Generation Recession

A report from the Social Issues Research Centre

Commissioned by

FRIENDS PROVIDENT

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1 Introduction

There can be very few people in Britain who are unaware that we have been living in times of recession – economic ‘crisis’, fiscal ‘meltdown’, call it what you will, it has been until very recently the central theme of TV news and newspaper headlines. Bankers, hedge-fund managers and anybody vaguely connected with the ‘finance industry’ bore the brunt of collective vilification for several months as those responsible for triggering the collapse of once revered companies seemed often to walk away with pensions the size of which the rest of us can only dream about.

The reality, of course, was rather different – but we always need someone to blame when things go wrong. Now, of course, it is Members of Parliament, including Cabinet Ministers – those who were very quick to express moral outrage about the irresponsibility of short-selling brokers – who are in the frame for their financial misdemeanours.

Even without all of the media coverage, however, many of us, even if not directly affected by the recession in terms of losing our job or seeing our future financial prospects evaporate, know people who have been hit financially in one way or another, or have seen the struggle in which shops and stores are engaged as they are forced to compete with each other to sometimes ruinous levels. We may welcome the plethora of ‘bargains’ to be had – but can they last?

The statistics spell out the harsh reality of the current economic climate. Since the last quarter of 2008 unemployment has risen by 1.3% to reach a total of 7.1% – about the same as in the early 1980s recession and slightly higher than the more recent recession in 1991. Over half a million people have lost their jobs and the prediction, based on the last recession in the early 1990s, is that it will be at least six years before employment rates return to their previous levels.

People who have kept their jobs but own a home are not immune to the impact of the current recession. The value of their property according to the Halifax House Price Index has fallen since the beginning of 2008 by 15% or more – from an average price across the country of £180,473 to £154,016. Those on variable rate mortgages, however, may be consoled by a very significant drop in the interest that they are paying, but rates will rise again at some stage.

Those who follow changes in Gross Domestic Product (GDP) will be similarly dismayed by the statistics. GDP fell in Britain during the first quarter of this year by 1.6%, following a similar fall in the last quarter of 2008. The economy is expected to shrink by 3.5% this year – the worst decline since 1946.

It is against this gloomy background that the *Generation Recession* project has been conducted. It is clear that people – even those unaffected directly – are worried, especially about their future financial security. But are there some positive lessons to be learnt that will not only help us to survive financially over the next one, two, three or more years that the recession and its after effects are expected to last but put us, perhaps, in better stead for the future when the economy has improved? Do we have a younger generation, experiencing recession for the first time in their lives, who may be strengthened by their current experiences?

2 The Generation Recession study

2.1 Methods

As always in studies of this kind we start with talking and listening. Among the people who live in SIRC's neighbourhood, for example, are at least three people who are normally employed in the construction business but have not worked since Christmas. There are people saving up to get married for whom the prospects of being able to afford their own home, even in the present depressed state of the housing market, look ever more remote. There are middle-ranking executives of multinational companies who fear that their jobs will be among the first to go. There are workers in the local car factory where sales have slumped and layoffs and redundancies are already well in progress.

With some of these people we just chat over a drink. With others, and using our extensive panel of potential focus group participants, we invite them to join us in a setting where the discussions can be more structured and certainly more easily recorded.

In this study we held two focus group sessions in addition to less formal 'interviews' with locals which included people from very diverse backgrounds and across all ages. The first focus group comprised people mainly of an age to remember earlier recessions that occurred in the early eighties and early nineties. The second involved mostly younger people – those who have lived mainly in times of economic growth and for whom the current recession is a new experience.

From analysis of the transcripts of the focus groups and notes from the informal interviews we developed a set of questions for inclusion in a national poll conducted by *OnePoll* involving a representative sample of 3,800 adults across Britain.

This report summarises the main findings from both stages of the research, looking first at the psychology of recession and then at how our patterns of spending and saving have changed since the recession began. Finally we consider what lessons may have been learnt from all of this and how the habits we have adopted in response to the recession may benefit us in the hopefully more prosperous years to come.

3 The psychological impacts of recession

Memories of the last recession in the early 1990s seem largely to have faded, even among those who were directly affected financially. The current economic 'crisis' fails as a reminder of those times because it is, in significant ways, *different*. Apart from those who have lost their jobs, the impact is psychological rather than financial. There is a widespread sense of uncertainty – life may be OK now, but what about the future? Such anxieties have been amplified by media coverage of the recession. Despite our worries, however, family life and close relationships are relatively unaffected. We may not go out with friends quite so much but now we spend more time with them in our homes – perhaps a rather 'British' response to the economic downturn.

While the recession has certainly had a direct and negative impact on many people in Britain, the majority of people in the UK have been relatively unaffected in terms of experiencing real economic hardship. They still have jobs and, while the value of homeowners' properties may have dipped over the past year, so too have monthly mortgage repayments in many cases.

This is the case, of course, in most recessions – the impact being focused most directly on specific sections of society. The last recession in Britain, that began in 1991 and ran through 1992, saw rapidly plummeting house prices and mortgage rates rising to 15%. At the same time, over two and a half million people were jobless, manufacturing industries being the biggest casualties.

These were, as in the present economic climate, difficult times for a significant number of people. Even those who were still in relatively well-paid jobs and not saddled with negative equity in their homes became significantly more cautious and fearful. But to what extent is this recession having a *psychological* impact? We may not be feeling the pinch too much ourselves, but how has the recession made us feel?

