Genworth Financial

THE GENWORTH INDEX

MEASURING CONSUMER FINANCIAL VULNERABILITY IN 12 EUROPEAN MARKETS

Volume 2 - 4th Quarter 2008

CONTENTS

THE GENWORTH INDEX OF CONSUMER VULNERABILITY

AUTUMN, 2008

KEY FINDINGS

Welcome to The Genworth Index. This is the second year we have tracked consumer vulnerability. Recent economic changes have clearly had a detrimental impact on consumers. Across all countries there has been an increase in financial vulnerability to varying degrees. In summary:

- The Genworth Index reveals a Europe-wide increase in consumer financial vulnerability since 2007
- Portugal heads Europe as the country with the highest rates of financial vulnerability among consumers relative to financial security
- Ireland experienced the greatest increase in relative financial vulnerability
- Denmark sees the smallest decline in relative financial security to replace Sweden as Europe's least financially vulnerable country
- Norway is home to the largest proportion of financially secure consumers
- Although the frequency with which people reported they were experiencing financial difficulties increased, it was a deterioration in expectations about the future that had the greatest impact on the Index scores

CREATING THE GENWORTH INDEX: A RECAP

This wave of the Genworth Index was calculated from responses to questions included on an Ipsos MORI consumer omnibus survey in September 2008. It covered all countries that were previously surveyed in summer 2007 for the baseline: Denmark, France, Germany, Great Britain, Ireland, Italy, Norway, Portugal, Spain and Sweden. In 2008, it additionally included Finland and Poland for the first time.

Questions were asked of householders only – the person in whose name the accommodation is owned or rented, or his/her partner – in order to provide meaningful data from those people with financial responsibilities.

The Genworth Index is derived from responses to the following two key questions:

- Thinking about the general financial position of your household, how often do you experience financial difficulties?
- Looking ahead over the next 12 months, do you think the financial position of your household will improve, stay the same or get worse?

Exhaustive analysis of these questions and others contained in the baseline survey found that four distinct groups could be identified from the combinations of responses to the two key questions alone:

- **Group A**, 'Financially Vulnerable', comprises people who have been experiencing financial difficulties often or all the time and who feel that their situation is unlikely to improve.
- **Group B**, 'Strivers', is a relatively small group of people who tend to have experienced financial difficulties relatively frequently but who now feel more confident (that is, they are expecting their situation to improve). These individuals are neither financially vulnerable nor financially secure.
- **Group C**, 'Circumspect', is a large group who have not often experienced difficulties, if at all, and who tend to expect their situation to remain the same. These individuals are, again, neither financially vulnerable nor secure.
- **Group D**, 'Financially Secure' is made up of people who have rarely or never experienced financial difficulties, and who expect their financial situation to improve.

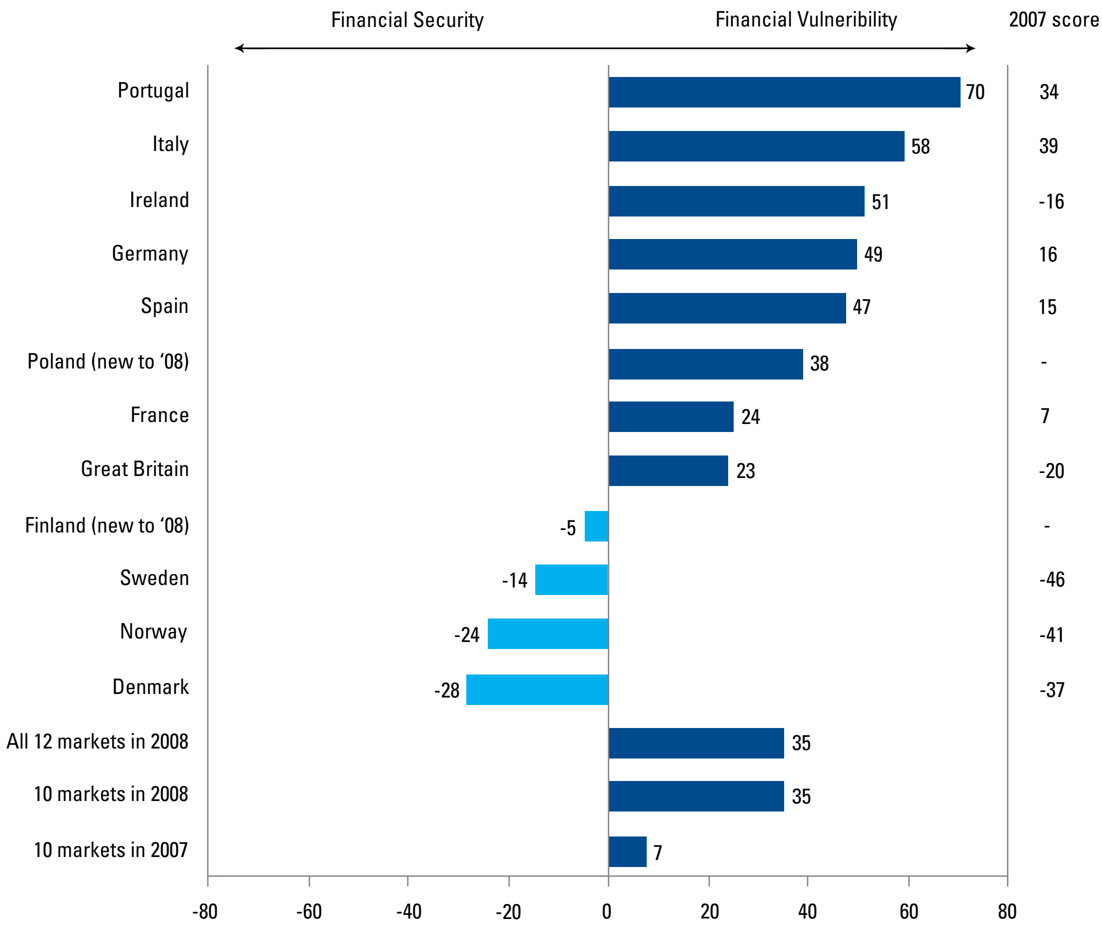
The Genworth Index takes the ratio of the percentage of people who are financially secure relative to the percentage of those who are financially vulnerable. The resulting value is rescaled so that a score of -100 indicates maximum possible relative financial security and a score of 100 indicates maximum relative financial vulnerability.

1 The Index design and analysis was undertaken by the Personal Finance Research Centre, University of Bristol.

2 For the results from the first survey see Genworth (2008) *The Genworth Index: Measuring consumer financial vulnerability in 10 European markets*. London: Genworth Financial.

EUROPE-WIDE SHIFT IN FINANCIAL VULNERABILITY IN 2008

Figure 1: Genworth Index score across 12 European countries, 2008



The Index shows that economic changes have clearly had a detrimental impact on consumers. Across all countries there has been an increase in financial vulnerability over the past year although that increase is greater in some countries than in others.

The Index score of 35 for the average across the markets in 2008 shows a sizeable shift towards relative financial vulnerability in Europe, gaining 28 points on the scale (from 7 points) for the subset of 10 countries since summer 2007. This reflects a shift towards higher levels of relative financial vulnerability for all the markets, without exception. The addition of Poland, which scored 38 on the Index, and Finland, which scored -5, to the survey in 2008 does not alter this picture.

The heightened levels of relative financial vulnerability in 2008 undoubtedly reflect the acute concerns about the stability of the financial markets and banking sector alongside the emerging signs of economic recession across many parts of Europe at the time the survey was undertaken.

Portugal is the country with the highest level of relative consumer vulnerability in 2008. Portugal's Index score of 70 is the highest observed so far, and far out-strips that of Italy, which ranked highest for financial vulnerability in summer 2007. Italy is now second highest, scoring 58 in 2008. Relative financial vulnerability was also high in Ireland (51 points), Germany (49 points), Spain (47 points) and, to a lesser extent, Poland (38 points).

The largest increase in score since 2007 was in fact observed for Ireland. Ireland's score increased 66 points, causing it to jump from 6th most vulnerable country in 2007 to 3rd most vulnerable in 2008. This echoes the fact that Ireland was the only country covered by the Index to officially be in recession at the time of the survey, having recorded negative growth in the first two quarters of 2008.

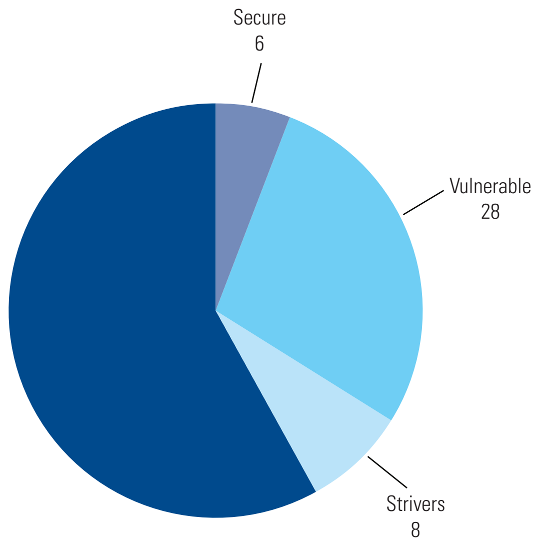
Unlike Ireland, France and Great Britain remained in the middle-rankings, as they were in 2007. Their similar Index scores (24 for France and 23 for Great Britain) however, belie the much more marked deterioration since 2007 for Great Britain, as we go on to discuss later.

