



Genworth®  
Financial



# THE GENWORTH INDEX

MEASURING CONSUMER FINANCIAL VULNERABILITY  
AND SECURITY IN 15 COUNTRIES



Volume 3 – 4th Quarter 2009



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# THE GENWORTH INDEX OF CONSUMER VULNERABILITY AUTUMN, 2009

## KEY FINDINGS

Welcome to The Genworth Index. This third edition of the Index has tracked consumer financial vulnerability across 14 countries in Europe and, for the very first time, it has been extended to include the USA. There has been a small improvement in consumer financial vulnerability since 2008 for the countries in Europe as a whole. However, this masks wide variation for individual countries.

In summary:

- The Genworth Index reveals a promising, if small, fall in levels of consumer financial vulnerability in Europe since 2008.
- Modest alleviation of financial difficulties among households combined with less negative expectations about their future financial positions explains the improvement in the average Index score.
- Ireland and Poland experienced an increase in relative financial vulnerability.
- Ireland now leads Europe as the country with the highest levels of financial vulnerability among consumers relative to financial security in 2009.
- Poland saw the largest increase in relative financial vulnerability.
- Portugal and Norway saw large falls in levels of relative financial vulnerability.
- Norway replaces Denmark as the least vulnerable of all the European countries.
- More optimistic expectations for the future explain the lower level of relative financial vulnerability in the USA compared with the average for Europe.

# CREATING THE GENWORTH INDEX: A RECAP

This third wave of the Genworth Index of consumer financial vulnerability was calculated from responses to questions included on an Ipsos MORI consumer omnibus survey in September 2009.<sup>1</sup> It covered all 10 countries surveyed in summer 2007 for the baseline and again in autumn 2008 for the second wave: Denmark, France, Germany, Great Britain, Ireland, Italy, Norway, Portugal, Spain and Sweden; plus Finland and Poland which were introduced in autumn 2008.<sup>2</sup> In 2009, we have introduced Greece and Turkey, widening the coverage of the Index to a total of 14 countries across Europe. The Index has been also extended beyond Europe for the first time in this wave to the USA, as discussed in the final section of this report.

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?

These questions were asked of householders – an adult in whose name the accommodation is owned or rented, or his or her partner – in order to provide meaningful data from those with financial responsibilities.

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

		Expectations of the future financial position of the household		
		Get better	Stay the same	Get worse
Frequency of experiencing financial difficulties	Often or always	B	A	A
	Sometimes	B	C	A
	Hardly ever	D	C	C
	Never	D	C	C

These four groups were defined as follows:

- **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.

