

**In this Issue:**

Bank of England makes second emergency cut in interest rates  
 Mortgage equity withdrawal surges to highest level since late 1980s  
 Company profitability continues to suffer  
 The Leisure Industry and Changing Consumer Trends

**EQUITY WITHDRAWAL SURGES DESPITE RECESSION RISK**

The Bank of England completed their emergency rate cuts this week with another 0.25% off base interest rates. Their official base rate was cut to 4.5% - the lowest level of short term interest rates since 1964 and Beatle mania! But the economic data released this week provides a mixed picture on the strength of economic activity in the UK economy. Among them was data produced by the Bank of England showing that mortgage equity withdrawal has surged to its highest levels since the housing boom of the late 1980s.

Mortgage equity withdrawal represents secured borrowing by homeowners against the value of their house to finance their consumption. In the second quarter of this year (covering the period from April through to the end of June), homeowners borrowed more than £5 bn by re-mortgaging their homes. This is a £1.6 bn jump in equity withdrawal compared to the first three months of the year and the highest scale of borrowing since autumn 1988 - when housing market was reaching the peak of its sustainable boom. Measured as a proportion of income equity withdrawal climbed to 2.9 per cent - well above the levels seen

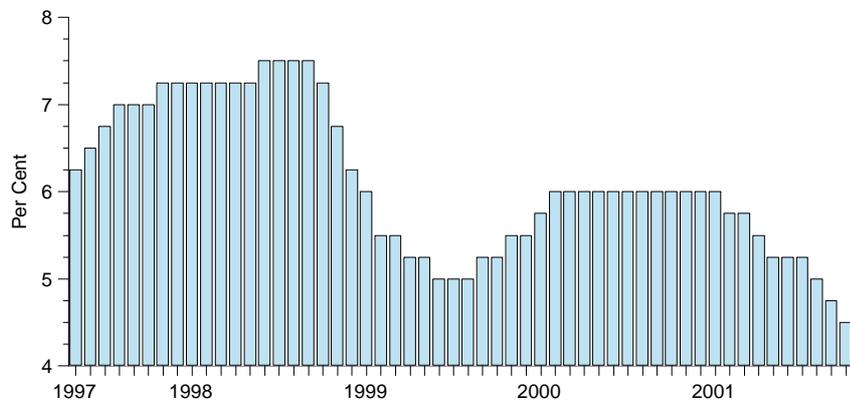
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**Bank of England Statement**

*The weaker world outlook and increased uncertainty have set back UK business and consumer confidence, and may, for a time, restrain business and household spending. Against that background, the Committee concluded that a further reduction in interest rates of 0.25% was warranted to meet the inflation target.*

**MPC Statement  
 5 October 2001**

**UK BASE INTEREST RATES**



**Special Report: The Leisure Industry and Changing Consumer Trends**

The UK leisure and tourism industry has been affected more than most by the impact of 11 September. Short-term concerns have focused minds on attracting customers back and filling the excess capacity on planes and in holiday accommodation. Is aggressive price cutting the answer to stimulate demand, or should businesses be cutting back on capacity to control costs and boost profits? But when the market returns to a more stable environment, what are the longer-term customer trends must leisure companies address in determining a winning strategy?

**New Research from the Henley Centre for Economic Forecasting**

Recent research by The Henley Centre has identified a series of paradoxes in summarising key UK consumer trends:

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## A Strong Housing Market Stimulates Borrowing

for most of the 1990s (a source of concern for the Bank of England) - but well below the peaks scaled in the late 1980s.

Consumer demand remains strong in the face of a sharp drop in confidence. But new data from the Office of National Statistics shows company profitability falling steeply even before the negative impact of the terrorist attack on the USA.

The estimated rate of return for manufacturing industry for the second quarter of 2001 showed a dip to just 4.5 per cent, the lowest since 1992. In the services sector the rate dropped to an eight-year low of 12.4 per cent.

Taken as a whole, the net rate of return for non-financial companies fell to 12 per cent, the lowest figure since 1995. Without a jump in profits for north sea oil companies, the average level of profitability would have fallen ever further.