The Nordic countries, now including Finland, were again the most secure financially in 2008, all scoring below zero on the vulnerability scale. However, there was some movement amongst these countries, most notably with Denmark now leading Europe as the most secure financially (scoring -28 points), replacing Sweden which moved to 10th in the ranking (out of all 12 markets).

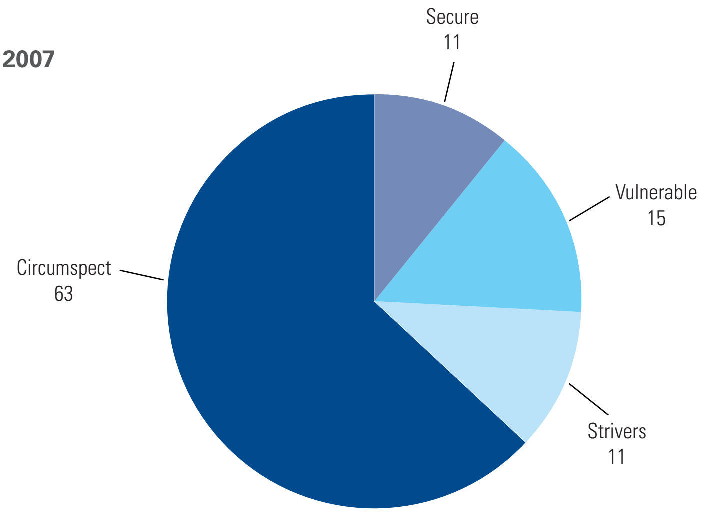
DECONSTRUCTING FINANCIAL VULNERABILITY

Figure 2: Proportions falling into each group, 2007 and 2008

10 Markets in 2008



10 Markets in 2007



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3 In our previous reporting of the results of the 2007 survey, people who declined to answer ('don't knows and refusals') either of the Index questions were included in the sample base. However, from the autumn 2008 wave onwards they will be excluded from the base in order that comparisons about the proportions falling into each of the four groups can be made from one survey wave to the next. The findings cited for 2007 throughout this report have been re-calculated accordingly and therefore differ from those cited in the baseline report.

Figure 2 shows the proportions of householders across the countries surveyed in both 2007 and 2008 who fall into each of the four distinct groups the Index questions define: the financially vulnerable, strivers, circumspect and secure. Since the Index score reflects the ratio of the percentage in the financially vulnerable segment relative to the percentage in the secure segment, a change in the size of either of these groups can influence the Index. Meanwhile, changes in the remaining two groups help to explain why a reduction in the secure group does not result in a commensurate increase in the vulnerable group and vice versa. So, by examining the size of all the segments it is possible to start to identify the source of the change in the overall Index scores between the two years.

Comparing the two charts, it is immediately clear that there were considerable changes in the sizes of both groups that determine the Genworth Index score. The increased average levels of relative financial vulnerability evidenced by the higher overall Index score between the two years is explained by both an increase in the proportions who were vulnerable (almost doubling from 15 per cent to 28 per cent) and a contraction in the segment who were secure (11 per cent to six per cent).

The large degree of change, on aggregate, for these two segments indicates that both elements of the Index – the current financial situation of the household and expectations about the future financial situation of the household – deteriorated compared with the 2007 survey. Our more detailed examination of the data confirms this to be the case (Table A.1).

Because the data for each survey are drawn from a new representative sample of people, it is not possible to identify the extent to which both aspects of the Index have deteriorated for individual households. Nonetheless, the increase in the proportions classified as vulnerable (by 13 percentage points) is explained by net decreases in all of the other segments: five percentage points for the secure group, another five percentage points for the circumspect and two percentage points for the strivers. We can hypothesise that some of this aggregate change reflects the movement of some individual households from feeling secure financially in summer 2007 to vulnerable in autumn 2008.

Notwithstanding the deterioration towards greater vulnerability across the board, our analysis also shows that the most marked change related to expectations about the future rather than the current financial situation. The proportion of people who expected the financial position of their household to get worse within the next 12 months more than doubled in 2008 compared with 2007, from 14 per cent to 32 per cent (Table A.1). Meanwhile, the proportion who said they were experiencing financial difficulties most or all the time when they were interviewed increased more modestly from 14 per cent to 20 per cent, with a similar increase for those saying they were sometimes in difficulty (27 per cent to 34 per cent).

It is difficult to know to what extent people's perceptions about the future will be borne out in reality. The macro-economic outlook looks mixed at best, with inflation widely tipped to fall and interest rates doing the same, but recession expected to take hold in many parts of Europe and unemployment likely to continue to rise as a result. As the Index has shown, the decline in macroeconomic conditions since summer 2007 were already being felt by many people by autumn 2008. The danger is that fears about the future highlighted by the Index will be realised and it is not unreasonable to expect relative financial vulnerability to climb further in the coming months.

THE PICTURE BY COUNTRY

Table 1: Index scores and percentage of people in each group by country, 2008

	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Index score
Portugal	61	5	31	2	70
Italy	38	6	54	3	58
Ireland	34	4	58	3	51
Germany	29	5	63	3	49
Spain	37	6	52	4	47
Poland	27	17	51	5	38
France	22	16	55	7	24
Great Britain	22	8	62	8	23
Finland	8	13	69	10	-5
Sweden	7	7	72	14	-14
Norway	7	6	67	20	-24
Denmark	5	10	68	18	-28
All 12 markets	28	9	57	6	35

We should expect to see that the markets with the highest Index scores are those that comprised the largest proportions of financially vulnerable people and those with the lowest Index scores contained the largest proportions of financially secure people. Table 1 bears this out, although, as we report, there are some exceptions.

The proportion of people who were financially vulnerable ranges from as low as five per cent in Denmark to 61 per cent in Portugal. Portugal contained many more financially vulnerable people proportionately than any other country, by far. The countries with the next largest groups of vulnerable people were Italy (38 per cent), ranked second in 2008, and Spain (37 per cent), ranked fifth. Moreover, Portugal is the only country in which the financially vulnerable were the outright majority of any group.

In all other countries it was the circumspect who made up the majority. This group of people – who are not often in financial difficulties at the moment but who do not think their situation will improve – was especially large in the Nordic countries, reaching 72 per cent in Sweden. Meanwhile, Poland, France and Finland were home to the largest groups of strivers, people who were experiencing financial difficulties fairly frequently but expected their situation to improve in the next few months.

Again, as in 2007, the Nordic countries comprised the largest proportions of financially secure people, which together with the low proportions of vulnerable people in these countries explains their negative Index scores. However, although Denmark was the lowest-scoring country in 2008, it is Norway that had the biggest proportion of financially secure people (20 per cent).

The following sections discuss the key statistics from the Genworth Index for each individual country surveyed, starting with the country with the highest levels of relative financial vulnerability, Portugal, and examining any significant changes since 2007.

PORTUGAL

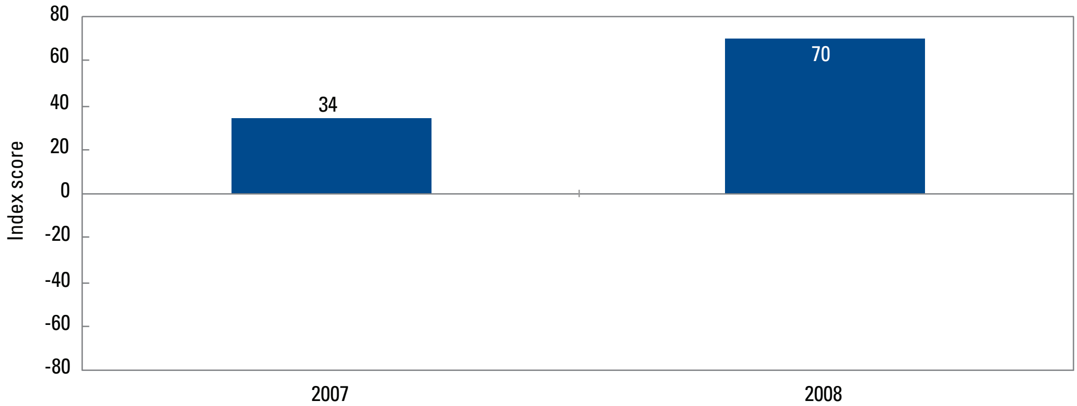
Portuguese consumers are paying the price of the last 10 to 15 years that saw them spend more wealth than they were able to create. Portugal has the fifth highest ratio of mortgage debt to GDP at 59.2 per cent, behind only the UK, Holland, Ireland and Denmark. Households are highly leveraged, owing 20 per cent more in debt than they hold in assets.