3.1 Few lessons learnt

One way of looking at the psychological impacts of recession is to start with people's recollections of previous times of economic crisis. What were their feelings then, and how did those experiences compare with today? In our first focus group, however, where most participants were aged between forty and sixty something, it was striking that the relatively recent recession of the nineties had seemingly been forgotten by many of them. The hard times of the past had been pushed back to an earlier period of recession at the beginning of the eighties. A male focus group participant in his mid forties was quite typical when he said:

> *"I just remember the eighties. It wasn't a matter of losing anything, you had nothing anyway. At that time it looked completely futile, the future, it looked as though there was absolutely nothing; there was no hope."*

Two female participants of a similar age also felt that it was the eighties rather than the nineties they remembered as having a significant impact:

> *"I remember the eighties more than the early nineties one; it passed me by I think."*

> *"[This recession] is nothing compared to the early eighties."*

In one sense, this amnesia about life in the early nineties constitutes an interesting form of denial. Negative experiences, whether direct or indirect, are placed not in the continuum of relatively recent adult life but put back to a period sufficiently removed in time from today (nearly thirty years) as to be largely irrelevant. We were different then and, perhaps, had less to lose.

A similar pattern was evident in the data from the national poll showing that almost 20% of respondents, excluding those too young to remember much about the early 1990s, could not recall a previous recession and only a little over a third of the sample (38%) correctly identified the date.

While denial may account for this lack of recall it is also possible that it may be due to the fact that most of us did not suffer too much hardship. For the less fortunate minority, however, the harsh reality of those times remains with them. One man in our focus groups in his forties had been made redundant in the early nineties, along with many of his colleagues:

> *"It affected most of the people that I knew, welders and people like that; they had to retrain."*

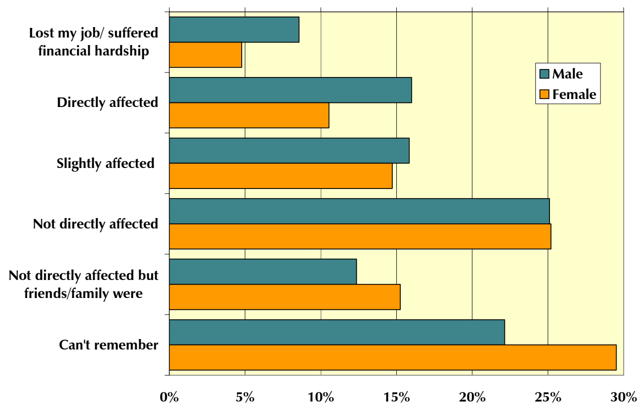
He is now redundant again as a result of the current recession and the parallels between now and then are all too clear for him.

A female focus group participant in her fifties had kept her job in the last recession but remembered all too well the high mortgage rates at the time:

> *"I had just recently got married then and we had our first mortgage and it was frightening how it went up."*

Among our poll respondents who were old enough to remember the 1990s recession, a minority (7%) had lost their jobs or suffered financial hardship at that time, as shown in Figure 1.

Figure 1. Impact of the previous recession



The largest groups in this context, however, were those that said they were not directly affected by the recession or could not remember what the impact, psychological or financial, had been.

One other reason why so few of us draw parallels between today's economic position and that of the early nineties is that it *feels* very different – a sentiment stressed in our focus groups and in interviews. A man in his forties observed:

> *"I don't think that this recession seems the same [as the 1990s] at the moment; we don't know where we are with this recession."*

Others pointed to the fact that while interest rates had rocketed in the last recession, today they were almost down to zero. An interviewee, a man in his mid thirties, was actually quite pleased with the current economic climate:

> *"What recession? My mortgage is down by nearly £500 a month – I've got more spare money now than I've ever had."*

The beneficiaries of the economic downturn, however, were in a minority. This recession is, in many ways, different from those of the early eighties or nineties, but for some at least, the impact feels worse.

3.2 This recession feels different

This sense that the current economic climate *feels* different even if life, in most respects, proceeds as normal, was evident in focus group discussions about how moods and feelings had changed over the past year. Nobody had escaped the gloomy media coverage and the warnings that, despite one or two recent claims that the economic tide is turning back to prosperity, even tougher times might lie ahead. 'We're OK now, but what about the future?' seemed to sum up a strong sentiment among our participants. One woman in her fifties, for example, commented:

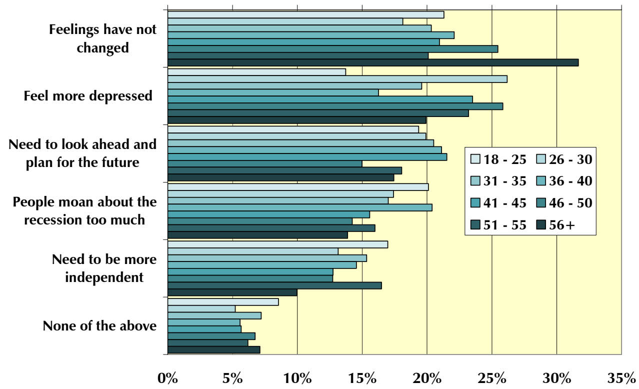
> *"There is something about the future that isn't clear … It's that thing that you hate so much; the feeling that it is going to get worse."*

This rather free-floating anxiety about the future was not shared by everybody. The younger participants tended, in particular, to be less alarmed. They commented that it was now more difficult to get jobs but they could deal with that – perhaps take on temporary positions until the economic climate improved.

As 'emerging adults', some still studying or fresh from university, the younger participants had little previous experience with which to compare their current circumstances. Although they might be equally, if not more so, affected by a slump in the jobs market, and graduate recruitment in particular, they were generally more able to look ahead positively to the future than their older counterparts.

Results from the national poll reflected these age differences, but in a rather complicated way. From Figure 2 below we can see that the dominant response to a question about changes in mood and feelings from those aged over 55 was 'My feelings have not changed', followed by 'I feel more depressed'. For the youngest group – those aged under 25 – the dominant response was the same, although only 21% selected this option compared with 32% in the oldest age group. The relative youngsters, however, were the least likely to say that they had become depressed and, along with people in their late thirties, were more likely to feel that there was too much moaning about the recession.