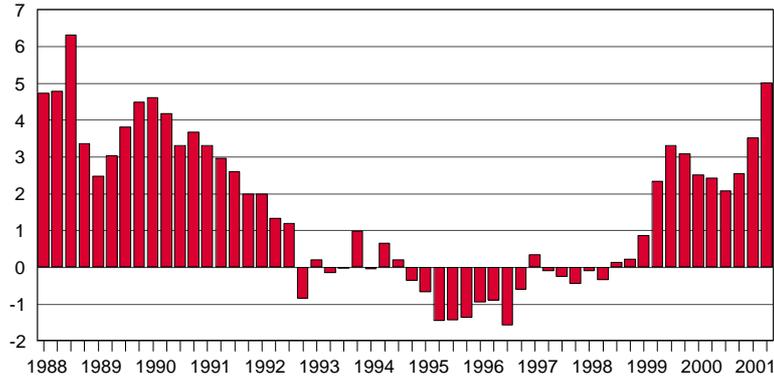
The squeeze on profits is likely to persist going forward - and when profit margins are cut and profit warnings increase, so the risks grow of a severe cut in planned capital investment. This will hit capital expenditure (a component of aggregate demand) and may prompt further job losses across many sectors.

So far it appears that small businesses are taking the brunt of the economic slowdown, The latest survey of business failures from Dun and Bradstreet shows that 18,191 small firms have collapsed in the first three quarters of the year - a rise of 3.5% on the same period in 2000.

Larger corporations have greater security to weather the expected downturn. It is smaller companies further down the supply chain that appear most vulnerable this winter.

### MORTGAGE EQUITY WITHDRAWAL

£ billion per quarter (seasonally adjusted)

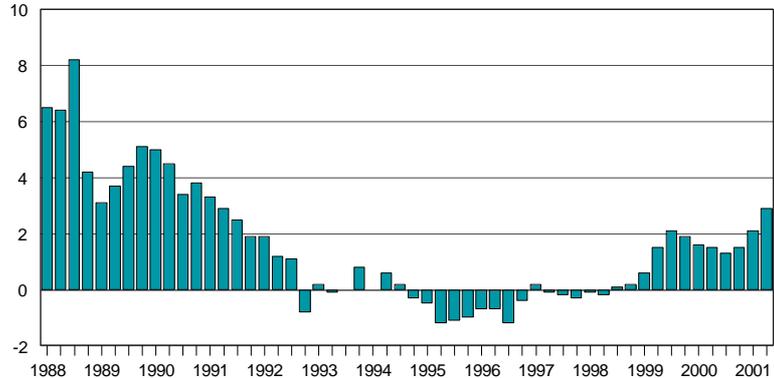


Source: Bank of England

### Equity Withdrawal still below late 1980s peak

### EQUITY WITHDRAWAL AS % OF POST TAX INCOME

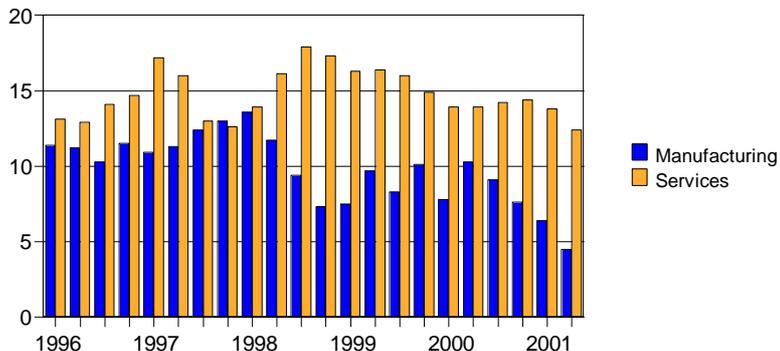
% of post tax income



### Consumption is strong but company profits are being hit

### NET RATES OF PROFIT FOR UK COMPANIES

Rate of Return (Per Cent)



## On the one hand...

Consumers are wealthier

Consumers have more choice

Consumers believe service levels are improving

Consumers increasingly demand personal attention

Consumers are more professional, better informed and more confident

## But on the other hand.....

Value for money is increasingly important

There seems to be less time to choose

They are complaining more

They resent "intrusion" into their lives

Faced with increased choice, consumers are more confused and indecisive about their choices

## Stronger Disposable Incomes Fuel Long-Term Growth in Spending

The evidence that consumers are wealthier is strong. UK consumer's real incomes have tripled in the last 40 years, and we are 70% better off than we were in 1979. On average, across the total UK population, some 47% of household expenditure is now classified as "discretionary" and is worth some £380 billion. As incomes have risen, the proportion spent on household expenditure has fallen to a stage where consumers now spend as much on leisure goods and services (17% of household spend) as they do on food and non-alcoholic drinks. A high proportion of consumers (77% in total, and 85% of Social Class AB) report that "there are no material comforts missing from their life". Accordingly, certain segments of consumer spending – particularly leisure services – have enjoyed strong growth in recent years. The broad leisure market, estimated to be worth some £80 billion, has grown by around 7% per annum in the last five years.

