

## New Year blog 2017

### Brexit on our minds

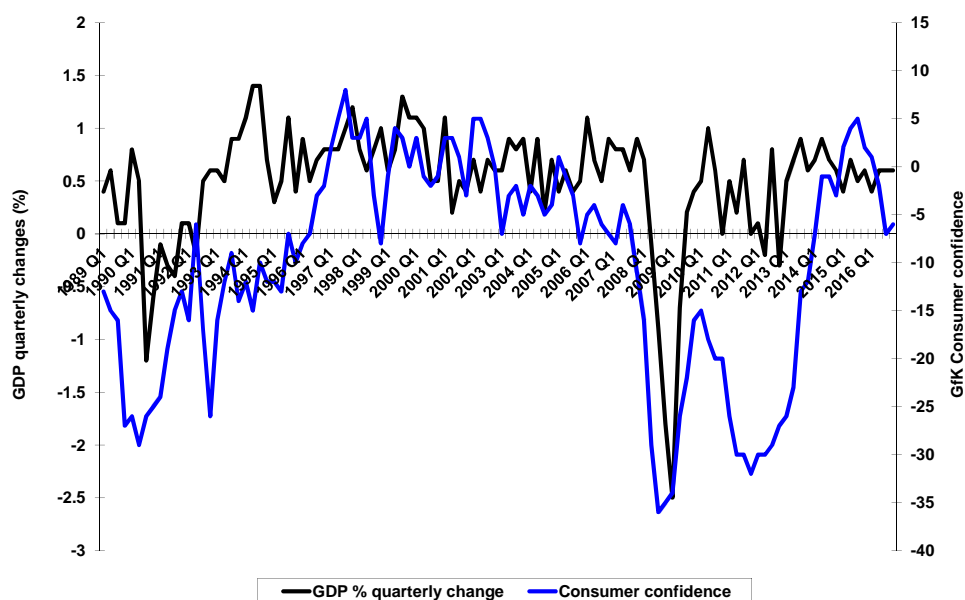
Last year we wondered whether it would be a golden year for UK consumers. The year started with high levels of optimism and confidence, following on from the ‘Year of the Consumer’ in 2015, when confidence stayed in positive territory throughout the year, the first time that had happened since records began in 1974. Political and economic stability seemed set for 2016.

Sport we felt may be the key to maintaining the feel-good mood, especially with the Rio Olympics and another prospective gold medal haul. We also had Andy Murray and Wimbledon and in the 50<sup>th</sup> anniversary year of the 1966 World Cup victory, a hope that England could win Euro 2016.

A Euro 2016 win in France would help to boost the mood of the nation, especially as it coincided with the EU Referendum, where a vote to remain was predicted. How wrong we were. June 23<sup>rd</sup> will forever be remembered for Brexit and a new direction for the country. June 27<sup>th</sup> in England will be recalled as the day of another European exit and much angst over 50 years of national football failure.

With Brexit the mood of the country changed. Initial shock gave way to resilience and getting on with life. Until the triggering of Article 50 and the 2-year countdown to Brexit consumers appeared to have decided to enjoy the summer through spending therapy, confounding many economists predicting a collapse in GDP post Brexit.

#### UK Consumer confidence and quarterly GDP growth, 1989- 2016

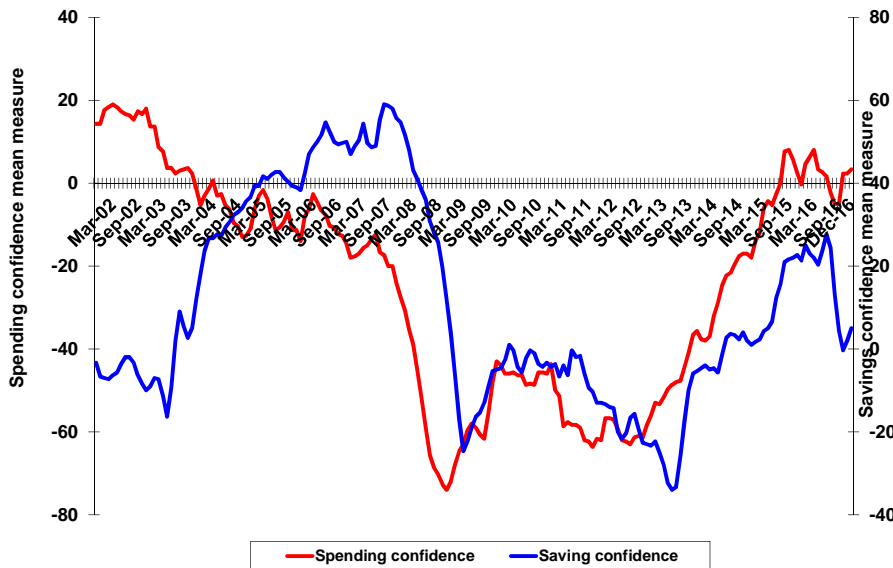


Source: GfK / European Commission / ONS / JGFR

Since June confidence has fallen from -1 to -7, but is up from -12 in July, when the measure fell 11 points, the steepest 1-month drop on record. GDP growth has registered 0.6% growth for the 2 post-Brexit quarters, unchanged on Q2.