Figure 2. Changes in mood since start of recession



3.3 The role of the media

Widespread 'moaning' about the recession, some interviewees felt, was largely driven by the popular media. One young man in his early twenties, for example, saw coverage as being "over-the-top" while a woman in her late twenties said that she had become irritated by the constant "doom and gloom" stories about the economy in the newspapers.

Poll respondents largely agreed. In response to a question: 'Thinking about media coverage (TV, newspapers, etc.) of the recession, which of the following statements best describes your feelings?', the dominant response (over half of the sample) was 'The media have exaggerated the scale of the recession and increased people's fears unnecessarily'. This was particularly the case for younger respondents – 56% of those under 25 compared with 40% of those over 56. Less than a quarter of the sample as a whole thought that the media had given useful and accurate information and only 7% felt that the media had underplayed the recession.

Our focus group participants made comments in line with this nationally representative picture. One in his early forties commented:

> *"The media only ever emphasise the negative side of it. I don't know if they are doing it to make you scared but it has that effect. It's like that self fulfilling prophecy in a way."*

Another in his late twenties focused on the worrying lack of clarity that he saw in media coverage.

> *"I think overwhelmingly, it is really confusing when you watch them. It seems that nobody has a clue what they are talking about. They all have quite good ideas but nobody can predict expertly so there is a lot of guessing and second guessing. There are mixed reviews as to whether we are coming out of the recession or whether it is getting worse."*

Later he added:

> *"I think it's largely an exaggeration of contempt for young people … it's a media portrayal of 18-23 year olds that suggests that they are incompetent when it comes to finances."*

The last comment about media portrayal of young people and finances above is particularly pertinent. As has been evident in much of the other research we have done in the financial area over the past few years, it is young people who are often more savvy and 'sensible' in this context than the generations above them – certainly in terms of their attitudes towards saving and their reluctance to take on debts other than student loans.

3.4 Britishness prevails

There is in these focus group discussions and poll results a sense that in times of anxiety and 'crisis' – either real or imagined – we become, if anything rather more resilient than before. Our close relationships may be tested when money is short, but we seem to be able to carry on as usual in this context, or even find new strengths in shared adversity. Similarly, while our social lives may be now more constrained by a lack of ready cash, or by a reluctance to spend it, we improvise – we retreat to our homes much more, but take our friends with us as well.

This 'social nesting' is, perhaps, a very British phenomenon. It reminds us of the 'Dunkirk Spirit' or the increased bonding that was so visible in the Blitzes of the last World War. It is reflected not only in how we (re)organise our family and social lives but also in how we start to think of ourselves more as British. And one way of expressing that is to support British, rather than 'foreign', companies in times of recession. One forty year old woman in our focus groups, for example, said:

> *"Because I travel around a lot … I see an awful lot of boarded up pubs, boarded up factories … it is quite striking how much … we have been hit. If there is a company that I feel I want to support, they do tend to be companies that … are operating in this country. I am more likely to buy something from them than something that has been imported because I want to try and support employment in this country."*

Others in the groups – people not normally prone to expressing 'nationalistic' views – made similar points in relation to 'buying British'. One man in his forties felt particularly strongly that these days it was necessary to support the home economy as much as possible:

> *"Like buying apples from New Zealand when you can buy British apples – it's kind of criminal really."*

The Prime Minister, Gordon Brown, whose quest to raise our sense of British identity began well before the recession started, has recently stressed that Britain needs a national identity to get through the recession. In an interview for BBC Radio 4 in March this year he said that the financial crisis of 2009 was not a single event but part of the process of global change going on all around the world. "Any nation faced with a bewildering amount of change … needs a sense of national purpose."

Perhaps, though, the British do not really need this kind of 'official' encouragement. It seems that many of us are already thinking more British, and acting more British, without being told to do so by the 'authorities' – something that is in itself, perhaps, very 'British' as well.

3.5 Trust shaken

The popular media were quick to seize on the 'culprits' and hold up to shame those they alleged to have been responsible for triggering the recession. Bankers, mortgage companies and financial organisations have not fared well in this spotlight. But, in the rather anxious psychological climate that dominates our lives at the moment, have we lost our trust in what have traditionally been seen as safe and responsible organisations and companies? We put this to our focus group participants.

One man in his early sixties immediately made a half-expected response:

> *"Personally I wouldn't trust any of them; never have, for a long time."*

It became clear, however, that his relationship with banks in the past had, shall we say, been a little 'chequered'. Others in the groups expressed feelings more akin to resignation rather than hostility. While acknowledging that their trust had been tested, they recognised that one could not live an ordinary life without using the services of the finance industry. A thirty year old male participant commented:

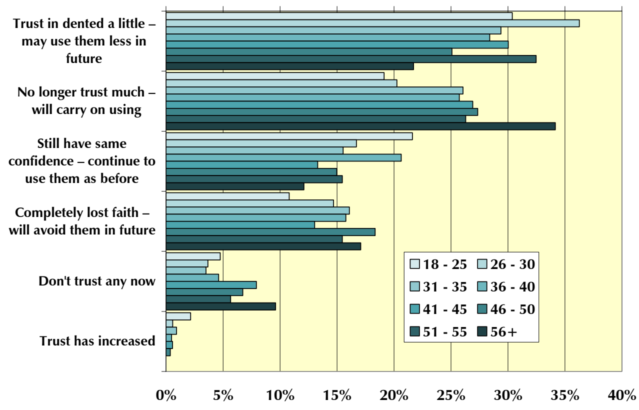
> *"You've got to have a bank account; you've got to have cards; you've got to have a mortgage … so you just have to get on with it – my bank's OK, I think …"*

His view was echoed by another man in his late forties:

> *"Everybody has to go through the banks and the building society …"*

In our national poll we detected similar sentiments, as shown in Figure 4. Here we see that a 'denting' of trust has occurred during the course of this recession – a complete loss of faith is less evident. The second most dominant response, 'I no longer trust banks and financial institutions much, but I will carry on using their services as before', also reflects the sense of resignation expressed in the focus groups and interviews. To be sure, however, only 1% of poll respondents said that their trust in banks and the like had increased recently.

