Brexit blues: Survey shows rising UK consumer concerns

05/03/2018

Summary

A new Grassroots Research report shows that 18 months after the Brexit vote, UK residents are growing more concerned about employment, less confident in their household finances and more worried about Brexit's long-term effects on the economy.

Key takeaways

- Almost half of the respondents to our new Grassroots® survey said they think Brexit will cause the UK economy to deteriorate over the long term
- Brexit is hurting some UK savers: 23% of our December survey respondents they plan to save less than before, up from 14% in July 2016
- Because of Brexit, more than 1/3 of our Grassroots® survey respondents said they expected to reduce their dining, vacation and auto purchases
- Auto sales are an important driver of the UK economy, but they've cooled significantly since their July 2016 post-Brexit high; our research suggests UK autos could remain the weak spot within Europe

The UK's June 2016 decision to leave the European Union caused a significant amount of uncertainty among investors in general, but particularly for those based in the UK. A new survey by our Grassroots® Research team – Allianz Global Investors' proprietary in-house research division – has found that UK residents are growing more concerned about employment, less confident in their household finances and more worried about Brexit hurting the economy over the long term.

The new Grassroots® study on consumer sentiment in the UK was conducted among more than 800 UK residents in December 2017. We were able to compare these results with those from a similar study conducted in July 2016, immediately after the Brexit UK referendum.

Growing fears of long-term economic deterioration

The results of our latest polling indicated no significant change in views regarding the short-term economic outlook for the UK: 35 per cent of respondents believe the UK economy will deteriorate slightly over the next six months, while 22 per cent believe it will remain stable. These percentages are similar to the ones we uncovered in July 2016.

However, the long-term picture is different: 45 per cent of respondents now believe Brexit will cause the UK's economy to deteriorate slightly or significantly in the long term – an increase of 7 percentage points from July 2016.

An increasing toll on household finances and savings

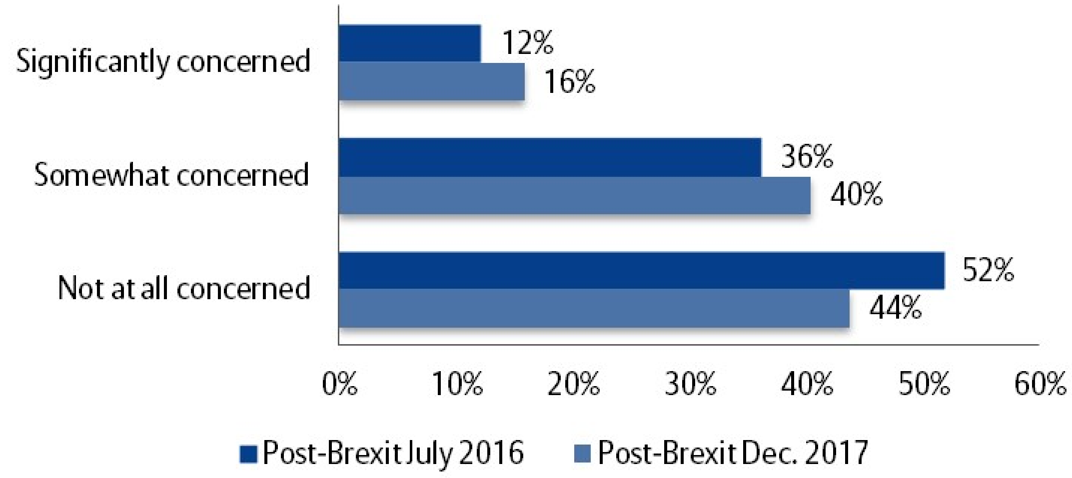
Growing concerns about the UK economy can be seen in the responses to our questions about household finances and consumption:

- Forty-nine per cent of respondents rated their current household financial situations stable – down from 58 per cent in July 2016.
- Thirty-nine per cent said Brexit will have a negative effect on their household finances – up from 34 per cent in July 2016.
- Twenty-three per cent said Brexit is prompting them to save slightly or significantly less, compared with 14 per cent in July 2016.

Employment worries could mean reduced consumption

Our latest survey also revealed that UK residents may be growing increasingly anxious about employment. In December 2017, 56 per cent said they were concerned about a negative change in their employment status – such as a layoff or pay cut – occurring over the next six months. This was an 8-percentage-point increase over the numbers we saw in July 2016.

