

Nationwide SAVINGS INDEX



www.nationwide.co.uk/savingsindex

18 May 2009

No embargo

Savers show flash of optimism for first time in five months

The Nationwide Savings Index improves slightly as consumers feel brighter about the economy

- The Savings Index improves by two points to 75 – however it is still 25 points below where the index started in June 2008
- The Importance of Saving Index ticked up one point to 77
- Consumers are still uncertain about whether now is a good time to save with the Savings Environment Index remaining static at 58 – 42 points below where the index started
- The Future Savings Index declines by three points to 101 but shows consumers are still relatively optimistic about their ability to save in six months time

The UK saving situation is still challenging as fewer people are making the decision to save in the current climate. The slight increase to the Savings Index may be a reaction to the no-change decision in April's MPC meeting as savers will have seen their interest rates remain stable. The results were collated before May's MPC meeting, therefore it will be interesting to see if this positive trend continues next month when consumers factor this in. Similarly, a further positive change may be seen if the Chancellor's Budget announcement about ISAs has had an impact on consumer sentiment.

Despite the flash of optimism, the savings situation remains gloomy.

The April Savings Index shows that:

- Just 56% of consumers think saving is important;
- Less than half (47%) of consumers save regularly;
- A quarter (25%) of consumers save nothing at all;
- 59% of people save less than they think they need to, while only 28% feel that they save the right amount;
- 24% of consumers think they'll be saving less in six months time, than they do now;
- Just 16% of people think now is a good time to save;
- Over half (56%) of consumers think government policy discourages them from saving.



75 - Cool
up 2 points

April 2009

Source: Nationwide Savings Index

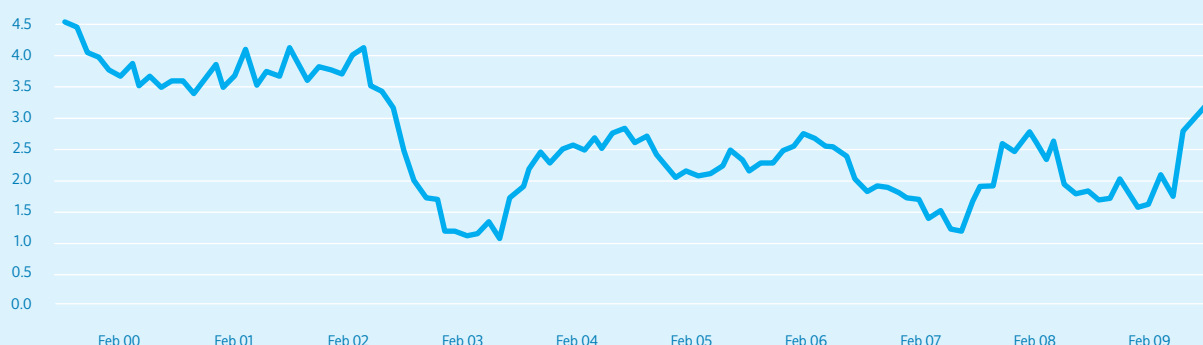
Lee Raybould, head of savings says:

"Despite the modest improvement of two points in the Savings Index this month, the savings environment is still perceived as unfavourable by consumers. The large share of respondents saying that government policy discourages them from saving may reflect disappointment with the very low level of interest rates currently prevailing. However, a comparison of current savings rates with the higher rates seen last year only tells part of the story, as it does not take into account the recent sharp falls in the rate of retail price inflation. Last summer, when inflation was running at its highest point for a number of years, the real return on fixed rate savings bonds was actually lower than it is now, showing that it does still pay to save. So far, however, this improvement in the real return on savings has yet to feed into public perceptions of the savings environment."

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Real rate of return on fixed rate savings bonds



	Average fixed rate bond rate ¹	RPI inflation	Real return on fixed rate bonds
Mar-08	5.0%	3.8%	1.2%
Apr-08	5.2%	4.2%	1.0%
May-08	5.3%	4.3%	1.0%
Jun-08	5.9%	4.6%	1.3%
Jul-08	6.1%	5.0%	1.1%
Aug-08	5.7%	4.8%	0.9%
Sep-08	5.9%	5.0%	0.9%
Oct-08	5.6%	4.2%	1.4%
Nov-08	4.0%	3.0%	1.0%
Dec-08	3.1%	0.9%	2.2%
Jan-09	2.5%	0.1%	2.4%
Feb-09	2.6%	0.0%	2.6%

Sources: ONS, Bank of England.

The savings deficit

Lee Raybould continues: “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. With such a high proportion of people admitting to a savings deficit – 59% feel they currently save less than they need to – there is a danger of consumers failing to safeguard their financial futures if the situation does not improve markedly in the near future.

“However consumers are more buoyant in their overall outlook. The Consumer Confidence Index² has increased for the first time in two months by eight points and the Expectation Index – which measures consumers’ confidence in the future economic and employment situation and future income expectations, has risen by 13 points, taking the index to 70 which may signal a slightly rosier savings picture in the coming months.”

