Demographic data

While a majority have seen their savings grow, there are some significant disparities across different wealth and demographic groups, as outlined below.

Income

The most wealthy and the least wealthy have all seen their savings fall, whereas middle earners appear to have benefited the most, with savings increasing by around £400 over the period.

		Q1 2010	Q2 2010	Net Change	% Change
Low (<£22k)	£759	£697	£614	-£83	-11.9%
Medium (£22k - £47k)	£2,487	£2,144	£2,544	+£400	+18.7%
High (>£47k)	£5,057	£4,794	£4,369	-£425	-8.9%

Age

As we referenced on page five (fig. 3), there has been a strong determination among Britons to save after a difficult first quarter – and this determination is particularly strong when it comes to young savers. Yet with younger people having more demands on their income they have been unable to rebuild their savings this quarter (fig. 13). It is those aged 45+ who are leading the savings revival, particularly those in the 45-54 age group.

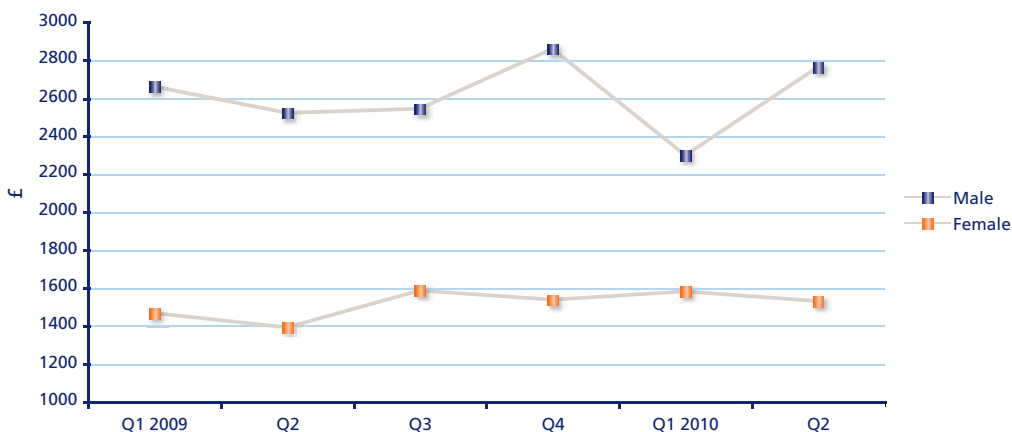
	Q1 2009	Q1 2010	Q2 2010	Q1-Q2 Change	% Change
16-24	£992	£607	£504	-£103	-17%
25-34	£819	£832	£730	-£102	-12.3%
35-44	£1,428	£1,563	£1,208	-£355	-22.7%
45-54	£2,157	£2,481	£2,878	+£397	+16%
55+	£5,351	£4,984	£5,172	+£188	+3.8%

Discussion continued

Gender

The ING Direct Consumer Savings Monitor is also beginning to reveal some interesting trends in terms of saving by gender. Although women have lower savings balances than their male counterparts, women's balances appear to remain much more stable than men's, which fluctuate considerably over time (see fig. 14).

Figure 14 - Male vs. female savings stock (£)



We believe that the following are the root causes of this fluctuation:

- The difference in levels of savings is explained by the gender gap in earnings, with women bringing in an average of £5,450 less per year than men (ONS Annual Survey of Hours and Earnings).
- Men have been disproportionately affected by unemployment, with Labour Force Survey (LFS) statistics showing that since the start of 2008, unemployment among men of working age has risen by 64%, whereas unemployment among women has risen by 41%. This makes it more likely that they will be forced into a situation where it becomes necessary to draw down on savings.
- Men are still more likely to be the highest earners in their households, which means that, if extra funds are required for a particular financial goal, they are more likely to come from male savings accounts (28 per cent vs. 17 per cent) ⁴.
 - This is heightened by the fact that a small percentage of women (seven per cent) keep their savings secret from their partner

⁴ Source: ING Direct Consumer Savings Monitor (June 2010) - 28 per cent of householders report that the man's savings account is more likely to be used to cover household expenses.

