

How did the last recession change investing behaviour?

During the early 1990s, Dataquest conducted a major collaborative research study with MORI and Finance & Business Research. "Investing in Hard Times" explored how the last recession changed consumer attitudes to savings and investments, and what this meant for financial providers.

Combining original research and market expertise, the report provided financial services institutions with unique insight into consumers' behaviour at a time of economic uncertainty. This newsletter reviews the main findings of that work, and considers their implications for today's investor.

In Summary: After two years of recession, savers and investors were highly anxious.

Few were left unscathed by the recession

Confidence was low: most could see no immediate improvements in the economy.

Household incomes had been squeezed, reducing capacity to save and invest.

For those interested in investing, confusion about individual product types was off-putting.

Trust in financial services was poor, underpinned by lack of clear, objective information.

Traditional products remained most popular

Interest rates were falling, severely eating into the profitability of consumers' savings.

Savings products with banks and building societies were seen as safer than investments.

Property was generally seen as "the next big thing", but few planned to invest.

Private pensions were increasingly popular following recent company pension scandals.

Concern, but also lack of clear information, was preventing many from investing.

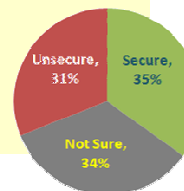
Focus: Security, Spending and Saving. The impact of the last recession

The research found high levels of insecurity about employment, and changed behaviour in terms of spending and saving.

With the unemployment rate at over 10%, many had witnessed or experienced unemployment, so concern about job security was inevitable (1).

Income had been further squeezed by overtime cuts and - especially for retired people - falling interest rates, which had a direct impact on disposable income (2). With repayment of debt also a priority during these times, there was a notable impact on saving and investing: over half were devoting less as a result of the downturn (3). **Despite this, most agreed it was important to save, even if their ability to do so had been curtailed.**

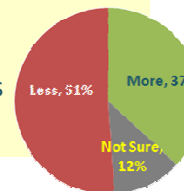
1. Only a third of those interviewed felt secure in their current job.



I haven't got any job security – they could say "go" tomorrow.

I don't think anyone seems really safe in this day and age.

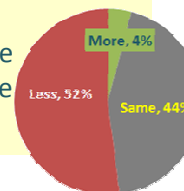
2. Over half were spending less than they did 12 months ago.



It's certainly stopped me spending money on the house.

We don't go out as often as we used to.

3. Just 4% said they were investing more than they did before the recession.



I don't feel able to commit to any regular outgoings...

The Financial Perspective

How did the last recession change investment behaviour?

Focus: Risk, return and information

Balancing act: low returns vs. need to grow

66%

Keeping capital in deposit account

Two thirds of investors had no intention of moving their capital from safe, but relatively unprofitable savings accounts. And although over half said they were not prepared to risk any of that capital, 78% wanted to see that capital grow.

78%

Want to see growth in capital

Aside from the economic climate, one of the key barriers this risk adverse majority faced was clear information about how to manage their money and achieve their aim of capital growth.

Information poor and advice not trusted

10%

Feel well informed about investing

Only very few felt informed enough to make their own investment decisions. Products such as PEPs and unit trusts were appealing, but confusing, and this confusion led to a disproportionate sense of risk that prevented people investing.

68%

Do not trust financial advice

Two thirds did not trust the advice that was available as it was commission driven, and seen as subjective. The idea of impartial, salaried advisors was appealing with over half willing to pay a fee for such advice.

The need for clear, impartial information marbled the research conducted for this study. The economy had eroded confidence and the capacity to save, but with little clear information or good advice to help them, savers and investors were taking smaller risks with the capital they did have, and were seeing smaller returns as a result - despite interest in the products available, and despite a clear desire to grow capital.

Now and Then: Recession by numbers

	Then...	Now...
GDP Growth	...contracted for five quarters. It reached a low of -1.2% in 1990	...has so far contracted for two quarters, reaching -1.5%
RPI Inflation	...9.5% in 1990, dropping to 3.3% in 1993	...reached 5.5% in 2008 and is now 0.9%
Base Rate	...peaked at 14.8% in 1989. By 1993 the rate was down to 5.9%	...in 2007 rates stood at 5.8%, and have since been cut to 1.0%
Unemployment	...grew from 7% in 1990 to 11% in 1993	...is increasing since 2007 and is currently 6.1%
Savings Ratio	...11% at the end of the last recession	...2% at the start of this recession
Credit Card Debt	...£9bn at the end of the last recession	...£65bn at the start of this recession

Sources: National Statistics, Bank of England, BBA.

Looking back...

Between 1990 and 1993...the UK saw the heaviest snowfall for many years; the banking industry was in a state of flux - Midland Bank became HSBC, and demutualisation was starting to reshape the building society market; the FSA would not exist in its current form until 1997; after three terms in office, the Conservative party elected John Major as their leader; under 1% of the UK population had used the internet; "Take That" were at the top of the charts and a young Robert Peston started work at the "Financial Times"...

The Financial Perspective. Some of the issues facing savers and investors in today's recession are echoed by this research. Yet it is also true that the financial services industry has radically changed over the past 18 years. Thanks to the internet, savers and investors now have more choice and information than ever before. Financial advice continues to evolve under the RDR, and the FSA's "Treating Customers Fairly" initiative now underpins the selling and distribution of all financial products. Moreover, the structure of some of the world's biggest financial institutions have radically changed following the credit crisis, and the consequences of this have still to be felt. Consumers once again face the prospect of "investing in hard times", but times have changed. How consumers will react, and what this means for the industry, remains to be seen.

For more information about this, and future projects, contact enquiries@dataquestresearch.co.uk