

Nationwide SAVINGS INDEX



www.nationwide.co.uk/savingsindex

15 April 2009

Nationwide Savings Index is launched

Worrying signs for saving although future may look brighter

- The Future Savings Index standing at 104 could point to an improved savings future
- The Savings Index declined six points to 73 – its lowest level since monitoring began¹
- The Importance of Savings Index falls continuing the decline that began in November 2008
- The Savings Environment Index has declined to a new low of 58

New index shows savings situation remains challenging

Ahead of the Chancellor's second Budget next week, Nationwide launches its new Savings Index. The Index measures the population's current view of saving and of future saving prospects. It takes into account how consumers feel about the current economic situation, government policy, how regularly people save and whether consumers feel they put enough money aside.



March 2009

Source: Nationwide Savings Index

Martin Gahbauer, Nationwide's senior economist, comments:

"The fall in the Savings Index indicates a significant worsening for household savings in March, which on the surface may appear to conflict with the jump in the household savings ratio² recently announced by the Office of National Statistics (ONS). There is, however, no inconsistency between these two results. The savings ratio is a net measure between saving and borrowing, so that a rise in savings can come about either through increased accumulation of financial assets or a reduction in borrowing. At present, the rise in household savings being picked up by the ONS is occurring via a reduction in borrowing, as households seek to accelerate their debt repayments in response to the uncertain economic environment.

"The deeply negative level of housing equity withdrawal recently reported by the Bank of England is a reflection of this trend and shows that households are using available cash to reduce their mortgage balances more quickly. The opportunity cost of using cash in this way is of course very low now, reflecting recent sharp reductions in the Bank of England base rate and associated savings rates. Yet the more money is used to pay back debt, the less is available to accumulate deposits and other financial assets. It is likely to be this difficulty in accumulating deposits that is reflected in the significant decline in the Savings Index.

"It's clear that the six reductions in Base Rate since October 2008, have had a significant and perhaps unintentional impact on the savings habits of UK households.

"While consumers are showing a clear desire to pay off their debts, given uncertainties over job availability³ - 66% of consumers believe there are few jobs available - it is surprising that the Savings Index is so low. In uncertain times, money needs to be put aside and if people are unable to do so or choose to use their money in another way, the savings buffer of UK households may be insufficient to deal with the consequences of the economic downturn. On the bright-side, as people adjust to the low-interest rate environment it is at least promising to see the Future Savings Index at a positive level with people expecting to be able to save more in six months time.

"The Savings Environment Index is the lowest of the savings indices and reveals that consumers do not think now is a good time to save. Six months ago, in September 2008, consumers were more optimistic in thinking the time was right to save when the index peaked at 101. An interesting emerging correlation can be seen between the indices: as fewer people see savings as important, more people are optimistic about their ability to improve their savings situation in the future as shown in graphs B and D."

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Consumers' propensity to save

The Nationwide Savings Index is constructed by asking consumers four attitudinal questions including finding out how often people save and whether they believe they save enough. Nationwide can reveal that fewer than half (48%) of consumers save regularly with 25% saving nothing at all. Additionally, less than a quarter of consumers think they save about the right amount and nearly two thirds of consumers (60%) admit to a savings deficit.

The savings situation over the past six months

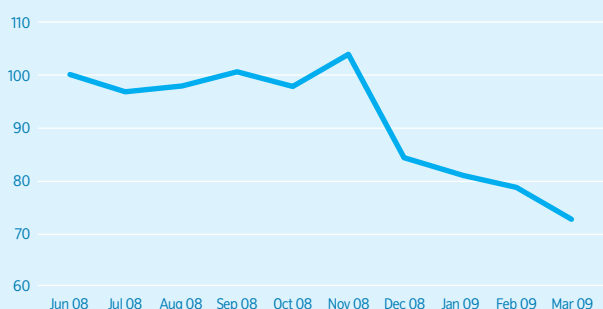
Looking back over the past six months, the Savings Index peaked at a high of 104 in November 2008. This may be because consumers

began to feel the positive impact of the decreasing Bank of England Base Rate. It then fell month by month replicating the movement in the base rate. It appears that consumers de-prioritised saving as interest rates began to decline. The decline had three key drivers: people felt it was not the right time to save, fewer people saved regularly and those that did save, saved less than they needed to.