Figure 3. Changes in levels of trust



What is also interesting about Figure 4 is the extent to which young people now have rather more trust in the financial institutions than their older counterparts. They are the least likely to have lost faith completely and to avoid banks and finance companies in the future. They are also the most likely to say that they have retained the same level of confidence and will continue to use them as before. Given the general consensus that one can't avoid using banks and the like anyway in our modern society, perhaps these young people are more realistic than their elders.

3.6 Relationships holding strong

While a moderate level of anxiety pervades the country as a result of the recession, to what extent does this have an impact on how we get along with our partners, members of our families and our friends? Do worries over money create greater friction between husbands and wives, or does the shared anxiety bring them closer together? If we are going out less because we feel, in the current psychological climate, that we need to save money, does this mean we see our friends less and our social networks decline as a result?

The British Psychological Society (BPS) has been so worried about these issues that earlier this year it devoted part of its annual conference to a discussion of them. Interestingly, one of the conclusions was that "psychological factors have played a part in the origins of the crisis, and are now critical in its resolution for individual and social well-being."

The idea that the BPS could solve the almost global financial crisis while economists and politicians seem to have singularly failed was, perhaps, a little ambitious. It did, however, draw timely attention to the 'crisis ripple' emanating from those directly affected (for example, through unemployment) to those who have been partially affected and those for whom there is more of an 'atmospheric' impact, perhaps the majority, who are influenced by the general mood of the country and media. Concern for the impact of this ripple on relationships at work and at home was expressed – the implied suggestion being that we would all soon need some extra counselling and therapy.

In our focus groups there was a strong reflection of this ripple of worry. A woman in her early forties, for example, said:

"People seem to be considerably more frightened this time about the impact upon their financial circumstances and their impact upon family life."

Another female participant in her twenties commented, slightly sarcastically, that:

"Arguing about money really brings you together."

Despite the sarcasm, however, other participants thought that there might be an element of truth in this statement – the recession obliging couples to share financial worries or at least talk to each other.

Few participants, however, had directly experienced increased difficulties in their home or family life. The largest group of our poll respondents (46%) similarly reported that their relationships with their partners had been unaffected by the recession. The remainder (who actually had a partner) were almost evenly divided between those who thought that the recession had made a negative impact (13%) and those who thought it had strengthened their relationship (11%). A small minority of couples had split up during the recession (2%) but this is, perhaps, what we would expect in normal circumstances over the period since the start of the recession.

Very similar results were obtained in response to a question about wider family relationships. The largest group (61%) said that the recession had made no real difference in this context. The rest were divided between those who thought there had been a negative impact (12%) and those who thought that the impact of the recession had brought the family closer together (16%).

The impact of the recession on social lives and social relationships, in contrast, has been much more tangible. Focus group participants and interviewees commented on the fact that people are going out less than before and social lives outside of the home were suffering as a result. One interviewee – a man in his late fifties – commented:

> *"I haven't been there [the local pub] for over a week now … that's very unusual. But it's the same for a lot of people – they're just not going out … so what's the point of me doing so?"*

A female focus group participant in her twenties had observed the same pattern:

> *"A lot of it is noticing that your friends aren't going out as much so your social life changes a little bit."*

Our focus participants noted, however, that there were some compensations. Entertaining at home, rather than in a restaurant or pub, had become more common and, perhaps, was even more sociable. As one fifty year old woman in the focus groups said:

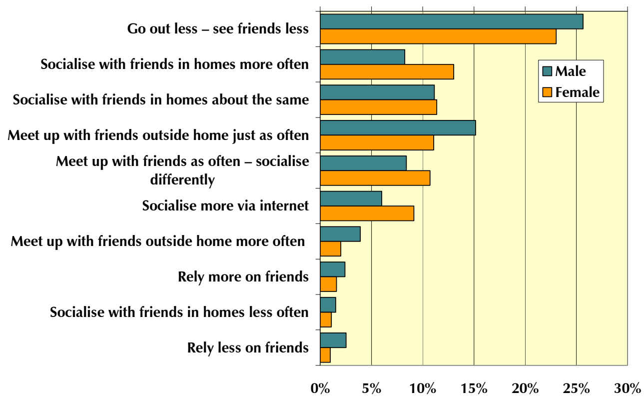
> *"It is a sort of nesting thing and whereas before people would go out to dinner, now you would invite friends round, throw something together …"*

Another female participant of a similar age added:

> *"Do pot luck; say to everybody to bring something round and have a girls' night or something."*

Our poll respondents largely agreed. While people were going out less, they felt, there had been an increase in both inviting friends to one's home and going to theirs, as shown in Figure 3.

Figure 4. Changes in patterns of social interaction



Poll respondents also reflected comments made in the focus groups that online social networking was perhaps the answer in reduced financial circumstances. The rise in recent years of sites such as *facebook*, *twitter* and *myspace* has provided novel channels through which people can interact for free – assuming they have a broadband connection already.

One focus group participant in her late twenties also noted:

> *"I think that online dating has become the norm … people talk online to see if they like each other so that they don't waste dates."*

The idea of not 'wasting dates' is an interesting one – why spend money in times of recession in order to meet someone who turns out not to be the man or woman of one's dreams, for a while at least. Online dating agencies are reporting record business as a result of this new-found frugality in partner-seeking, both here in the UK and in the United States, and may establish a trend that will continue long after the economy has recovered

4 The rise of frugality

While the current recession has clearly had measurable psychological impacts, even though many people report little or no change in their general moods, it has significantly affected the ways in which we behave. We are spending less on going out and on what we perceive to be luxuries. We have become more frugal, putting away our credit cards for a while and searching out the many 'bargains' to be found as retailers are forced into greater competition with each other. Many of us who can are also saving more, even though interest rates are at their lowest in living memory. And young people are setting the best example here.