Meanwhile low productivity and reasonably strong wage increases have meant the economy has lost its competitiveness versus its EU rivals.

As house prices have fallen – they were down 5.8 per cent in the year to June – households have reacted by reining in their spending. Annual growth in consumption has halved from 2.1 per cent in September last year to as low as 0.9 per cent in August, while consumer confidence has fallen sharply. Annual growth in lending to homebuyers has slowed from 9.0 per cent in June last year to 6.2 per cent in September.

Looking forward, private consumption is forecast to remain constrained by weak employment growth and high indebtedness. After growing by 1.5 per cent last year, the latest figures point to annual growth of just 0.8 per cent. However consumers appear to be resilient. According to the latest survey, confidence has risen, ending a run of declines throughout 2008.

Figure 3: Vital statistics, Portugal



	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Position
2007	32	5	56	7	2nd
2008	61	5	31	2	1st

Portugal was the most vulnerable market in autumn 2008 by some distance, its score on the Genworth Index having increased 36 points to 70 and overtaking Italy, the most vulnerable market in summer 2007.

The proportion of the population who were classed as vulnerable almost doubled to 61 per cent, the biggest increase of all the countries. This was almost matched by the large fall in the percentage of people classed as circumspect from 56 per cent to 31 per cent, again the largest change for this segment across the 10 countries captured in both surveys. The fall in the proportions classed as secure (from seven per cent to four per cent) was slightly smaller than the average, although this partly reflects the relatively low base in 2007, and unlike most countries the proportion classed as strivers remained the same, at five per cent.

The net movement of people out of the circumspect and secure groups into the vulnerable group suggests deterioration on both elements that make up the Index. Further breakdown shows that the biggest changes were at the extremes: the number who said they were often or always experiencing financial difficulties more than doubled in Portugal between 2007 and 2008 from 20 per cent to 46 per cent; and the numbers saying they thought the financial situation of their household would get worse in the next 12 months increased dramatically from 29 per cent to 55 per cent (Table A.1). This translated into an almost four-fold increase in the number of vulnerable people saying they were frequently in difficulties and thought this would get worse, from nine per cent in summer 2007 to 35 per cent in autumn 2008 (Table A.2).

ITALY

The combination of a strong euro, tightened credit conditions, and a cooling housing market has weighed heavily on Italy's fragile economy. The economy contracted by 0.3 per cent in the second quarter of the year thanks to an identical fall in consumer spending. This left annual growth at -0.1 per cent compared with 1.9 per cent at the end of September last year.

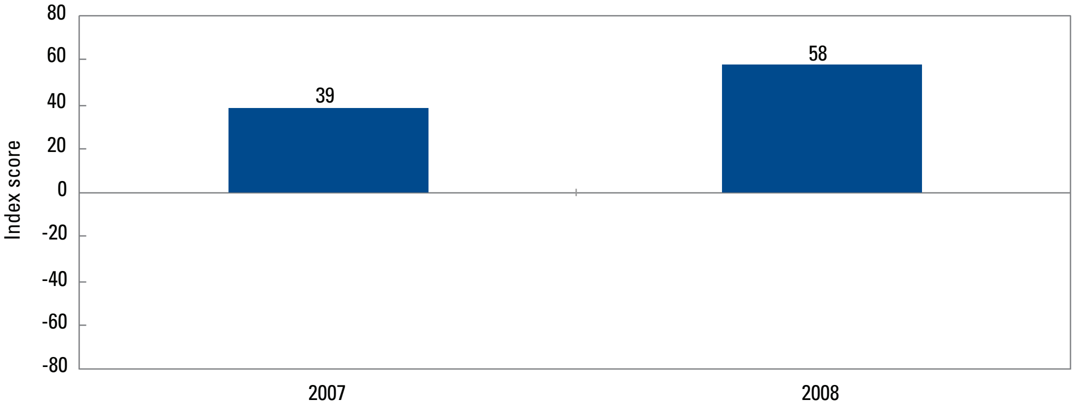
Rising oil prices and high food prices are eating into real disposable income, meaning that Italian businesses will continue to under-perform compared with fellow big euro zone countries. Consumer price inflation did slow in September, but at 3.8 per cent, down from 4.1 per cent in August, is higher than the euro zone average.

Growing concern about the economic situation has sapped consumer confidence, making households more cautious in their spending decisions.

Italian households remain among the least indebted in the advanced world, around half the euro-area average and a third of the UK. However the debt service burden has become heavier, taking up 8.2 per cent of disposable income compared with 7.2 per cent a year earlier thanks to rises in interest rates.

Although employment grew in the second quarter, unemployment also rose because of a larger increase in labour market participation. The rise in the number looking for work may be a response to the threat to household incomes from the economic stagnation.

Figure 4: Vital statistics, Italy



	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Position
2007	29	7	59	5	1st
2008	38	6	54	3	2nd

Compared with other countries, Italy witnessed a comparatively modest increase in relative vulnerability, increasing 19 points to 58 points on the Index in 2008. Italy's ranking as the second most financially vulnerable market in 2008, largely reflects its position as the most vulnerable country on the Index in 2007. The increase in score is in fact larger than only Denmark, Norway and France, all of which are ranked in the bottom half of the table.

The relatively small increase in the Index score for Italy reflects small changes in the share of the population represented by each of the individual groups. The group of people classified as vulnerable grew from 29 per cent to 38 per cent. This mirrors the small decreases in the size of each of the other groups. Notably, the number of people who were financially secure fell only two percentage points in autumn 2008 to three per cent – the smallest decline of all the countries – although this was from a low base (five per cent) in the previous survey.

The combination of responses to the Index questions that saw the biggest change was where the household had never experienced financial difficulties and the expectation for the future was that this would stay much the same: the proportion reporting this combination fell from 15 per cent to eight per cent (Table A.2). This translated into modest increases in those reporting often or always being in difficulties and expecting their situation to get worse (up four percentage points to 12 per cent) and those sometimes being in difficulties also expecting their situation to deteriorate (up five percentage points to 17 per cent).

IRELAND

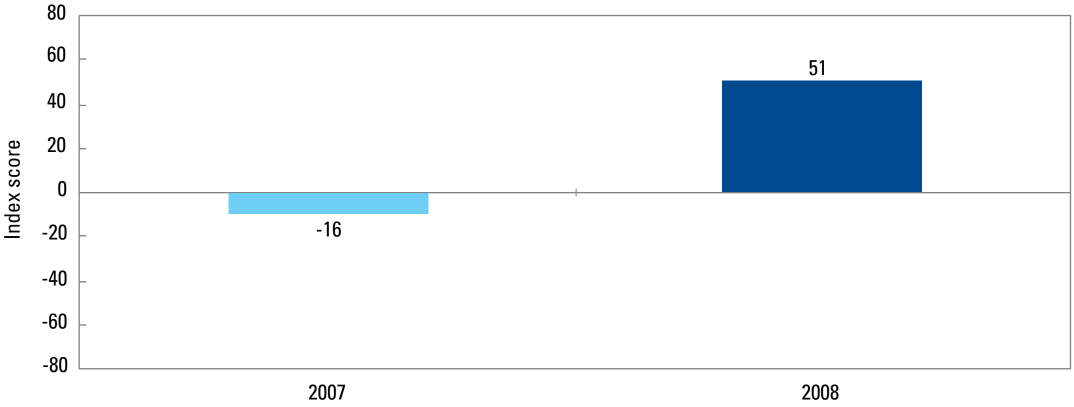
Ireland has been pushed into recession by a slump in its housing market – a trend that is also impacting the UK and Spain.

After more than a decade of very strong growth, the Irish economy looks set to contract this year by around 0.8 per cent both this year and next after growing 6 per cent in 2007. House prices are falling by around 10 per cent on an annual basis and are 13 per cent below a peak reached in early 2007. The construction industry will be hard hit with the number of housing completions set to fall by two thirds to 25,000 next year, from 78,000 in 2007.

On top of falls in housing wealth, households have been hit by rising interest rates, tightened lending conditions, and the growing climate of fear. This has led to a sharp fall in consumer confidence and households have responded by tightening their budgets. Retail sales are down 2.3 per cent year-on-year and car sales 16.7 per cent.

The labour market is weakening with falls in full-time jobs offset by a rise in part-time work. More than 26,000 construction jobs were cut in the year to June. The unemployment rate has risen sharply, up from to 4.5 per cent in 2007 to a forecast 5.9 per cent this year. Meanwhile inflation rose to 3.3 per cent this year from 2.8 per cent in 2007.