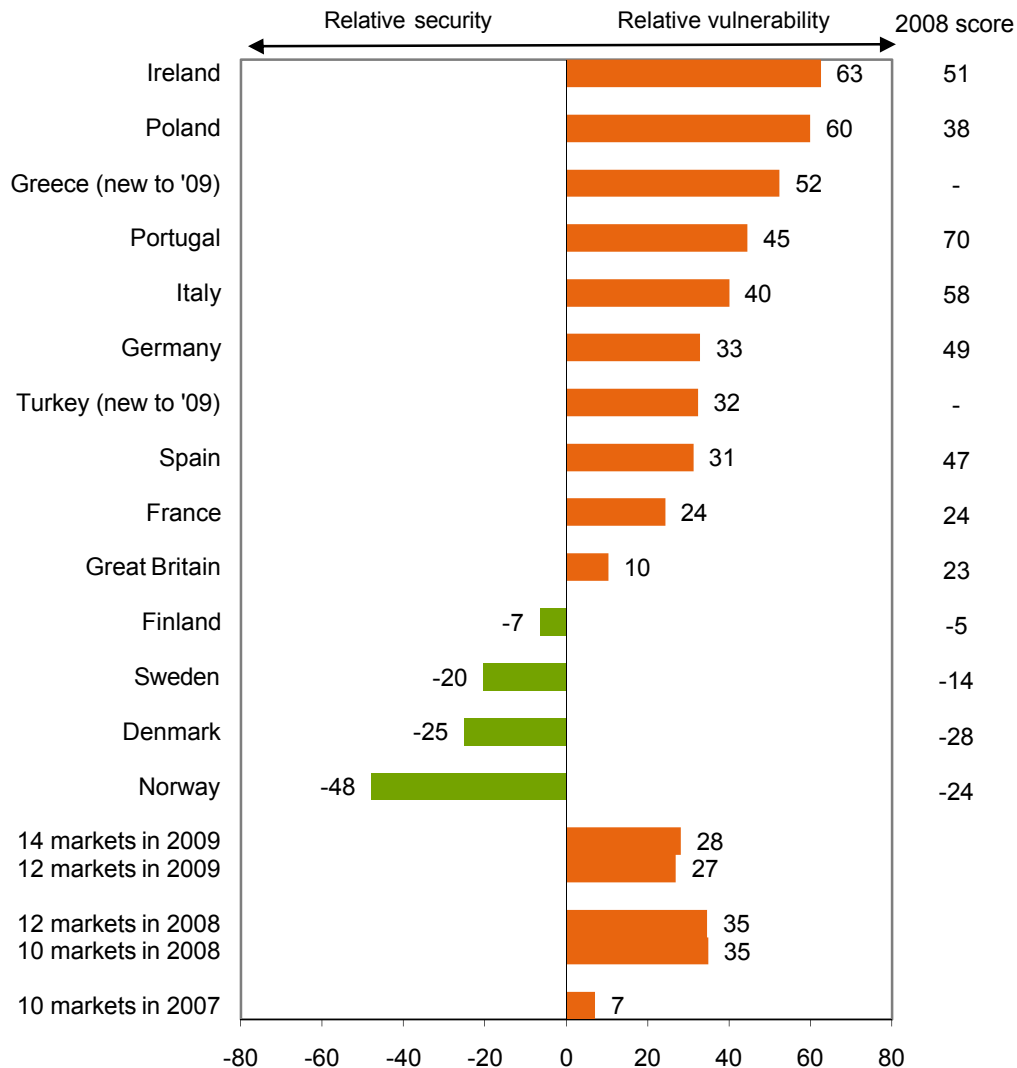
The Genworth Index takes the ratio of the percentage of people who are financially secure relative to the percentage of those who are financially vulnerable. The resulting value is rescaled so that a score of -100 indicates maximum possible relative financial security and a score of 100 indicates maximum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

<sup>1</sup> The analysis was undertaken by the Personal Finance Research Centre, University of Bristol.

<sup>2</sup> For the results from previous waves, please go to [Genworth.com](http://Genworth.com), select the relevant country page and then click on About Us and Research to access the Genworth Index page.

## PROMISING IMPROVEMENT IN 2009 MASKS WIDE VARIATIONS ACROSS EUROPE

**Figure 1: Genworth Index score across 14 European countries, 2009**



The Genworth Index score of 28 for the average across all 14 European markets in autumn 2009 shows that the balance remained tipped towards relative financial vulnerability. There has, however, been a promising, if small, decrease in relative financial vulnerability, having fallen 8 points on the Index from 35 points in Autumn 2008 to 27 points in 2009 for the subset of 12 markets surveyed in both years. Nonetheless, the level of relative financial vulnerability in Europe was still far higher in 2009 compared with the baseline in summer 2007, when the Index score core stood at just seven points.

Although the net change between 2008 and 2009 has been one of slightly decreasing levels of relative financial vulnerability, this obscures a great deal of variation for the individual countries. So, while Ireland and Poland saw their Index scores increase, countries such as Denmark and France saw little if no change in their Index scores and countries including Spain and Norway experienced quite considerable decreases in relative financial vulnerability or increases in relative financial security. As we go on to discuss in later sections, these varying pictures undoubtedly reflect the different experiences of recession in individual countries and the extent to which some markets are starting to show signs of economic recovery while others are not.