4.1 Changing circumstances

In our focus groups, very few participants had been directly affected by the recession in terms of losing their job or suffering economic hardship in other ways. The responses from the national poll were similar. Less than 4% had lost their jobs or failed to get their contracts renewed. Similar small proportions had opted for voluntary redundancy or early retirement, or had been made redundant but were now undergoing training. The dominant response in this section of the poll, however, was that while people thought that their jobs were fairly safe at the moment, they were still worried that this might not be the case in the future.

Such direct worries about jobs, and the financial plight that comes with losing them, add to the more pervasive and free-floating anxieties that we have seen in the first section of this report. So how are we responding in terms of spending?

4.2 Changing patterns of spending

The dominant theme in our focus groups and interviews was one that could be described as 'austerity'. Things might not be too bad for most people, but we need to cut back, to economise, to be more responsible with our money. A fifty year old female participant in our focus groups had 'cleared the decks':

> *"I have taken my credit cards out of my wallet … paid off all my debts with some spare money that I had saved."*

Another of a similar age had taken even more radical steps:

> *"I chopped up my credit cards … I am being more careful about going out; only for a special occasion now."*

Others, such as this man in his forties, were making less dramatic economies …

> *"Choosing a cheaper supermarket."*

… while a younger female participant in her twenties was representative of the groups as a whole.

> *"Just being a lot more careful."*

Two women in their fifties illustrated specific areas in which savings had been achieved:

> *"I reduced my house insurance."*

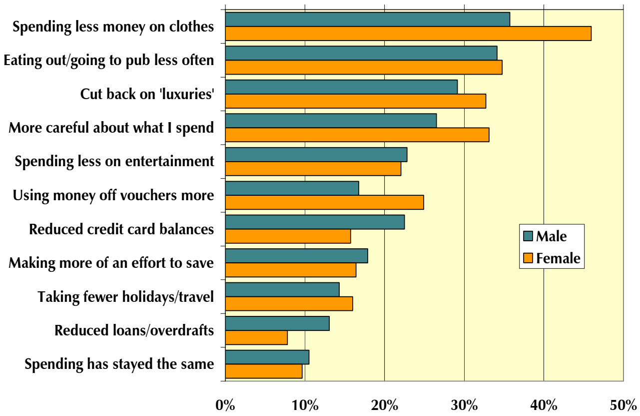
> *"I changed utility services."*

There were, however, some limits to the extent to which people were prepared to economise. Some commented that some of the things that might have been seen as luxuries in the past were now 'essentials' – a mobile phone, a flat-screen television or even going out for a meal. One should cut down, but not to the extent that it made you too unhappy, suggested one female participant in her late twenties:

> *"I suppose there were things that maybe a year ago I thought were necessities and actually now I think I don't need at all… it's things you can replace … you replace it with the cheaper option without trying to cut things out altogether and ending up making yourself miserable."*

We examined the specific areas in which people were economising in the national poll. We can see from Figure 5 that spending on clothes has become the biggest 'casualty' of the recession, followed by eating out and going to the pub less often and cutting back on 'luxuries' and entertainment.

Figure 5. Areas of economising

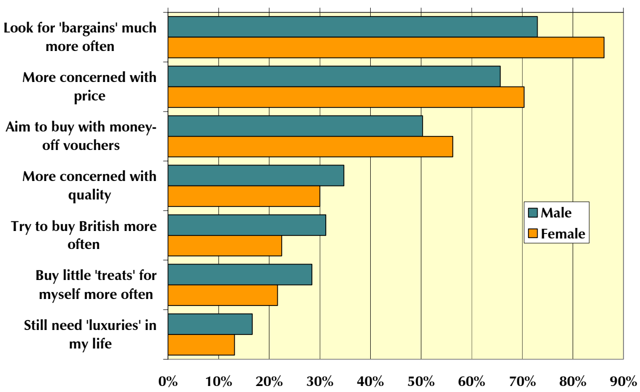


A fifth of respondents had already reduced their credit card balances while only 10% said that their spending patterns had remained unchanged since the start of the current recession.

Figure 6 shows more detail about how people's spending patterns have changed. Here we can see that a desire for 'bargains' is the strongest driver of current habits and there are, of course, more bargains to be had as competition among manufacturers and retailers has increased – a fact noted by one of the male focus group participants in his mid twenties:

> *"You don't even need to curb your spending because there are so many offers on; you can spend less money but buy the same."*

Figure 6. Changes in spending patterns



In general, however, a strong concern with the price of goods, and less so with quality, was also evident.

Another focus group participant, a woman in her late fifties, sought the best of both worlds – quality at a bargain price – simply by shopping later in the day:

> *"I go to Marks and Spencer's and buy all the reduced food [later in the evening] … I want to have nice food at home and we can stay in and it feels like it is a treat"*

We noted earlier that a sense of Britishness often comes to the fore in times of recession, as reflected in our focus group participants' determination to buy British. We can see in Figure 6 that this was also the case for 25% of the poll respondents – a very sizeable number of people across the country.

The unexpected result in this section of the poll, however, was that slightly less than a quarter of people are now buying more 'little treats' for themselves, rather than making major purchases of consumer durables, cars, etc. This is quite contrary to what is known in economics and social science as the 'lipstick effect'. Even when times are hard, they say, people still need a bit of pleasure and one way of doing this (for women at least) is to buy an extra lipstick.

One young lady in our focus group fitted this model perfectly:

> *"I can't afford to go out as often as I would like but I can afford a £4-5 lippy from Boots."*

Judging by the poll results, however, she is in a distinct minority and yet another well-established economic model seems to have largely failed in its predictions. A more mature woman in our focus groups fitted more accurately the general consensus:

> *"I'm not buying lipstick or those types of treats."*

4.3 Austerity rules

While the current recession was precipitated, at least from a layman's point of view, by lending vast amounts of money to totally unsuitable people, the response from governments all over the world has been to encourage yet more borrowing – hence the reduction of the Bank Rate in the UK to its lowest level in living memory. We might think, given the fact that saving is now much less 'interesting' in financial terms and borrowing rates are so low, that people would now be taking a more relaxed attitude towards their debts.