Economist Commentary



James Knightley
ING Senior Economist

Since December 2009, employment in the UK has risen by 124,000 while wage increases are now running at 2.7%YoY, highlighting the fact that economic fundamentals have improved. However, consumer confidence has weakened and spending has shown signs of softening. As a result, this quarter's Consumer Savings Monitor suggests that households are currently using the boost to incomes to save and pay down debts rather than spend.

Uncertainty surrounding the recent election and fears over the scale of possible tax rises and spending cuts are likely to have been a key factor behind the household sector's reluctance to spend. Meanwhile, public sector workers are also likely to be worried about the size of potential job losses resulting from government spending cuts, which may have prompted some increase in precautionary behaviour.

It is also possible that the change in VAT has been adding to the recent volatility in the saving and borrowing numbers. The rise in VAT from 15% to 17.5% from January this year does appear to have incentivised people to make some "big ticket" purchases earlier than would otherwise be the case - spending in November and December boosted at the expense of spending in early 2010. Much of this spending will have been on credit and we are now seeing households paying down that debt.

In terms of the outlook for savings we remain somewhat cautious. The labour market is proving to be more resilient than many had feared, but prospective cuts to public sector employment is a clear threat to the outlook. Consequently, we believe that after tax incomes are unlikely to change this year and when adjusted for inflation they could fall. Therefore, if we are going to see consumer spending growth this implies that the money required to spend has to come from another source - households either need to borrow more or accumulate fewer assets.

Given that credit conditions remain constrained and confidence is weak we suggest it is more likely that households will choose to accumulate fewer assets rather than borrow significantly more. This does not necessarily imply less saving in readily accessible deposits as measured by the ING Direct Consumer Savings Monitor because households could put less money into the equity or property markets instead. However, it does suggest that if households are looking to maintain their lifestyles then there is some downside risk for savings deposits in coming quarters.

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, researchers drew upon a range of sources including the British Household Panel Study, the DWP Financial Resources Survey (FRS), and the Inland Revenue (Inland Revenue 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.

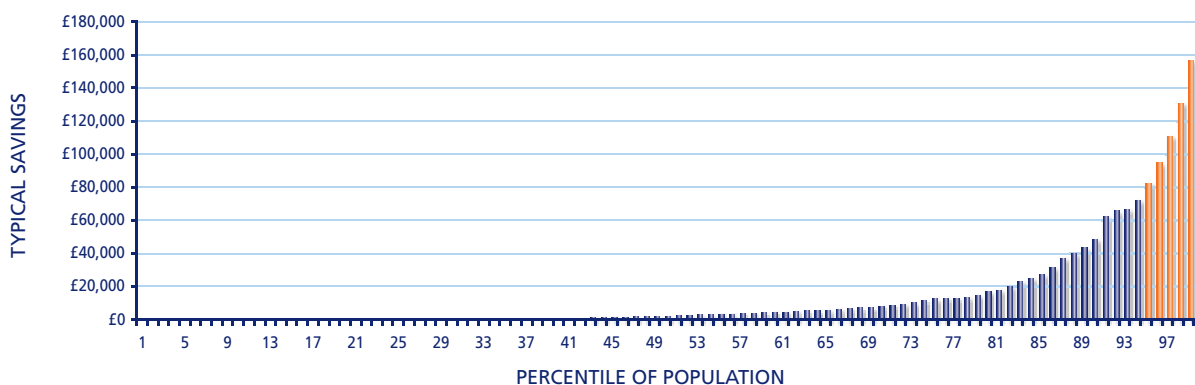
The figures are published quarterly and are based upon 'three month' rolling averages. Monthly and quarterly figures are centred on the first day of the final month in that quarter in question (e.g. our March, or Q1 figures, are 'centered' on March 1st – an average of samples collected Jan 27th to Feb 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 13). 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 15 - 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 17).

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), Inland Revenue (the distribution of Marketable Wealth 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.

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