The highest Index score in 2009 of 63 points was recorded for Ireland, with Poland recording 60 points on the Index. As already commented, relative financial vulnerability increased quite substantially in both of these countries compared with 2008. The increase from 51 to 63 points placed Ireland as the most financially vulnerable country having been third most vulnerable in 2008, while the increase from 38 to 60 points caused Poland to jump from 6<sup>th</sup> to 2<sup>nd</sup> position in the table. It is noteworthy that Ireland and Poland are among the countries of Europe that benefited greatly in the economic boom of the late 1990s to mid-2000s, Ireland having joined the Euro in 1999 and Poland having acceded to the European Union in 2004. Following such high levels of growth, it appears that the shock of the late-2000s recession has been felt most acutely by the households in these countries.

Relative financial vulnerability was also high in Greece (52 points), Portugal (45 points) and Italy (40 points). Greece was a newcomer to the survey this year. Meanwhile, Portugal is notable for having moved from being the most vulnerable country in 2008 to being the 3<sup>rd</sup> most vulnerable for the comparable subset of 12 countries in 2009, reflecting a fall of 25 points on the Index.

Germany and Spain recorded similar levels of relative financial vulnerability in 2009 (33 and 31 points respectively) and these were joined by Turkey, new to the survey in 2009, with an Index score of 32.

France and Great Britain remained in the middle rankings in 2009, as they had been in 2007 and 2008. This was despite France having recorded no change on the Index since 2008 (scoring 24 points in both years) and Great Britain having seen some improvement (falling to 10 points from 23).

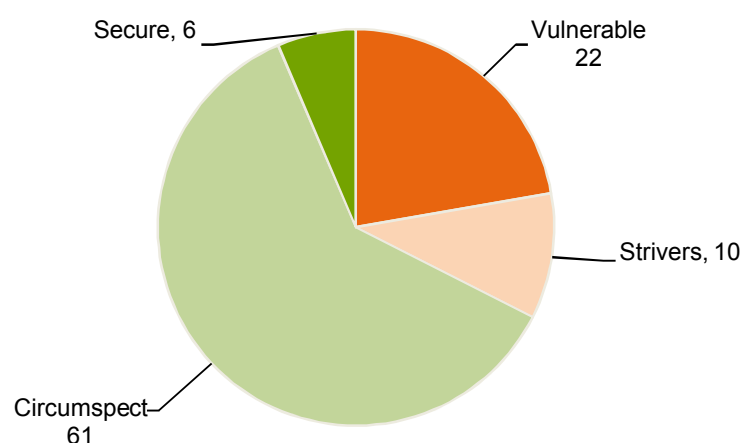
The Nordic countries were again the most secure financially in 2009, all scoring below zero on the vulnerability scale as they had in previous years. Norway saw the biggest improvement of all these countries, falling 24 points to -48. As a result, Norway replaced Denmark as the most financially secure country of all 14 European markets surveyed, by some margin. As we go on to discuss, however, it appears unlikely that Norway will see much further improvement in the coming months.



# DECONSTRUCTING FINANCIAL VULNERABILITY

**Figure 2: Proportions falling into each group, Europe 2008 and 2009**

**12 Markets 2009**



**12 Markets 2008**

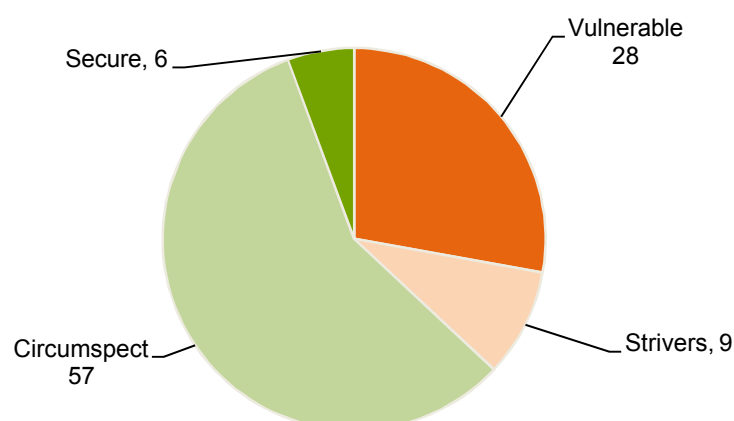


Figure 2 shows the proportions of households across the countries surveyed in both 2008 and 2009 falling into each of the four distinct segments defined by the Index questions: the financially vulnerable, strivers, circumspect and financially secure.