Figure 5: Vital statistics, Ireland



	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Position
2007	8	9	66	17	6th
2008	34	4	58	3	3rd

At 66 points higher, Ireland experienced a dramatic increase in relative financial vulnerability between summer 2007 and autumn 2008, the biggest increase for any of the countries surveyed. The increase to 51 points represents a shift in the balance of the country's population from relative financial security (previously scoring -16 on the Index) to vulnerability. It also places it as the 3rd most vulnerable country in 2008, having jumped from 6th place in 2007.

The increase in the proportion classed as vulnerable from eight per cent to 34 per cent was second only to the increase seen in Portugal. The fall in the proportion who were secure was also among the biggest (alongside Sweden), falling from 17 per cent in 2007 to three per cent in 2008. Ireland also saw the largest fall for the strivers of all the countries – from nine per cent to four per cent – whereas the circumspect group contracted only modestly.

The increase in the proportion who were vulnerable in Ireland is driven largely by the 10-fold increase in those reporting being sometimes in difficulties and expecting their situation to get worse in the next 12 months (Table A.2). This increased from two per cent of people overall in 2007 to 20 per cent in 2008.

On balance, it was expectations about the future that had the biggest effect on the Index score in Ireland. The proportion who felt their situation would get worse went up from 10 per cent to 39 per cent (Table A.1). There was a smaller, albeit substantial, increase in the proportions of people who reported experiencing difficulties sometimes (from 24 per cent to 42 per cent) and often or always (from eight per cent to 15 per cent).

GERMANY

The resilience of the German labour market has left Europe's largest economy in a more robust state than many of its neighbours.

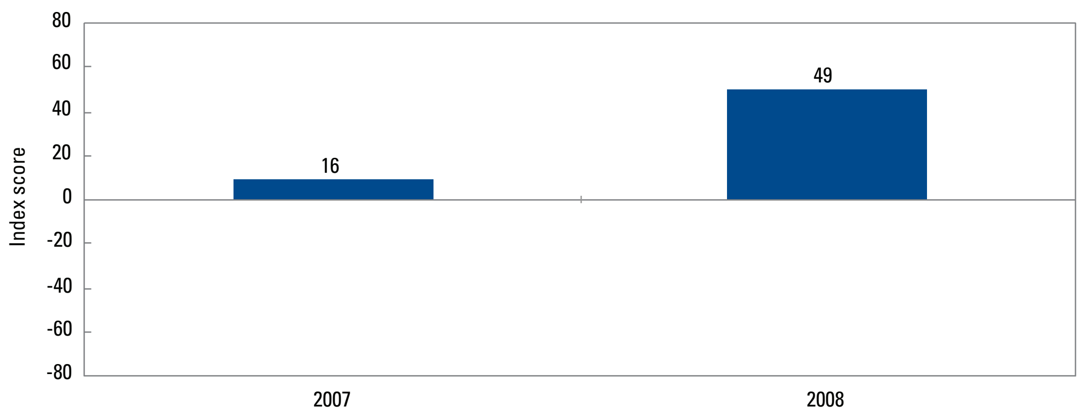
The jobless total has fallen in every month bar one since April 2005, thanks to reforms put in place under former Chancellor Gerhard Schroeder. September's 29,000 fall was not as good as the monthly falls of 40,000 seen last summer but was better than expected.

Unfortunately, though, the relative strength of the German labour market is doing little to boost spending. Private consumption has been falling since September last year after strong growth in mid-2007.

The 0.7 per cent fall in the second quarter of this year was even greater than the 0.5 per cent fall in overall GDP growth, the first since 2004. Annual retail sales growth slumped to -3.0 per cent in August. The European Central Bank expected the current quarter to be weak but believes that with oil prices coming off and a weakening euro, recession can be avoided and that growth will start to stabilise towards the end of the year.

This optimistic outlook received a boost from an unexpected and sharp recovery in German investor confidence in September, which would point to a turnaround in three months' time.

Figure 6: Vital statistics, Germany



	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Position
2007	15	7	71	7	3rd
2008	29	5	63	3	4th

An increase of 33 Index points in Germany, from 16 in 2007 to 49 in 2008 is above average. Germany's position as 4th most vulnerable in 2008 – an improvement on 3rd in 2007 – was due mainly to the repositioning of Ireland because of the dramatic increase in relative vulnerability there.

As we saw across the 10 countries as a whole, the increase in the size of the vulnerable group – from 15 per cent to 29 per cent in Germany – mirrored the modest net falls in all the other categories.

However, compared with the average, the change in consumer vulnerability in Germany in 2008 was related more to the increased frequency with which people were experiencing difficulties than an increased tendency to feel pessimistic about the future (Table A.1). Germany is one of only four countries in which the increase in the proportion who often or always experienced financial difficulties (up eight percentage points from 12 per cent to 20 per cent) was higher than the average (up six percentage points from 14 to 20 per cent). Moreover, it is one of only two countries – the other being Portugal – in which this higher than average increase in current difficulties combined with a lower than average increase in levels of pessimism about the future: the proportion who said they thought their financial situation would get worse increased 14 percentage points from 14 per cent to 28 per cent compared with the average increase of 18 percentage points from 14 per cent to 32 per cent (Table A.2).

SPAIN

Spain is facing the risk of a prolonged recession as the bursting of the bubble in the residential construction sector hits jobs, spending and house prices. Spanish house prices fell 1.3 per cent in the third quarter, ending 37 quarters of growth in a dramatic fashion. There are an estimated 1m recently built but unsold homes, a backlog that could take two years to clear.

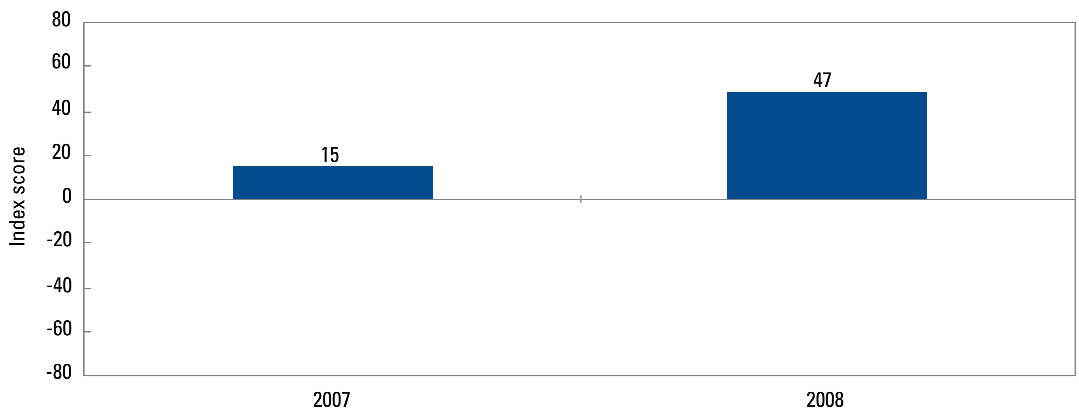
The construction industry is already in severe decline with output falling by 0.4 per cent in the first quarter and 2.4 per cent in the second. This is exerting a marked impact on employment. The dramatic increase in unemployment of 621,000 – or an increase of 35 per cent in the year to June – is bound to have a major impact on consumer confidence and spending.

The economy is expected to contract by 0.2 per cent next year and official figures are likely to show a recession is already underway.

Consumer confidence fell to an all-time low in the second quarter while household spending on goods posted a 1 per cent annual decline in the second quarter compared with a 4 per cent rise in the same period of 2007.

Meanwhile the sharp rise in unemployment combined with high inflation, currently running at 5 per cent compared with 2.1 per cent in summer 2007, is depressing growth in households' incomes.

Figure 7: Vital statistics, Spain



	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Position
2007	17	8	67	8	4th
2008	37	6	52	4	5th

Relative vulnerability in Spain was 32 points higher in autumn 2008 compared with summer 2007, taking it to 47 points. This places Spain as the 5th most vulnerable country in 2008.

Despite this mid-table ranking, 37 per cent of people in Spain were vulnerable, many more than in Germany (29 per cent), ranked one place higher. However, slightly more people in Spain remained financially secure in 2008 (four per cent) compared with Germany and all other countries positioned above it, helping to compensate against that large increase in the vulnerable group.

Instead, and similar to the experience in Portugal, it is a substantial net movement of people from the circumspect segment which fell from 67 per cent to 52 per cent, to the vulnerable segment that explains the increase in Index score for Spain. The proportion who were strivers declined slightly from eight per cent in summer 2007 to six per cent in autumn 2008.

The net movement across the groups in Spain suggests that there was a deterioration in both elements that make up the Genworth Index. The number of people who reported frequently being in financial difficulties at the time of the survey increased substantially (from 15 per cent to 26 per cent; Table A.1). However, as is typical of most of the countries, it was the proportion who said they expected their financial situation to get worse that saw the biggest increase of all, from 14 per cent to 36 per cent.