A key driver of the improvement in confidence since July is the spending measure, boosted by the cut in Bank Rate in August which saw a big slump in savings confidence while spending confidence stayed at well-above average levels, especially for big-ticket items.

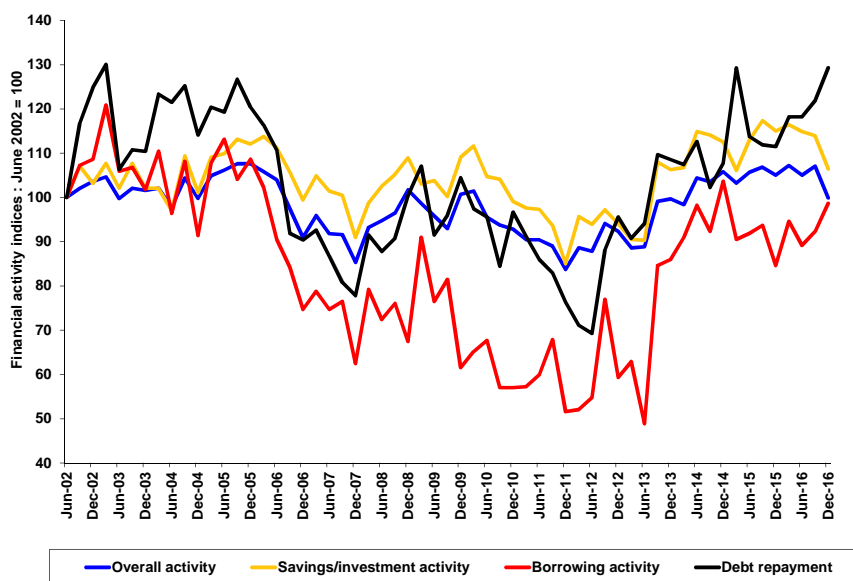
### Spending and saving confidence 2002 -16



Source: GfK / European Commission / JGFR

Much of the GDP growth in Q4 is the result of consumer spending boosting the service sector, with retail sales and travel agents particularly strong. Indeed judging by the numbers of baby boomers at airports many will be wintering away from the UK. Asked whether Brexit will mean more holidays in the UK only a minority of the public (18%) agreed in a JGFR/GfK survey.

### Savings/investment, borrowing and debt repayment intended activity, 2002-17, UK

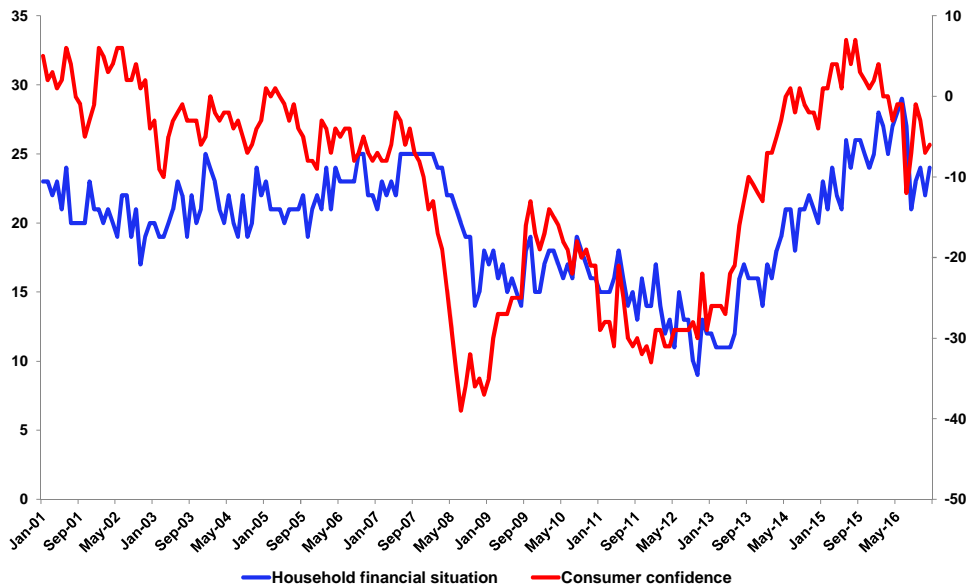


Source: GfK / JGFR

How long the spending boom continues in 2017 depends on jobs, inflation and interest rates. The Q1 UK Financial Activity Barometer (FAB) found record consumer credit intentions but a sharp fall in savings intentions. Debt repayment intentions also are a consumer priority but GfK survey evidence post-Brexit shows a rise in indebted households. Spending, fuelled by accelerating borrowing, at a time of rising uncertainty over jobs and squeezed incomes, is unlikely to continue at recent levels.