In the focus groups and interviews there were very mixed attitudes expressed in this context, often associated with the age of the participant. A fifty year old woman commented that:

"I am from a generation that is frightened of debt so I was really very frugal … I don't particularly mind not having any money but I don't want to be in debt; I think that is an age thing."

The responses of others of the same age in the group, however, suggested that her generation was far from being averse to debt.

It was one of the younger participants, a man in his early twenties, who was more convincing in this context:

"It doesn't frighten me but I am aware of living within my means and I would never get into debt without a very good reason."

On the other hand, another male participant of a similar age said:

"I am not scared of debt – maybe a little in terms of big things like a house, but it's more because it ties you down in terms of where you are and what you do."

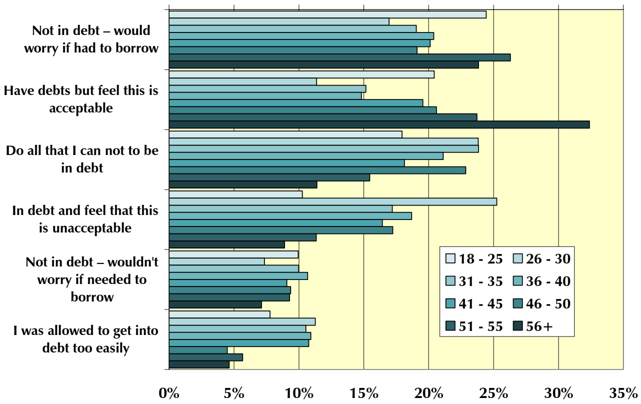
Another young man in his mid twenties commented:

"I don't particularly worry about debt … I have quite a bit on credit … haven't even worked it out, but it doesn't worry me."

This last participant was not, it seems from the poll data summarised in Figure 7, very representative of his generation. Here we can see that the dominant response across the sample as a whole was that people did not have debts and they would worry if they were obliged to borrow money – significantly outnumbering those who would not worry if they had to get into debt.

The most interesting aspect of these poll data, however, is the difference between the age groups. A quarter of all people in the 26-30 age category felt that the fact that they were in debt was unacceptable. This was the case for only 9% of people over the age of 55. The older group were much more likely to see their debts as being acceptable (32%) compared with 11% of those in their mid to late twenties.

Figure 7. Attitudes towards debt



The mid to late twenties, of course, is when people are most likely to take on significant debts associated, perhaps, with establishing their first home. Younger people may have student loans and other debts to pay off, but many still rely on their parents for help in this context. What the data indicate, then, is that today's generation of 'emerged' adults takes a rather more cautious approach to debt than that of their parents. This prudent attitude has led a quarter of them to reduce their credit card balances since the start of the recession – the highest proportion in all of the age categories.

4.4 Changing patterns of saving and investment

Focus group participants emphasised their difficulties in saving significant amounts of money. despite their fears of getting into debt, particularly if the recession worsened. For others, including some of the older participants, the recession had acted as a spur to start saving again. One woman in her fifties commented:

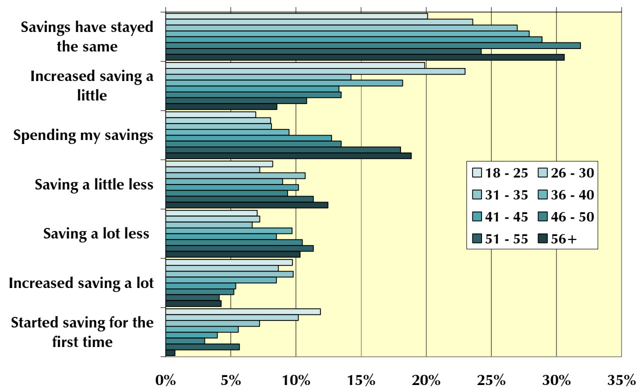
"I really have scrimped and saved and been really, really frugal because of my fear of debt. Now I am spending and I have been spending for a few years and I am starting to think that I might have to start saving again. I am not saving a huge amount but it does help for looking forward to the future."

In contrast, other participants with fewer fears about their financial futures, were much less concerned with saving. They had not felt any significant impact from the current recession and were, therefore, less motivated to change their spending/saving habits:.

Exploring further how participants had changed their saving habits, there was a general consensus that while some people had responded to the economic downturn, most had not changed, or had been unable to change, their saving habits in any striking way. This was reflected in the national poll.

We can see from Figure 8, however, that significantly more respondents had increased their savings a little since the start of the recession (18%) than those who were saving a little less (9%). A further 8% said that they were now saving for the first time in their lives because of the recession.

Figure 8. Changes in savings habits



Among the 10% who said that they were now spending their savings rather than increasing them, the over fifties were in a majority (19% of people in that age bracket) compared with less than 8% of the under thirties. This may reflect the relatively higher levels of accrued savings among the older group or, equally, a more healthy sense of prudence among the younger respondents. It is also the case that the youngest age group (under 25s) were the most likely of all age groups to have increased their savings since the start of the recession.