POLAND

Strong economic growth, robust consumer lending and high inflation has put a rise in Polish interest rates on the table even as other European economies are cutting theirs.

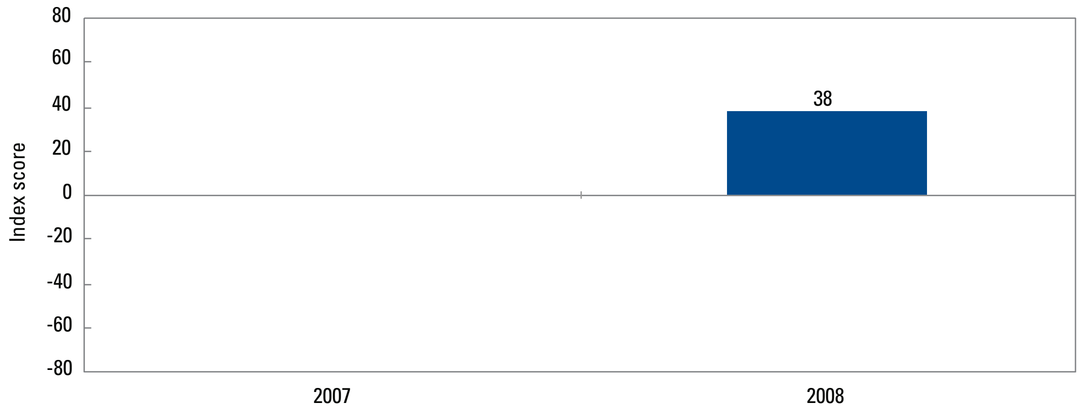
The largest of the accession countries that joined the European Union in 2004, Poland has embarked on a major economic development programme to prepare for joining the euro in 2012.

GDP growth is running above 6 per cent a year, unemployment has fallen by 23 per cent or 497,000 over the last year, wages are rising by 12 per cent a year while household lending is rising by 36 per cent, although growth is decelerating. However the National Bank of Poland kept rates on hold at 6 per cent, saying declining asset values and the economic slowdown should limit households' future borrowing capacity.

In the year to March, prices of flats fell by 4.7 per cent, while house prices rose less than 1 per cent, in sharp contrast to rises of around 30 per cent in the previous two years.

Interest rates on mortgages in zloty have risen from around 6 per cent to 7.2 per cent in the year to June. However many Poles have mortgages in euros, Swiss francs and US dollars which are exposed to the zloty's depreciation. The Polish currency has fallen 17 per cent against the euro and 39 per cent against the dollar since July.

Figure 8: Vital statistics, Poland



	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Position
2007	-	-	-	-	-
2008	27	17	51	5	6th

Poland is one of the two countries newly introduced to the survey in 2008. It scored 38 points on the Genworth Index, its mid-table position reflecting a similarity in levels of relative vulnerability across the 12 countries as a whole (the average Index score was 35).

The proportions falling into the two groups that define the Index were also similar to the average. Twenty-seven per cent of people in Poland were classed as financially vulnerable relative to the five per cent who were secure. In contrast to the average across countries, however, the group of strivers represent a much larger share of the population; 17 per cent compared with fewer than one in ten across all the countries as a whole (nine per cent). Only France had a similar proportion of strivers (16 per cent). This suggests that householders in Poland were relatively optimistic about their financial futures compared with their counterparts in most other countries, despite the fact that many people were experiencing difficulties at the time they were interviewed.

Further analysis indicates that, encouragingly, Poland was home to the largest proportion of people who said in 2008 that they were sometimes in difficulties and expected their financial situation to improve (13 per cent; Table A.2). Less positively, an additional one in three people (33 per cent) – more than any other country – said they were sometimes in difficulties and expected their situation to stay the same. However, very few people in Poland said they were not experiencing financial difficulties at all (six per cent) and fewer than average said they were hardly ever in difficulties (16 per cent; Table A.1).

FRANCE

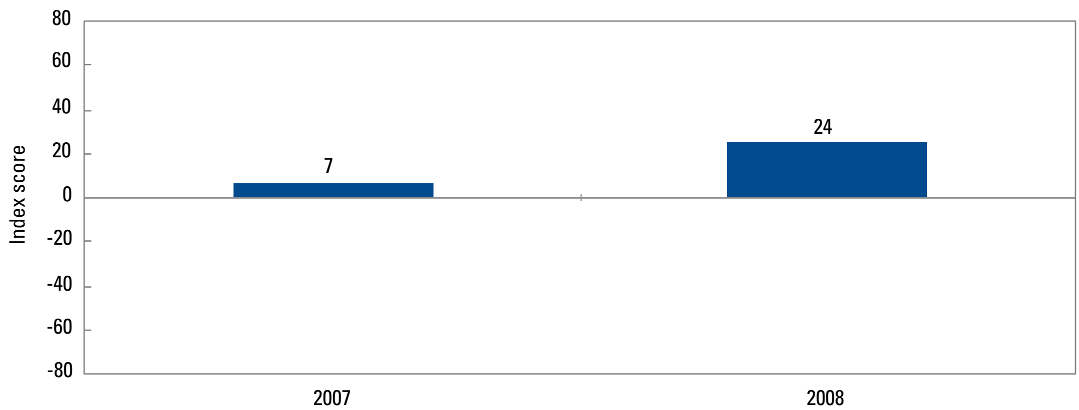
Declines in consumer spending, investment and exports delivered the first economic contraction in France since the immediate aftermath of the 9/11 terrorist attacks.

The 0.3 per cent fall in GDP in the three months to June was driven by a 0.1 per cent decline in consumer spending, which has been the engine of growth for the past decade. This weakness continued into the third quarter with August consumer spending falling at an annual rate of 0.1. Retail sales slumped 1.4 per cent.

Employment is forecast to fall by 52,000 in the second half of the year after posting an 89,000 rise in the first half. This is expected to lead to a 0.4 per cent fall in real consumer income, following a similar decline in the first half. It is a far cry from summer last year. France created 212,000 jobs in the first half of 2007 and real household disposable income was growing by 4 per cent a year. House price inflation has slowed – from 8 per cent at the start of 2007 to 4 per cent now – and indebted households will feel the pain of previous interest rate hikes and tightened lending standards.

Households have been hit by a marked rise in inflation, driven by higher oil and food prices, that saw the headline rate jump from 1.1 per cent in July 2007 to 3.0 per cent this September.

Figure 9: Vital statistics, France



	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Position
2007	16	19	53	12	5th
2008	22	16	55	7	7th

The Genworth Index score of 24 for France in 2008 is considerably lower than the average across all 12 markets. France also saw a lower than average change in the Index score of 17 points, and this is reflected in an improvement from 5th place in 2007 to 6th in 2008 among the subset of the 10 countries surveyed in both years (7th place overall).

The proportion of people who were classed as vulnerable increased to 22 per cent from 16 per cent. However, France is the first of the countries we turn to in which a net increase in the size of this group does not mirror reductions in all other groups. So, whilst the proportion who were secure fell from 12 per cent to seven per cent, and the fall from 19 per cent to 16 per cent for the share of strivers is towards the higher end of the range, slightly more people were circumspect in France in 2008 than they were in 2007. This suggests the increase in relative vulnerability in France was reflecting a tendency towards pessimism about the future rather than an increase in the experience of difficulties around the time of the interview.

Indeed, there was strikingly little change in the overall frequency of reported current financial difficulties, the headline patterns being explained instead by a doubling in the proportions saying they expected the financial situation of the household to get worse in the following 12 months from 13 per cent to 27 per cent (Table A.1).

GREAT BRITAIN

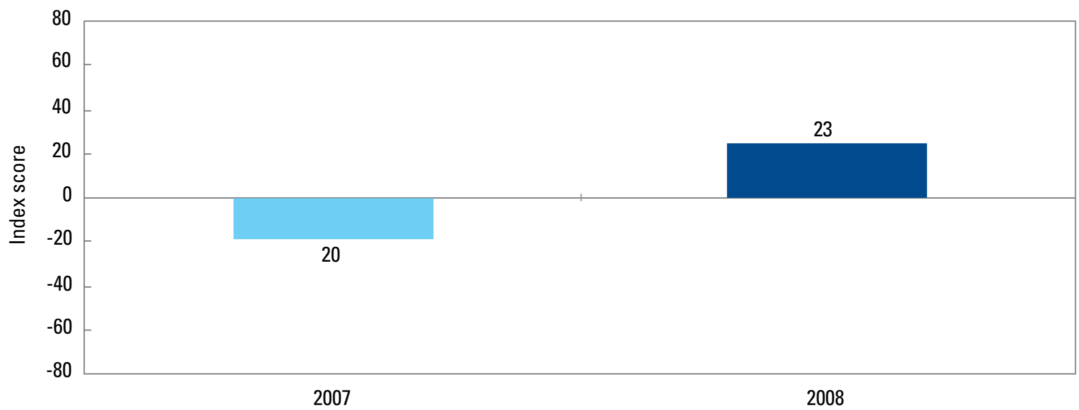
The most dramatic change in fortunes for the UK economy and consumers over the past year has been the collapse of the housing market.