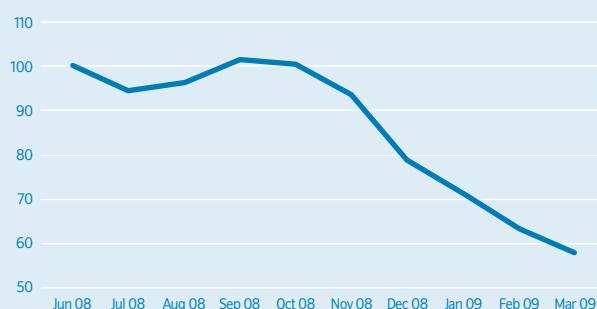
During this time, consumers have seen unemployment rise, mortgage payments fall and the return on savings decline significantly. House prices have also shifted downwards from an average of £161,797 to £150,946⁴ over this period which may have impacted on consumers' approach to saving as they choose instead to increase their equity in their homes.

Index name	Index measures	March 2009	September 2008
The Savings Index (main index) Graph A	<ul style="list-style-type: none"> • Saving frequency • Saving levels • Time to save • Government policy 	73	101
Importance of Savings Index (sub-index) Graph B	<ul style="list-style-type: none"> • Saving generally • Saving personally 	76	105
Savings Environment Index (sub-index) Graph C	<ul style="list-style-type: none"> • Time to save • Government policy 	58	101
Future Savings Index (sub-index) Graph D	<ul style="list-style-type: none"> • Future saving levels 	104	95

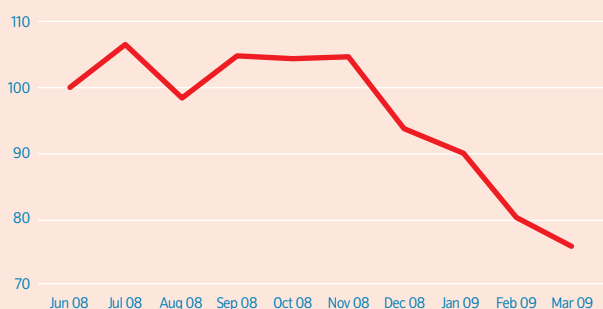
Graph A. Nationwide Savings Index



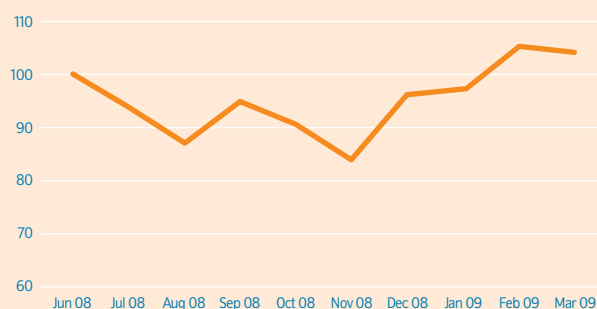
Graph C. Savings Environment Index



Graph B. Importance of Savings Index



Graph D. Future Savings Index



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	Base	Savings Index	Importance of Savings Index	Savings Environment Index	Future Savings Index
Jun-08	1000	100	100	100	100
Jul-08	1000	97	106	95	94
Aug-08	1154	98	99	97	87
Sep-08	1000	101	105	101	95
Oct-08	1000	98	104	100	91
Nov-08	1000	104	105	94	84
Dec-08	1000	84	94	78	96
Jan-09	1000	81	90	71	97
Feb-09	1000	79	80	63	105
Mar-09	1000	73	76	58	104

Note to editors:

Nationwide's Savings Index is based on a monthly survey representative of the UK population. For March, the TNS research for Nationwide took place from 16 February 2009 to 22 March 2009 with 1,000 people.

1 The survey began in May 2008 with the Index first reporting in June 2008.

2 The latest savings ratio issued by the ONS was in March 2009. Further information can be found via: <http://www.statistics.gov.uk/STATBASE/Analysis.asp?vlnk=91>

3 Data taken from the Society's latest Consumer Confidence Index issued on 8 April 2009. The full release can be found via: http://www.nationwide.co.uk/consumer_confidence/default.htm

4 Data taken from the Society's latest Nationwide House Price report issued on 2 April 2009. The full release can be found via: <http://www.nationwide.co.uk/hpi/default.asp>