4.5 Pensions

One significant form of saving, of course, is in the form of contributions to a pension fund – whether paid for by individuals themselves, their employers, or both. In the focus groups and interviews there were reservations expressed about the safety of such funds, especially among those who had seen the value of their pensions fall significantly over the past year. A female focus group participant in her fifties said:

> *"I just stopped mine … because it wasn't performing."*

Others felt that investing in property, even in the current state of the market, was preferable to contributing to a pension fund. The same fifty year old added:

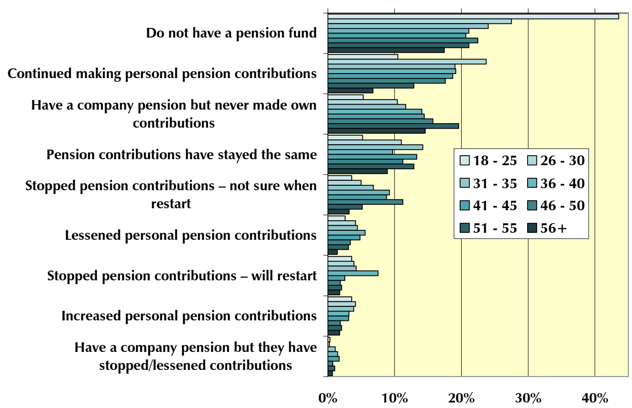
> *"Personally I would be more prepared to invest my money in property and just wait and hope."*

Among some of the older participants there was a sense of fatalism – they had either not made adequate provision earlier in their lives or were not currently in a position to increase contributions. Some were resigned to working until much later in life than they had expected. They were, however, quite unanimous in saying that while they might have 'slipped up' in the pensions field, they would advise their own children, and younger people in general, to get on the 'pension ladder' as soon as they were earning a wage. A woman in her fifties in the focus group summed up this consensus:

> *"I would say to someone to pay into a pension as soon as they are earning money."*

We can see from Figure 9 that the largest section of the poll sample (28%) had no pension at all, but that this varied greatly with age. While 44% of the under 25s had no pension, this was the case for only 17% of those aged over 56.

Figure 9. Pensions and changes in contributions



The second largest category in the poll (18%) had continued to contribute towards their pensions since the recession started – especially the younger people in full-time work in this case – while significantly fewer had reduced their contributions or stopped them altogether. Despite the grumbles about pension funds and the fact that their values have largely fallen in recent times, they appear to remain an important form of future security.

Pulling these areas of saving and investment together, we asked our focus group participants and the poll respondents how they felt about their future financial security and what steps they felt they needed to take in order to ensure a reasonable lifestyle in older age. Here the real worries showed through clearly. One male focus group participant in his mid forties was typical when he said:

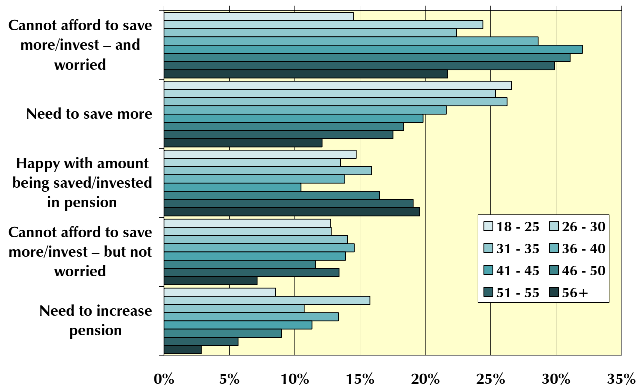
> *"I am going to have to work a long time. I do not have an adequate pension."*

Another participant in her fifties expressed similar worries about the future:

> *"I've got an endowment mortgage, endowments and part payments, so come five years down the line, I'm going to have to find a huge pot of money and I have no idea where from … you just work your guts out and pray."*

Among the poll sample the sheer inability to save more was of the greatest concern, while recognising that this was exactly what was required in order to feel financially safe. We can see from Figure 10 that only 15% of respondents were happy with the amounts that they were saving or investing (the highest proportion being in the over 55s group) and less than 13% were not worried about their inability to invest more.

Figure 10. Feelings about future financial security



The recession may have come as wake-up call for many people. There is widespread recognition that their lifestyles cannot be maintained permanently unless they take some steps towards greater future financial security. But how can the widespread anxieties be turned into action?

Perhaps there are some small reasons for optimism here set by younger people. Among the under 25s there was significantly greater recognition of the need to increase savings and investments (27%) compared with those in their mid-forties and fifties (18%). Acceptance of the need to increase pension funds was also higher among the younger respondents. As we have repeatedly found in our research over the past five years that has focused on young people and their finances, they may have something to teach the rather more profligate generations that have preceded them in this context.

5 The lessons of the recession

The psychological impact of the current recession has not only affected our current attitudes toward spending and saving , it has generated what we predict will be an enduring influence on our future lives. The majority of people in Britain feel that their new-found frugality will stay with them after the economy has recovered. While we might not have learnt much from our previous experiences of recession in the early 1980s or early 1990s, this time around it may be rather different.

There is no real way of predicting when the current recession will end and, as we have seen earlier, this contributes substantially to the anxieties that many people are experiencing. The National Institute for Economic and Social Research has very recently claimed that the recession is already over and that real signs of economic growth are now apparent. Theo Paphitis of *Dragon's Den* fame disagrees: "I don't think we are anywhere near the end of the recession." More confusion.

Our poll respondents, like the focus group participants, reached little consensus on when the UK economy would improve. Few of them thought that it will be over by Christmas, although men were rather more optimistic than women (4% vs. 2%).

The largest group (30%) opted for the year 2010 – in line, perhaps, with at least some of the economic forecasters and pundits. The fact, however, that 18% simply said that they didn't know reflects the time of uncertainty in which we now live. And it is women, in particular, who are the most uncertain (24% vs. 13% of males).

Whenever the recession is likely to end, however, we need to ask whether we will have learnt any lessons from it – changes in attitudes and behaviour, perhaps, that will make us more resilient to economic downturns in the future?