Fears about employment have increased post-brexit
Question: Do you have any concerns that your employment status might change negatively (eg, layoff, pay cut, etc.) in the next six months?

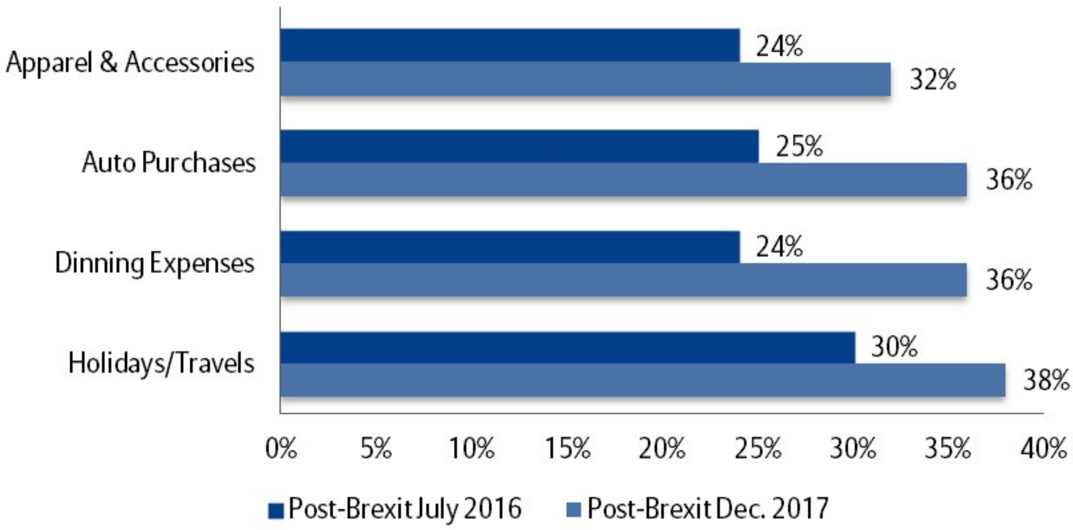


Source: Grassroots® Research. Data as at December 2017

Personal spending habits show a shift

Our December 2017 respondents told us that because of the Brexit decision, they plan to spend slightly or significantly less on consumption overall: more than a third of respondents said they expected to reduce their dining, vacation and auto purchases, and slightly under a third plan to spend less on apparel and accessories.

Brexit leading to lower spending on clothes, autos, vacations and dining
Question: How has the Brexit decision affected your personal spending habits for the following? (Chart shows percentage responding "I will spend slightly less/significantly less".)



Source: Grassroots® Research. Data as at December 2017

Investment implication: Growing concerns about the auto industry

Because the auto industry is a particularly important driver for the UK economy, it is watched closely by our investment professionals – and the latest Grassroots®

findings indicate some cause for concern. Thirty-six per cent of our December respondents told us they expect to spend less on automobile purchases – up from 25 per cent in July 2016.

Ralf Stromeyer, Director of Research for our Frankfurt team, said that UK auto-industry managers have confirmed this outcome from our survey. "July 2016 was a high point for auto sales in the UK, particularly compared with sales in other European countries. Since then, however, the UK market has cooled significantly, particularly since auto purchases are financed with large amounts of debt. Managers we have spoken with expect UK autos to remain the weak spot within Europe."

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by Stefan Hofrichter | 08/03/2018

Summary

As a currency and asset class, bitcoin has potentially fatal flaws – which is why we believe it's a matter of when, not if, the bitcoin bubble will pop. Yet the blockchain technology that powers cryptocurrencies could bring significant benefits to investors.

Key takeaways

- Between December 2017 and February 2018, bitcoin's price fell by around half, but this probably isn't the end of the bitcoin bubble
- Bitcoin meets all of the essential criteria for any asset-class bubble, including overtrading, a lack of regulation and the potential for swindles
- Bitcoin has no intrinsic value: it is a claim on nobody – unlike sovereign bonds, equities or paper money – and doesn't generate any income
- We don't view bitcoin as a currency due to its high transaction costs, tremendous price volatility and inability to be a true store of value
- Despite our concerns about bitcoin, its underlying blockchain technology has merit – particularly its ability to reduce financial-transaction costs