## Social Change Creates New Pressures

Whilst overall consumer spending on leisure is growing strongly, social change is influencing the market segments and products that benefit most from, or which do not share overall market growth. In particular, the traditional structures of life: households, gender distinctions, the working day, respect for traditional cultural institutions and participation in traditional communities, are all shifting, creating new patterns of demand.

### How are these social changes, affecting the way consumers behave?

An important effect is that for many consumers, "time" has become a currency. According to The Henley Centre the search for "value for time" has become as important as "value for money". Consumers are searching for ways to save time on necessary activities and "invest time" in quality leisure experiences.

As consumers are working longer hours, they are increasingly prepared to pay money to avoid activities that soak up the remaining available time (for example the employment of household cleaners, grocery delivery services) and are searching out leisure activities where they can "chill".

The constraint on time is encouraging consumers to dabble with leisure activities. Increasing demand for lunchtime "try-out" courses is a good example, as is the increase in short breaks as compared with the more traditional, longer holiday break.

Consumers are also demanding more flexible opening hours and pricing options, less variation and improved standards in the quality of leisure facilities and products.

They also want the "high points" or "perfect moments" with as little hassle as possible. And they are demanding more complex, more individual leisure products – helping them differentiate themselves from the crowd. This means good news for more specialist leisure companies, particularly those that can "tailor" the leisure product to meet individual needs. But it spells danger for more mainstream operators who rely on high volumes of consumers buying a more standard product (such as a packaged short-haul

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beach holiday) to deliver low average costs and prices.

Interestingly, researchers suggest that UK consumers are increasingly refusing to “act their age” – an important finding for leisure companies contemplating which products or services to offer the [apparently] older generation. Not only must leisure companies adjust to the changing numbers of consumers defined by actual age, social class and household composition. They must take account of consumers who are now defying the traditional categorisation. What price now for a new holiday brand – the Club 18-65 Holiday?

Key Changes	Comments
The UK population is ageing	Long term changes in the age structure of the UK population will have significant effects on the pattern of demand for goods and services. The UK Government Actuary predicts that there will be 1.6 million more 40-49 year olds (+20%) and 1.6 million more 50-69 year olds (+12.6%) between 1999 and 2009. In contrast, the number of 25-39 year olds is predicted to fall by 2.0 million (-14.8%) and there will be 770,000 fewer children.
Non-traditional households are showing fastest growth	A rise in separation and divorce rates means that the number of one-person households is predicted to rise by 55% between 1991 and 2011, compared with a 4% decline in the number of married households. Leisure marketers can no longer assume that the traditional family household is the “norm”.
People are getting married later in life, if they get married at all	The average age at first marriage (in England & Wales) has risen from 22.6 years for women in 1971 to 27.5 by 1997. The number of First Marriages has been steadily falling over the last 30 years and is now almost the same as the number of divorces.
One Child in five lives in a one-parent family	The proportion of dependent children living in one-parent families has risen from 7% in 1972 to 21% in 1998.
Active female participation in the labour market is growing fastest	Females are forecast to have achieved a 13% increase in total employment between 1997 and 2006 compared with a rise of only 4.5% for males. Data from the Institute for Employment Research suggests this trend is particularly pronounced for Managers and Professional jobs where the growth in female employment is between 28-35%
People in work are working longer hours	Ten years ago, the 1990s was predicted to be the decade of leisure. In fact, the amount of free leisure time is decreasing for most UK consumers, with the highest income groups particularly hit. At 44 hours (1997), the UK has the longest working week in Europe. Euro Stat estimate that almost half of UK workers sometimes or always work at weekends.

### THIS WEEK'S BEST OF THE WEB

You can find all these resources and more at Tutor2u Resources: [Find us at www.tutor2u.net/default.asp](http://www.tutor2u.net/default.asp)

### Web Sites covering the Global Economy

Dun and Bradstreet	<a href="http://www.dnb.com">www.dnb.com</a>
Henley Centre for Forecasting	<a href="http://www.henleycentre.com">www.henleycentre.com</a>
Labour Market Trends (ONS)	<a href="http://www.statistics.gov.uk/themes/labour_market/default.asp">www.statistics.gov.uk/themes/labour_market/default.asp</a>
Bank of England	<a href="http://www.bankofengland.co.uk/mew.htm">www.bankofengland.co.uk/mew.htm</a>
Tutor2u Labour Market Links	<a href="http://www.tutor2u.net/default2.asp?tree=2070">www.tutor2u.net/default2.asp?tree=2070</a>