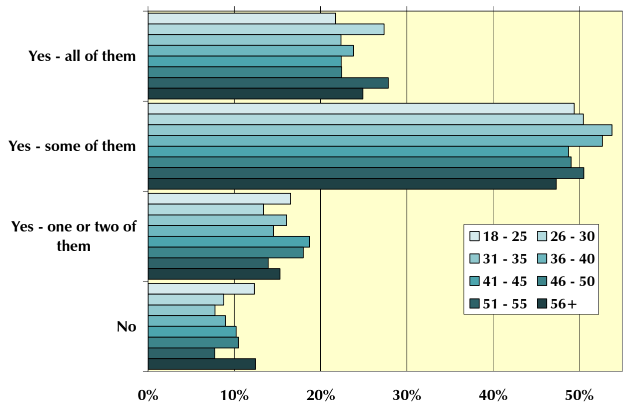
We have to concede that this study has revealed little in the way of learning from the 1991 recession. People who were made redundant at that time may be a bit more able to cope with redundancy this time around. Those who retrained in the 1990s as a result of losing their jobs and who and now work in very different professions still recall those insecurities that surrounded them at the time and are now far from complacent about their current positions. Others who remember experiencing other significant impacts such as crippling mortgage rates in the previous recession may also be in a better position to exercise healthy caution in the current economic downturn. The majority of people, however, who experienced few direct impacts in the last recession, seem to have continued to save little and, until very recently, been comfortable with their levels of debt.

There is, however, as we have noted earlier, a widespread perception that this recession is quite different in character from those in the past. For those able to draw comparisons, it *feels* different, and mainly worse. That is why, perhaps, so few people see their past experiences of recession as being particularly relevant. It is also the case that many of us went back to our old ways after the economy started to recover in 1992 – hence the number of people in our focus groups and interviews who had still not done much about securing financial security for later in life. This recession, however, has made many people regret not doing so. It has served as an alarm bell – hence the unanimity among older focus group participants that they would advise younger people not to follow their lead in this respect.

We asked our poll respondents whether their experiences of the current recession will lead to more permanent changes – whether this time some real lessons have been learnt. We presented them with the question 'Do you think any financial habits that you've adopted due to the recession (such as saving, economising, budgeting) will stay with you after the recession?'

Just over half of the sample said that they would retain at least some of their new-found habits in this context and a quarter said that they would continue with all of them, as shown in Figure 11. And this was quite consistent across all age groups. A relatively small proportion (11%) felt that they would return to their old ways.

Figure 11. Continue financial habits in the future?



What is encouraging here is the clear finding in this research that younger people are adapting their financial behaviours in the light of recession more significantly than the older generation. We have seen that they are more debt averse than people of their parents' age. They are the most likely to have increased their level of savings since the recession began, in striking contrast with the over fifties who are saving less or spending their savings. A sizeable number of under 25s are starting to save for the first time in their lives in response to the widespread anxieties created by the present economic climate and they recognise most the need for such patterns of saving. They see the strongest need to be financially independent. They are also the people who retain the greatest trust in banks and financial institutions.

Putting these findings together creates a case for optimism. While we don't know when the next recession will come – only that one inevitably will – this research indicates that younger people will be in a better position to weather it than their older peers have been in the current economic downturn.

6 Conclusions

What this study has shown is that recession is as much in the mind as it is in real financial hardship. The large majority of people in our focus groups, informal interviews and national poll sample had not directly experienced a significant loss of income as a result of the current economic 'crisis'. Some had actually benefited from the fall in mortgage interest rates and from the price cutting war among major retailers.

This will come as no comfort to those who have recently lost their jobs through layoffs and redundancies, or who have seen future career prospects dimmed as companies freeze wages and cut back on development. Those who found their pension funds to be depleted as investment returns have plummeted over the past year or so will be equally unamused by the notion that the impact of recession is as much psychological as it is economic.

The evidence, though, is clear. Among many people who have survived, and will continue to survive, the recession economically there are substantial anxieties and fears for the future. There are uncertainties about when it will all end, leading to an inability to plan clearly ahead. Many expect it will get worse before it gets better.

All of this impacts on our social lives and the ways in which we get on with our partners and family. But, quite surprisingly perhaps, the impact is far from negative. What has happened over the past six months or so all seems rather 'British'. We have responded to adversity, real or imagined, by seeking solidarity in our social lives, but now much more at home than in the pub or the restaurant. We have economised through 'nesting' behaviour – something very much reflected in the fact that DIY stores all over the country are doing extremely well in this recession. And we are buying British to demonstrate our resistance to this 'global' economic force.

We have also changed our spending and saving habits in many other ways. We have cut back on what we perceive to be luxuries. We spend less money on clothes – perhaps returning to the typically British 'make do and mend' approach – and our quest for 'bargains' has accelerated significantly.

All of these changes and adaptations are evident right across the age categories – from young men and women in their early twenties to people of their parent's age and older. It is, however, the younger generation who seem to be adapting to life in a time of recession most significantly and most intelligently. We have seen this in their attitudes towards debt, increased determination to save and their acceptance of the need to become independent adults.

This is, of course, a generation of twenty-somethings whose formative experiences in late childhood and adolescence were marked by the 9/11 attacks, the London 7/7 bombings and the 2004 tsunami. But while the early part of the second millennium has not been the most ideal in which to grow up it has, perhaps, instilled a greater sense of caution that comes in very handy in the current economic climate. Their teenage experiences are in marked contrast with those of the hedonistic 1960s – the formative years of the Baby Boomers who today seem more intent on spending their savings than following the prudent example of those who are younger than many of their own children.

Judging by our national poll data, the responses to recession that young people have made in terms of their saving and spending habits are likely to persist. This is also the case for older people, but here the changes in habits are not quite so evident. All of which bodes well for the future. Many members of the generation above today's young adults may have learnt little from their experiences of the last recession. The majority cannot even remember when it was. The indications of this study, however, are that next time it will be a little different. Today's twenty year olds will be the main drivers of the economy by the time the next recession comes around. They will also have the most to lose. Judging by their adaptations to the current recession in terms of attitudes and financial behaviours, and their expectations of retaining such habits, we may see them much better prepared for the 'credit crunch', 'financial crisis', 'economic meltdown' or however we choose to describe the next period of sustained falls in GDP.