In June last year house prices were rising at an annual rate of 11.4 per cent according to the Halifax bank. By September this year they were falling by 12.4 per cent a year, the fastest pace since its series began in 1983. All key housing indicators have turned negative. Mortgage approvals have fallen three-fold from 114,000 to 32,000 over that same period while the number of sales has tumbled to an all-time low of 59,000 from 140,000. A total of 18,500 homeowners were repossessed in the first half of this year, 44 per cent more than in the same period in 2007.

Such a sharp slump has hurt the real economy. GDP contracted for the first time in 17 years in the third quarter of the year, falling 0.5 per cent and ending a run of 65 successive quarters of growth. Unemployment has risen. The 164,000 increase in the official jobless total in the three months to August was the largest since 1991, taking it to 1.79m compared with 1.65m in June 2007.

Consumers' misery has been compounded by a surge in inflation, eating away at their wealth. Since June 2007, last inflation has soared from 2.4 per cent to a record 5.2 per cent.

Figure 10: Vital statistics, Great Britain



	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Position
2007	7	12	64	17	7th
2008	22	8	62	8	8th

Britain, like Ireland, saw the balance shift from relative financial security to vulnerability between summer 2007 and autumn 2008. The Genworth Index climbed 43 points from -19 to 23, much more than in France, with the proportion of the population who were vulnerable increasing from seven per cent to 22 per cent.

Nonetheless, its position as the 8th most vulnerable country in 2008 is equivalent to its ranking of 7th in 2007. This is because the proportion of people who were financially secure remained relatively high in Britain (eight per cent), second only to the levels found in the Nordic countries (albeit having dropped far below its high base of 17 per cent in 2007).

The negligible change in the proportion who were circumspect and the more substantial drop in the number of strivers hint at an increase in pessimism about the future as the main driver of change in score in Britain. There was a six-fold increase in the proportion of British people saying they thought their household's financial situation would get worse in the next 12 months (from six per cent to 36 per cent; Table A.1). This is in fact the largest increase of all the countries in proportionate terms. In comparison to this, there were only modest increases in the proportions saying they were already experiencing financial difficulties fairly frequently.

Overall, the largest increase for any combination of responses to the Index questions was where people were sometimes experiencing difficulties and expecting the household's financial position to get worse (from one per cent to 12 per cent; Table A.2). Meanwhile there was a stark fall in the number of people who were not experiencing financial difficulties at all and expected this to get better (from 10 per cent to 5 per cent) or to stay the same (from 35 per cent to 18 per cent).

FINLAND

The Finnish economy may be slowing but to levels that its larger fellow European Union nations could only dream of.

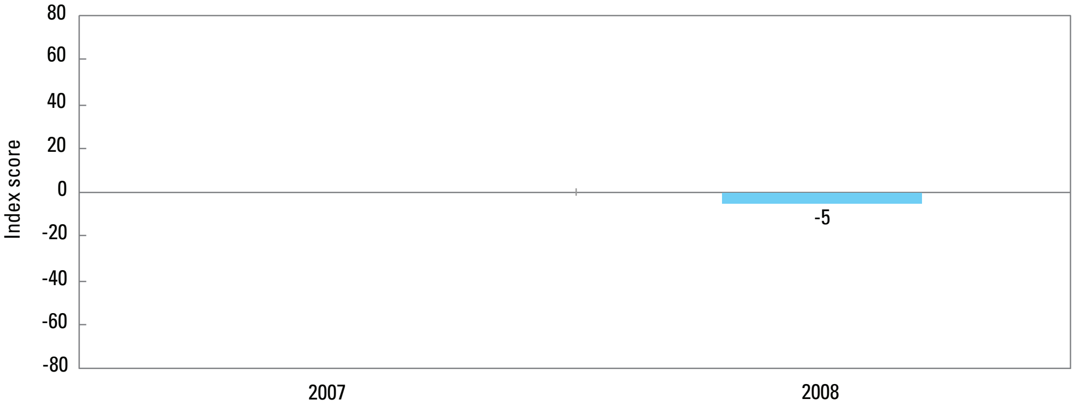
Annual GDP growth was 0.7 per cent in July, a fraction of the 6.2 per cent a year earlier and the Bank of Finland (BoF) has cut its 2008 forecast to 2.3 per cent from 2.7 per cent in 2008 and for 2009 to 1.3 per cent from 2.3 per cent. Retail sales are growing at an annual rate of 3.7 per cent and the economy is creating jobs – 25,000 in the year to September.

However accelerating inflation and rising interest rates have gradually eroded wage earners' purchasing power. Partly for this reason, consumers' expectations of the future turned bleaker in the course of the summer.

The BoF expects growth in consumer spending to slow to 2.3 per cent in 2009 from 3.1 per cent this year and last. The position of Finnish consumers will be bolstered by substantial negotiated pay rises, which will raise average earnings. Combined with tax cuts on earned income, this will boost consumers' purchasing power and income growth as inflation recedes.

One worry is household indebtedness, which has continued an upward trend that began following the recession years of the early 1990s. Debt service payments have doubled as a share of income to 4 per cent in the last year.

Figure 11: Vital statistics, Finland



	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Position
2007	-	-	-	-	-
2008	8	13	69	10	9th

Finland is the second of the two countries introduced to the survey for the first time in 2008. Its Index score of -5 is the highest of all the Nordic countries.

At 10 per cent of the population, the proportion of people in Finland who were financially secure is only slightly greater than in Great Britain. However, only eight per cent in Finland were vulnerable compared with 22 per cent in Britain, explaining the large difference in Index score between the two countries, and the balance in favour of relative financial security in Finland.

Compared with other Nordic countries, the proportion of people in Finland classed as strivers was towards the higher end of the range (13 per cent). This indicates that Finland comprised a larger proportion of people overall who were at least sometimes experiencing difficulties, but that many did not expect their difficulties to last long. In fact, Finland was home to the lowest levels of pessimism of all; only seven per cent of people expected the financial situation of their household to get worse in the next 12 months, compared with an average of 30 per cent across all 12 countries (Table A.1).

SWEDEN

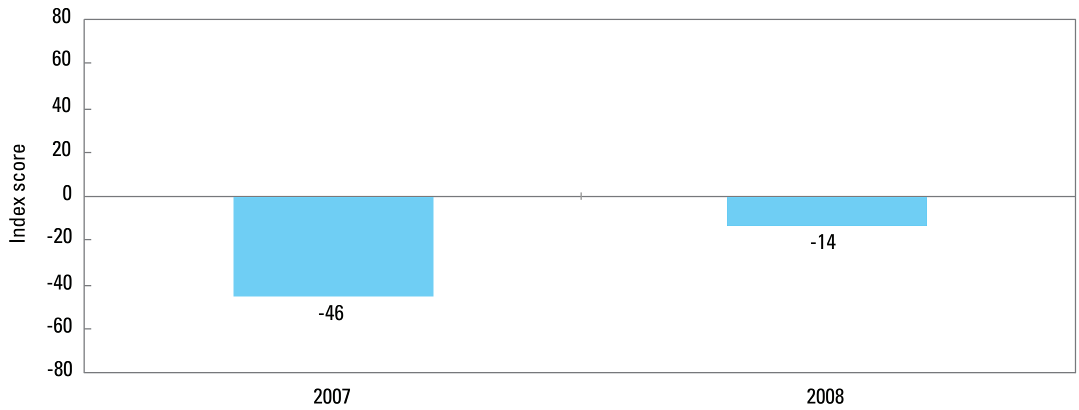
For Swedish consumers, the current financial crisis has come as a real shock. Although Sweden's banks were not directly exposed to the US subprime mortgage crisis, its economy has taken a direct hit.

Growth is likely to stagnate next year as higher interest rates and falling share and house prices depress domestic demand and export growth suffers thanks to the global slowdown. This is all very different from a year ago when the economy was growing by almost 3 per cent a year, household disposable income grew by a record 7 per cent and consumer confidence was close to an all-time high.

Now consumer confidence is at a 13-year low. House prices are falling at an annual rate of 2 per cent while flats are down 7 per cent. Last year property prices were rising at an annual rate of 10 per cent. Part of the reason is a one percentage point rise in floating mortgage rates over the 12 months to October while so far lenders have not responded to the central bank's 1 per cent of interest rate cuts since mid-September.

Lending to households fell by 0.3 per cent in August compared with July, the largest one-month fall in 10 years. The labour market too has turned. The three months to September saw the first quarter-on-quarter fall in employment for a decade.