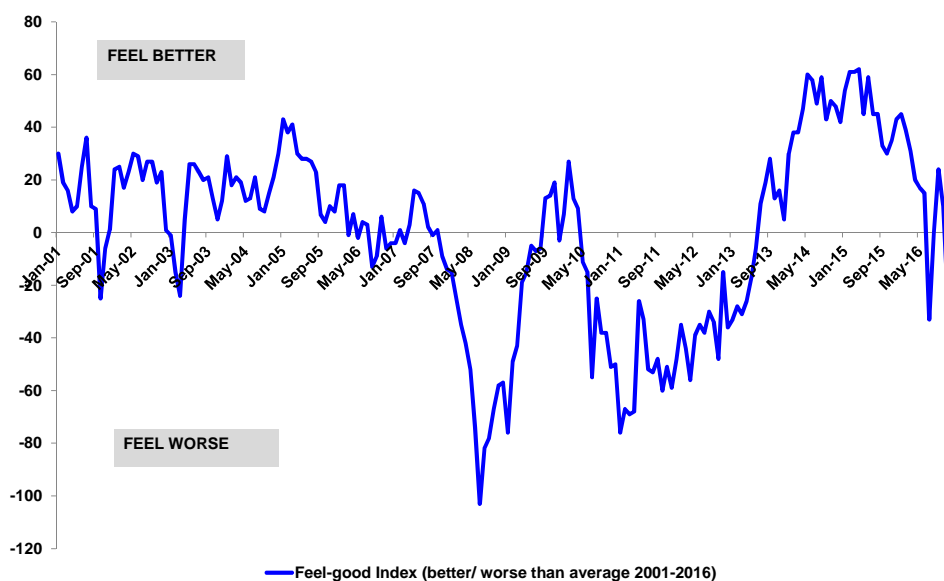
The strength of household finances that has boosted financial activity and confidence is weakening with consumers entering 2017 in a pessimistic mood.

### Household financial situation and Consumer confidence 2001-16



Source: GfK / European Commission / JGFR

### The Feel-Good mood; UK 2001-16



Source: GfK / European Commission / JGFR

UK net wealth will have increased in 2016 to some £10.7 trillion (£10.2 trillion, 2015) resulting from house prices, up some 7%, and double-digit stock market gains. Such gains will accrue more to the over 50s who may also be benefitting from inheritances with rising numbers of deaths, including a number of ‘national treasures’ / icons. The trend in deaths is set to continue, with flu this winter taking many lives as reflected in expanding obituary columns.

Compared to the start of 2016 long-term investors and pension funds will have seen strong portfolio gains. Brexit and the election of President Trump have seen new record highs for the respective flagship stock exchanges. ‘America First’ is the new mantra of President Trump; the UK would very much like to be first in line for a trade deal, but must not appear desperate.

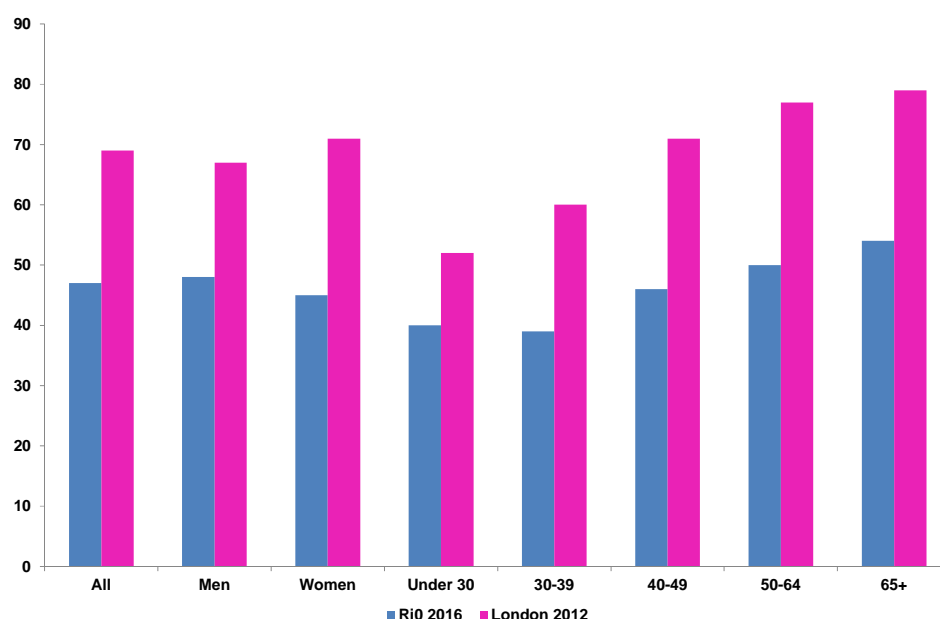
Becoming a nation of traders will be essential for post-Brexit Britain as the advantages of being a gateway to the EU for investment cease. Much greater understanding of the business climate in countries abroad will be required together with language skills. Consumer insight will be essential as new middle classes grow in developing countries. There, jobs, financed by overseas investments will be needed to satisfy the rapid rise in new workers to prevent further waves of immigration to the developed world.

