

## **Nationwide's chief economist, Martin Gahbauer, reviews consumer sentiment and house prices in 2009**

“2009 has been a turbulent year for the UK with news of the recession, Government stimulus packages and job losses regularly dominating the headlines and painting a gloomy picture for consumers. It is no surprise that the effects of the UK's deepest recession since the 1930s have been widespread and the impact this has had on consumers has been a powerful one. Credit conditions have been tight – although have improved recently – unemployment has risen sharply, and billions of pounds of taxpayers' money has been pumped into the economy. Any action taken by the Government has been thoroughly scrutinised and, with the economic crisis taking centre stage across the globe, we have seen some interesting developments happen across the Nationwide indices over the course of the year.



“At the start of the year consumer confidence was at an all time low, with the Nationwide index showing a downbeat view of both the present and future situation. Since then, confidence has recovered considerably, rising by 28 points to levels seen before the failure of Lehman Brothers, but this improvement needs careful interpretation. Further job cuts and forecasts that unemployment could still rise towards the psychologically important three million continue to weigh down on how people view their current situation. However, with the economy having seemingly avoided a re-run of the 1930's depression, there has been a general sense that things can only improve in the future. On balance, therefore, general consumer confidence has picked up, although in recent months the improvement has moderated and it is fair to say that we need to see a sustained economic recovery before we can be sure that confidence has been restored.

“While it has clearly been another difficult year, it has not all been bad news for consumers. In March, the Bank of England took the unprecedented step of cutting base rate to an all-time low of 0.5%, helping to ease the financial pressures for millions of homeowners. A side-effect of this has been to help stabilise and increase house prices across the UK by limiting the number of distressed sales and cushioning the negative impact of labour market weakness on housing demand. Despite the pressures of a recessionary economic background, we have now seen seven consecutive months of price rises, following a fall of 19% from their peak in October 2007. Prices are likely to end the year higher than 12 months ago, defying concerns from almost all commentators that prices would continue to fall in a similar fashion to that seen in 2008.

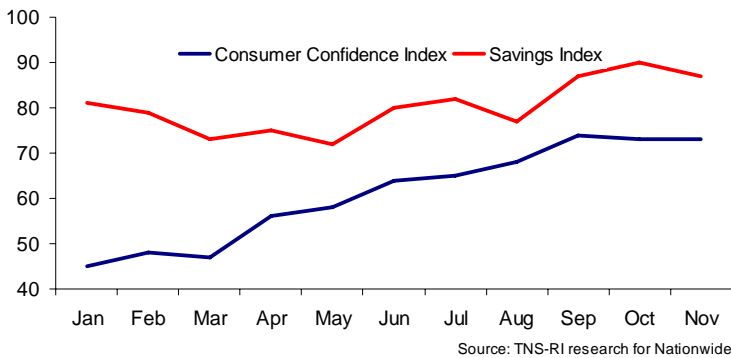
“The ripple effect of the base rate cut in March was also felt by savers and this translated into a lack of confidence in this sector. The Nationwide Savings Index hit rock bottom in May as pessimism grew over the ability to save and the attractiveness of doing so at historically low rates of interest. By contrast, consumers grew increasingly optimistic about their future ability to save and this index reached an all time high in

November, mirroring the movements seen in the Consumer Confidence Index in relation to renewed hope for the future. Whilst rising unemployment has done little to restore faith, changes to the ISA rules introduced in October and widespread belief that the UK is beginning to climb out of recession seem to have buoyed sentiment somewhat in the last few months.

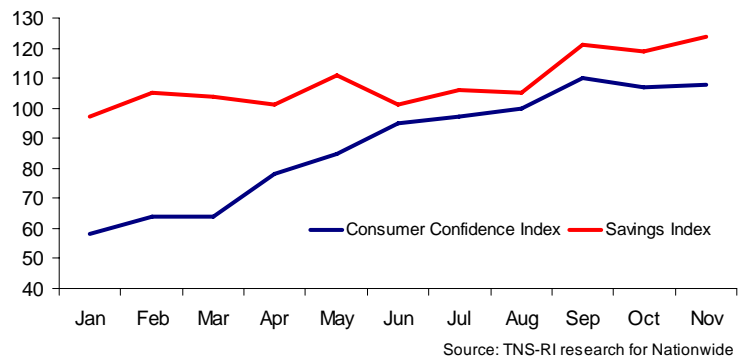
“In recent months it appears that the UK has begun to pull out of its longest recession on record, and there are signs that we are now on course to follow our European neighbours out of the mire. However, the downturn experienced during the year has been severe. The recovery to date has yet to yield positive growth and economic growth is likely to be muted for some time yet.

“Looking to consumer confidence, any recovery here will face early headwinds when the stamp duty holiday comes to an end and the VAT rate returns to 17.5 per cent in January. With wage restraint also expected to continue in the public and private sectors throughout 2010, it would be no surprise to see confidence remain broadly stable for a while longer before any significant increases are seen. Likewise, savings confidence may reach a plateau if consumers begin to find that they have less disposable income to put aside for a rainy day. At this stage, hope remains that the dark clouds which have lingered over the UK will clear in 2010, however, it is likely to be some time before we see confidence fully restored.”

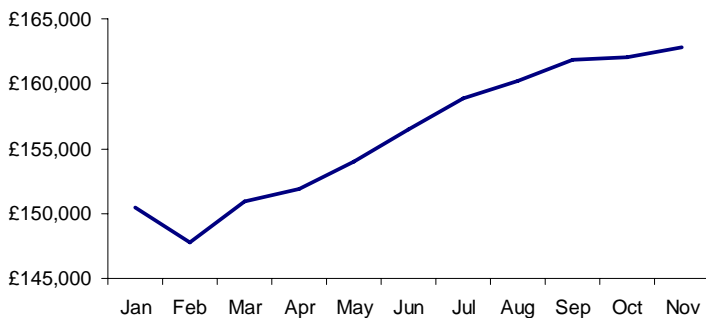
**Chart 1: Nationwide Consumer Confidence and Savings Indices**



**Chart 2: Expectations for the future**



**Chart 3: Average UK House Price**



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**Notes to editors**

Recent press releases and further information on Nationwide's House Price Index can be found at:  
<http://www.nationwide.co.uk/hpi>

Recent press releases and further information on Nationwide's Consumer Confidence Index can be found at:  
[http://www.nationwide.co.uk/consumer\\_confidence](http://www.nationwide.co.uk/consumer_confidence)

Recent press releases and further information on Nationwide's Savings Index can be found at:  
<http://www.nationwide.co.uk/savingsindex>

Photographs of Martin Gahbauer are available at: <http://www.nationwide.co.uk/mediacentre/economist.asp>