Figure 12: Vital statistics, Sweden



	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Position
2007	3	8	61	28	10th
2008	7	7	72	14	10th

Of the three Nordic countries originally surveyed at the baseline, Sweden saw the greatest decline in relative financial security between 2007 and 2008. The Index score climbed 32 points from -46 to -14, placing Sweden 10th in the table, equivalent to 8th from the original set of 10 countries, whereas it had been the most financially secure of those 10 countries in 2007. The proportion of people who were secure halved from the high base of 28 per cent in 2007 to 14 per cent, a far greater decline than the average.

Nonetheless, the proportion of Sweden's population who were vulnerable in autumn 2008 remained small compared with most countries, at seven per cent. A relatively large net increase in the number of people who were circumspect (up 11 percentage points) helps explain why, given the decline of the secure group, the financially vulnerable group did not grow more.

Our analysis shows that the number of people who said they had not experienced financial difficulties at all recently and expected their situation improve (that is, the most secure subgroup) shrank the most, from 19 per cent to seven per cent (Table A.2). The effect of this fall was shared among a number of the individual categories that comprise the circumspect group.

NORWAY

No country is immune from the global economic and financial crisis but given its proximity to Europe's financial centres, Norway has shown resilience.

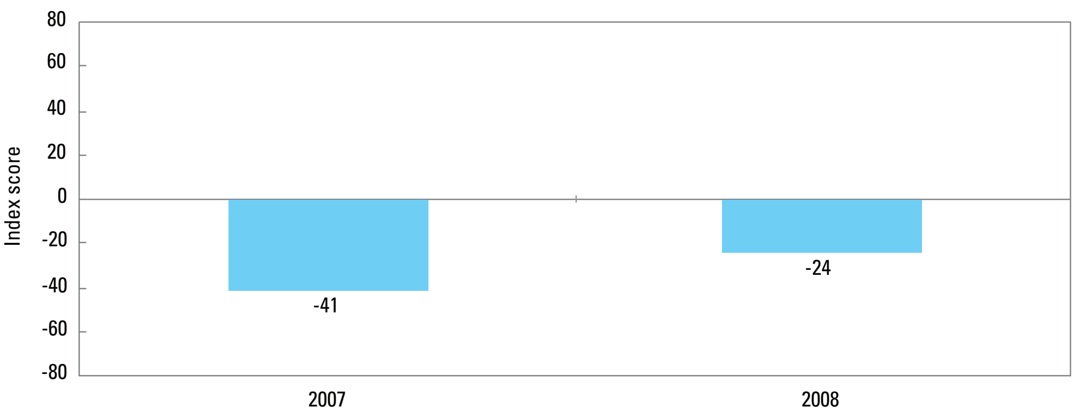
After posting strong GDP growth of 6.4 per cent last year, this year Norway is on track to hit 2.3 per cent and 1.8 per cent next year – much stronger than the European average. However the steepness of the fall will make it seem like recession to Norwegians. In the past few weeks the economic data have started to show signs of weakness.

Household spending rose just 0.2 per cent between July and August, following a 1.2 per cent fall in the previous month, to leave an annual decline of 3.7 per cent. House prices fell 0.8 per cent in September, the sixth consecutive month of decline. Prices were 4.5 per cent lower than in September 2007. Last year saw a 12.3 per cent rise.

The credit crunch has made it harder for households to get loans and those who can are having to pay more. Even for mortgages with sound collateral, lending rates have risen almost 0.4 percentage points to almost 7.8 per cent in October alone.

One question is how this will feed through into the labour market. The unemployment rate has been low and stable at around 2.5 per cent since May 2007 but may rise as the economy slows.

Figure 13: Vital statistics, Norway



	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Position
2007	4	8	60	27	9th
2008	7	6	67	20	11th

Norway's position in the table did not improve in real terms: the apparent improvement of two places is accounted for solely by the addition of Poland and Finland to the survey. The Genworth Index shows that Norway remains relatively secure, albeit to a lesser extent that in 2007, having moved 17 points to -24.

There was a greater decline in the number of people in Norway who were financially secure (27 per cent to 20 per cent) than the net increase in the number who were financially vulnerable (four per cent to seven per cent). This is unusual when compared across Europe as a whole, but is typical of the Nordic countries surveyed.

Similar to Sweden, the circumspect group grew slightly, and further breakdown shows that the proportion of people who thought their household's financial position would get worse in the next 12 months doubled from six per cent in summer 2007 to 12 per cent in autumn 2008 (Table A.1).

Net change in current financial difficulties was limited to a reduction in the proportion saying they had not experience difficulties at all (57 per cent to 50 per cent) and a commensurate increase in those saying they hardly ever experienced difficulties (24 per cent to 31 per cent). There was only negligible change in the proportion saying they experienced difficulties more often than this (Table A.1).

DENMARK

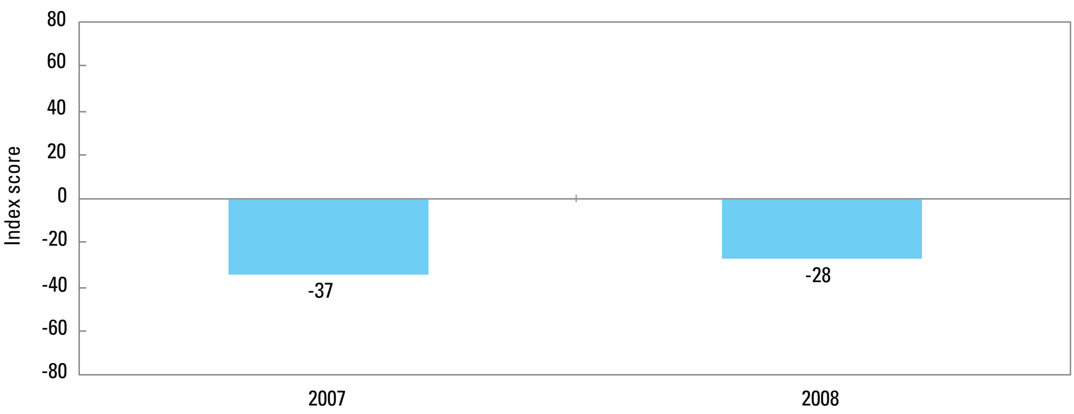
Denmark became a footnote in history this year when it became the first European Union country to confirm it was in recession. The economy contracted for a second consecutive quarter – the technical definition of recession – earlier this year. However it returned to growth in the second quarter. Despite the slowdown, the labour market is still remarkably tight. Unemployment is at a 35-year low of 1.6 per cent and vacancy rates are high.

However analysts warn wage growth of 5 per cent, sharp rises in inflation and hikes in interest rates have eroded the households' purchasing power. Falling property prices have also dampened consumption.

After several years of rapid price inflation, house prices peaked in 2006, and are now falling sharply. Prices of flats fell 10.4 per cent in 2007, after 12.7 per cent increase in 2006, and 28.5 in 2005. Prices of one-family houses rose just 0.29 per cent last year compared with 15 per cent in 2006. Despite the falls, households' total wealth is substantially above the level in 2003, when the upswing gained momentum and disposable real incomes have risen steadily.

It is also worth noting that Denmark has the highest-tax country among industrialised nations with a tax-to-GDP ratio of 48.9 per cent. Surveys regularly report a high level of contentment among Danish citizens with the nation's egalitarian society.

Figure 14: Vital statistics, Denmark



	Percentage in each group (row %)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Position
2007	4	9	64	22	8th
2008	5	10	68	18	12th

Unlike Norway, Denmark's ranking improved in real terms between 2007 and 2008. Having been the 3rd most secure market in 2007, Denmark was the most financially secure of all the countries in autumn 2008. Denmark exhibited the smallest increase in relative vulnerability of all the countries, adding only eight points on the Genworth Index to -28.

Although slightly fewer people in Denmark were financially secure (18 per cent) than in Norway, the number of people experiencing financial vulnerability in Denmark increased only very marginally from the low base of four per cent to five per cent. This increase represents the smallest change in levels of financial vulnerability of any country surveyed.

Much of the fall in the proportion of people who were financial secure was absorbed by the net increase among the circumspect, that is, people who were not experiencing financial difficulties frequently but who were not optimistic about the future. This is borne out by further analysis (Table A.1) which shows that there was a small fall in the proportion of people expecting their situation to improve (32 per cent to 27 per cent) and a small decrease in the proportions who said they were never in difficulty (54 per cent to 44 per cent; most of which was matched by an increase in the proportions saying they were hardly ever in difficulty).