The impact of six base rate reductions

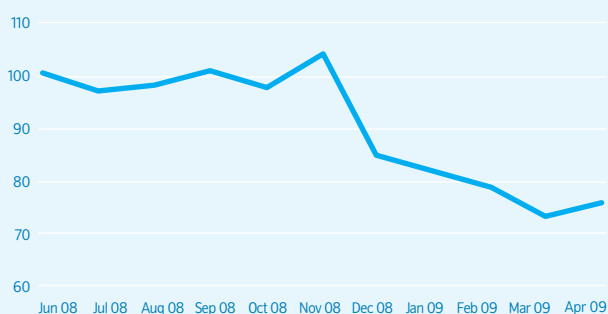
“The six reductions to base rate made since October 2008 are likely to have had a significant impact on consumer sentiment about savings. Between June and September, all but the Future Savings Index saw modest increases as consumers felt optimistic about their ability to save and saw saving as something important. Between October and April, however, the Savings Index, Importance of Savings Index and Savings Environment Index have fallen 23, 27 and 42 points respectively, apparently demonstrating how consumers have quickly lost their confidence in the savings market. Interestingly, the Future Savings Index has ignored the trend and increased by 10 points. Consumers who feel their savings situation now is reasonable appear to think their future savings situation will be worse and conversely those who think their current savings situation is questionable, seem to be hopeful their future savings situation will improve.”

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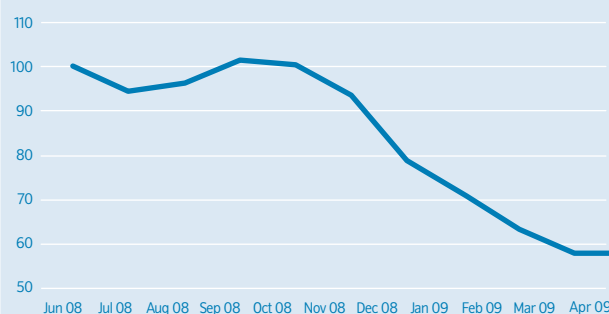
Index name	Index measures	June 2008	Sept 2008	Oct 2008	April 2009
The Savings Index (main index) Graph A	<ul style="list-style-type: none"> • Saving frequency • Saving levels • Right time to save • Government policy 	100	101	98	75
Importance of Savings Index (sub-index) Graph B	<ul style="list-style-type: none"> • Saving generally • Saving personally 	100	105	104	77
Savings Environment Index (sub-index) Graph C	<ul style="list-style-type: none"> • Right time to save • Government policy 	100	101	100	58
Future Savings Index (sub-index) Graph D	<ul style="list-style-type: none"> • Future saving levels 	100	95	91	101

Graph A. Nationwide Savings Index



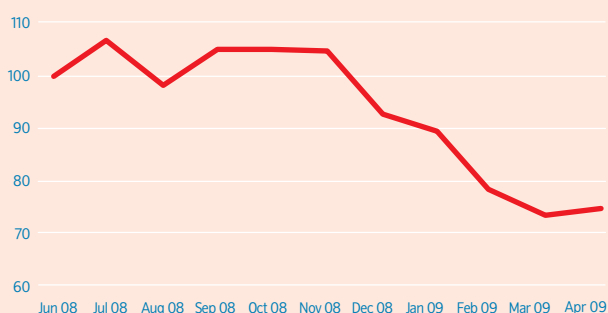
Source: Nationwide's Savings Index.

Graph C. Savings Environment Index



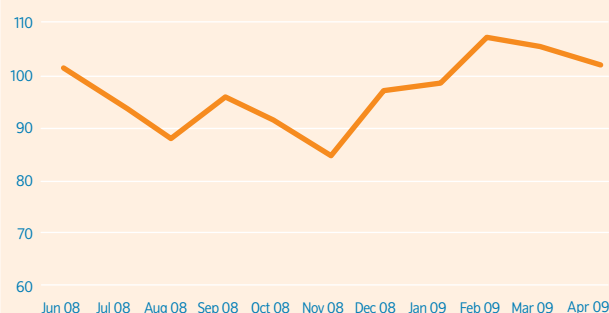
Source: Nationwide's Savings Index.

Graph B. Importance of Savings Index



Source: Nationwide's Savings Index.

Graph D. Future Savings Index



Source: Nationwide's 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
Apr-09	1000	75	77	58	101

Note to editors:

Nationwide's Savings Index is based on a monthly survey representative of the UK population. For April, the TNS research for Nationwide took place from 23 March 2009 to 19 April 2009 with 1,000 people.

¹ The interest rate used is the market-wide average rate on fixed rate bonds officially published by the Bank of England.

² Nationwide's Consumer Confidence Index is based on a monthly survey representative of the UK population. For April, the TNS research for Nationwide took place from 23 March 2009 to 19 April 2009 with 1,000 people. NFO, now part of TNS, has worked with The US Conference Board since the inception of its consumer confidence index in 1967.