Soft power provides the UK with great global influence. The creative industries including the arts, music and sport are at its heart. The latter is a universal language across the world with the Olympics and Paralympics the pinnacle of a nation’s sporting prowess. The London and Rio Olympics have been invaluable showcases for Team GB and the power of sport to bring people together.

Last summer the Rio Olympics provided a welcome escape from the incessant debate over the impact and nature of Brexit, and the divided country the Referendum vote had revealed.

Asked whether they felt that the Rio Olympics brought the nation together and made us all feel happier, 47% agreed, but down from 69% immediately after the London games. As in 2012 more of the over 50s felt the coming together.

### The Olympic and Paralympic Games: Bring the nation together, 2012 and 2016

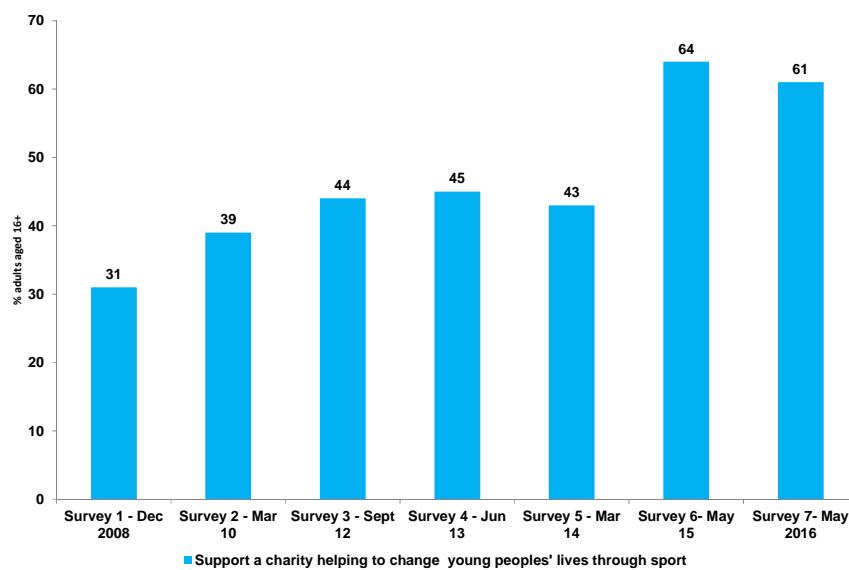


The success of Team GB did play an important role in boosting the nation's post-Brexit mood with August and September consumer confidence rebounding strongly, regaining the 11 points lost on the July post-Brexit fall.

Last year we highlighted the positive role sport plays in helping to address many social problems through the work of sports charities. The huge success of Sport Relief in March 2016 raising a record £72.5 million highlighted the unifying role sport can play in helping good causes.

JGFR/ GfK research last May found public support for sports charities almost as strong as a year ago, with 61% of the public currently supporting, or intending to support a charity that makes a difference to young peoples' lives through sport.

### Supporting sports charities 2008-2016



Getting the country fit and active has health and wellbeing benefits and is a key goal and challenge of central and local government and the NHS, with business playing a major role through their corporate & social responsibilities programmes.

As demographics highlight the baby boomers generation now increasingly moving into pensioner class and creating a growing over 65 surge in numbers (11.6 million (18% of population, 2015) up from 9.6 million (16%) in 2004), their influence and power will continue to be felt despite the rise of the smart-phoned, networked generation of Millennials. For the former 62% believe Brexit means Brexit, for the latter 27% believe Brexit means Brexit.

As the turbulent Chinese Year of the Monkey gives way to the Year of the Rooster the older generation could turn back time at the end of 2016 when the Rolling Stones reached No 1 in the Album chart with *Blue & Lonesome*, although they did not include their No1 blues hit of 1964 *Little Red Rooster*.

With American folklore that a rooster brings peace to the barnyard, hopefully 2017 (unlike 1917) will be a year of responding to the unexpected events of 2016 with calmness and harmony. For the consumer uncertainty prevails. Kung hei fat choy!