APPENDICES

TABLE A.1. RESPONSES TO THE INDEX QUESTIONS

			Column percentages %	
			2007	**2008**
Denmark	Frequency of experiencing financial difficulties	Often or always	6	7
		Sometimes	14	17
		Hardly ever	26	33
		Never	54	44
	Expectations for future financial position	Improve	32	27
		Stay the same	59	61
		Get worse	9	11
		Unweighted base	*899*	*882*
Finland	Frequency of experiencing financial difficulties	Often or always	-	11
		Sometimes	-	33
		Hardly ever	-	35
		Never	-	22
	Expectations for future financial position	Improve	-	23
		Stay the same	-	70
		Get worse	-	7
		Unweighted base	-	*983*
France	Frequency of experiencing financial difficulties	Often or always	20	20
		Sometimes	31	32
		Hardly ever	23	24
		Never	26	24
	Expectations for future financial position	Improve	31	23
		Stay the same	56	50
		Get worse	13	27
		Unweighted base	*802*	*901*
Germany	Frequency of experiencing financial difficulties	Often or always	12	20
		Sometimes	26	35
		Hardly ever	32	32
		Never	29	13
	Expectations for future financial position	Improve	14	8
		Stay the same	71	63
		Get worse	14	28
		Unweighted base	*626*	*648*
Great Britain	Frequency of experiencing financial difficulties	Often or always	10	13
		Sometimes	21	30
		Hardly ever	23	25
		Never	47	32
	Expectations for future financial position	Improve	29	15
		Stay the same	65	49
		Get worse	6	36
		Unweighted base	*658*	*749*

			2007	2008
			Column percentages %	
Ireland	Frequency of experiencing financial difficulties	Often or always	8	15
		Sometimes	24	42
		Hardly ever	21	24
		Never	46	19
	Expectations for future financial position	Improve	26	8
		Stay the same	64	54
		Get worse	10	39
		Unweighted base	*695*	*683*
Italy	Frequency of experiencing financial difficulties	Often or always	19	22
		Sometimes	40	49
		Hardly ever	20	19
		Never	20	10
	Expectations for future financial position	Improve	12	9
		Stay the same	62	56
		Get worse	26	35
		Unweighted base	*455*	*617*
Norway	Frequency of experiencing financial difficulties	Often or always	5	5
		Sometimes	14	13
		Hardly ever	24	31
		Never	57	50
	Expectations for future financial position	Improve	35	27
		Stay the same	59	61
		Get worse	6	12
		Unweighted base	*773*	*835*
Poland	Frequency of experiencing financial difficulties	Often or always	-	26
		Sometimes	-	52
		Hardly ever	-	16
		Never	-	6
	Expectations for future financial position	Improve	-	22
		Stay the same	-	62
		Get worse	-	16
		Unweighted base	-	*488*
Portugal	Frequency of experiencing financial difficulties	Often or always	20	46
		Sometimes	40	43
		Hardly ever	23	9
		Never	17	2
	Expectations for future financial position	Improve	12	8
		Stay the same	60	37
		Get worse	29	55
		Unweighted base	*671*	*760*

			Column percentages %	
			2007	2008
Spain	Frequency of experiencing financial difficulties	Often or always	15	26
		Sometimes	27	31
		Hardly ever	24	18
		Never	35	25
	Expectations for future financial position	Improve	16	11
		Stay the same	70	53
		Get worse	14	36
		Unweighted base	*538*	*674*
Sweden	Frequency of experiencing financial difficulties	Often or always	5	7
		Sometimes	12	15
		Hardly ever	24	31
		Never	58	46
	Expectations for future financial position	Improve	36	21
		Stay the same	54	60
		Get worse	10	19
		Unweighted base	*731*	*683*
Average	Frequency of experiencing financial difficulties	Often or always	14	20
		Sometimes	27	34
		Hardly ever	25	24
		Never	33	21
	Expectations for future financial position	Improve	22	14
		Stay the same	64	54
		Get worse	14	32
		Unweighted base	*6,848*	*7,565*

Percentages are based on weighted data. Base excludes don't knows and refusals.

TABLE A.2

Row percentages %

Country	Year	Vulnerable			Strivers		Circumspect					Secure	
		Often or always in financial difficulties + expects financial situation to stay the same	Often or always in financial difficulties + expects financial situation to get worse	Sometimes in financial difficulties + expects financial situation to get worse	Often or always in financial difficulties + expects financial situation to get better	Sometimes in financial difficulties + expects financial situation to get better	Sometimes in financial difficulties + expects financial situation to stay the same	Hardly ever in financial difficulties + expects financial situation to stay the same	Hardly ever in financial difficulties + expects financial situation to get worse	Never in financial difficulties + expects financial situation to stay the same	Never in financial difficulties + expects financial situation to get worse	Hardly ever in financial difficulties + expects financial situation to get better	Never in financial difficulties + expects financial situation to get better
Denmark	2007	2	1	1	3	6	6	15	3	36	4	9	14
	2008	2	1	2	3	6	9	20	4	30	4	9	9
Finland	2007	-	-	-	-	-	-	-	-	-	-	-	-
	2008	5	1	2	4	8	22	26	2	17	2	6	4
France	2007	7	4	5	9	11	15	14	2	19	2	7	5
	2008	7	7	8	6	9	15	12	6	16	6	5	2
Germany	2007	6	4	4	2	5	16	25	4	24	2	4	3
	2008	9	9	11	3	3	21	23	6	10	2	3	<1
Great Britain	2007	3	2	1	4	8	12	14	1	35	1	7	10
	2008	3	7	12	3	5	13	14	8	18	9	3	5
Ireland	2007	3	3	2	2	7	15	14	2	32	3	6	11
	2008	5	9	20	1	3	19	15	7	14	3	2	1
Italy	2007	9	8	12	2	5	23	16	3	15	2	2	3
	2008	9	12	17	1	5	28	12	6	8	<1	1	1
Norway	2007	2	1	1	2	6	6	15	1	35	3	8	19
	2008	3	1	3	1	5	6	20	4	33	4	8	13
Poland	2007	-	-	-	-	-	-	-	-	-	-	-	-
	2008	13	9	6	4	13	33	13	1	4	<1	3	2
Portugal	2007	9	9	14	2	3	23	16	3	12	2	4	3
	2008	9	35	18	3	3	22	5	2	1	1	2	<1
Spain	2007	9	4	4	2	6	17	17	3	27	3	3	5
	2008	11	12	14	3	3	14	12	4	17	6	2	3
Sweden	2007	2	1	1	3	5	6	13	2	33	6	9	19
	2008	3	2	2	2	5	8	17	7	31	8	7	7

Notes: Percentages are based on weighted data. Where rows do not sum to one this is due to rounding.
<1 indicates a value of greater than zero but less than one.

ABOUT GENWORTH FINANCIAL

Genworth is a leading financial security company meeting the retirement, lifestyle protection, investment and mortgage insurance needs of more than 15 million customers across more than 25 countries. For more information, visit **www.genworth.com**

In Europe, Genworth focuses on Lifestyle Protection and Mortgage Insurance, working with banks, brokers, advisers and other financial institutions.

Mortgage Insurance (MI) protects lenders and investors in the event that a mortgage borrower defaults on a loan and the proceeds of the sale of the property are insufficient to pay the outstanding debt. Our MI products enable lenders to provide the end borrower with earlier and potentially more affordable access to home ownership by allowing them to put down a lower deposit.

Lifestyle Protection products help consumers meet their payment obligations on outstanding financial commitments such as mortgages, personal loans or credit cards in the event of involuntary unemployment, illness, permanent disability or death.

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OUR RESEARCH PARTNERS

PERSONAL FINANCE RESEARCH CENTRE

The preparatory work that informed the development of the Genworth Index and the final Index design was undertaken by Andrea Finney. Andrea is a Research Fellow in the Personal Finance Research Centre (PFRC), an independent research centre based at the University of Bristol which specialises in social policy research across all areas of personal finance.

Primarily a quantitative researcher, Andrea joined PFRC in January 2007 having previously worked on the new longitudinal survey of household assets and debts at the Office for National Statistics. Prior to that, she was at the Home Office for more than five years where she focused mainly on national crime surveys and studies of alcohol-related crime. Andrea has particular expertise in the design and multivariate analysis of complex surveys and their application to promoting understanding of patterns of saving, borrowing and over-indebtedness. She is co-author of the recent report to the European Commission on a common operational definition of over-indebtedness and analysed the results of the baseline survey of consumer purchasing for the Financial Services Authority.

The Personal Finance Research Centre (PFRC) at the University of Bristol in the UK was established in 1998 by Professor Elaine Kempson and has since gained a national and international reputation for policy-focused research encompassing all areas of personal finance. PFRC has considerable expertise in designing, undertaking and analysing both large-scale quantitative and in-depth qualitative research. It has conducted research for government departments, trade associations, regulatory bodies, charities and the private sector. The work of the centre has been influential in shaping policy, and several members of the centre act as technical and policy advisers to government departments.

Macro economic commentary was provided by:

CLARITY ECONOMICS

Phil Thornton is lead consultant at Clarity Economics, a consultancy and freelance writing service he set up after a 15-year career as a business journalist. Clarity Economics (**www.clarityeconomics.com**) looks at all areas of business and economics including fiscal policy, tax and regulation, macroeconomics, world trade and financial markets. Most recently he was Economics Correspondent at The Independent newspaper of London between 1999 and 2007.