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.

Turning our attention first to the two segments that contribute to the Index score, a comparison of the pie charts shows that fewer households were financially vulnerable in 2009 (22 per cent) compared with 2008 (28 per cent). In 2008, we saw some net movement from the secure to the vulnerable compared with 2007. This was not reversed in 2009. Instead, the percentage of households that were financially secure has remained the same, at six per cent in both years.



It is clear, therefore, that the fall in the Index score from 35 points to 27 points for the 12 countries surveyed in both years is accounted for solely by the contraction in the segment that was vulnerable. Far greater improvement would be needed in both these segments, however, if the levels seen at the baseline in 2007 (when only 15 per cent of households were vulnerable and 11 per cent of households were secure) were to be met.

While the fall in the percentage of households classed as financially vulnerable was not matched by an increase in the proportions classed as secure, neither is it explained by an increase in the percentage of households who were strivers. Strivers represented nine per cent of the population in 2008 and 10 per cent in 2009.

Instead the only group to have increased in size is the circumspect, households that had not often experienced financial difficulties but who did not have positive expectations for the future. The share of this segment increased from 57 per cent in 2008 to 61 per cent in 2009.

It is not immediately apparent which element of the Index – current financial difficulties or expectations about the future – has driven this net movement of households from the financially vulnerable to the circumspect. Close examination of the data (see Appendix Table A.1) suggests that it is the result of a combination of improvements on both elements of the Index.

Firstly, there was a small fall in the percentage of households that said they were sometimes in financial difficulty (from 36 per cent to 34 per cent) and an increase of a similar magnitude for those reporting 'hardly ever' being in financial difficulties (24 to 26 per cent). Secondly, there was a fairly substantial increase in the proportions of householders who expected their financial position to stay the same in the next 12 months (from 55 per cent in 2008 to 65 per cent in 2009) with a commensurate fall in the proportions who thought it would get worse (from 30 per cent to 18 per cent).

Because the data for each survey are drawn from a new representative sample of households, we cannot conclude that the modest improvement in both elements of the Index has occurred for individual households. However, it is likely that this is the case for at least some of those households that had experienced change on one or other of these dimensions. It is also necessary to caution that this is the average picture across the 12 countries included in both snapshots, and there were considerable variations in the degree of change and the elements driving this change for individual countries.

The inclusion of the two new countries to the survey, Greece and Turkey, changes the overall composition of the groups in 2009, but only slightly. Compared with the subset of 12 countries in 2009, slightly more households across all 14 countries were financially vulnerable (24 per cent compared with 22 per cent for the subset) and slightly more appeared to be secure (seven per cent compared with six per cent). The overall effect of these opposing influences on the Index was negligible, as seen in Figure 1.

It is promising that fewer households reported frequent financial difficulties in 2009 compared with 2008. It is also surprising given the increase in the rates of unemployment in most parts of Europe since the last survey. However, the low interest rates and lower inflation throughout 2009 – which affect far larger segments of the population – are likely to have helped contribute to this easing, on aggregate, of financial difficulties. With unemployment rates forecast to rise further and signs that interest rates in European countries may begin to be raised soon to offset expected hikes in inflation, it would not be prudent to anticipate further improvements in financial difficulty in 2010.

Given the change witnessed in the Index between 2007 and 2008, however, it is almost certain that the gains in optimism seen in 2009 are precarious and will be damaged easily if, for example, the inflationary pressures and interest rates cannot be kept in check or, in some countries, where the headline unemployment rates are expected to rise further.

## THE PICTURE BY COUNTRY

**Table 1: Index scores and percentage of people in each group by country, Europe 2009**

	Percentage in each group (row per cent)				
	Financially vulnerable	Strivers	Circumspect	Financially secure	Index score
Ireland	39	2	57	2	63
Poland	46	8	43	3	60
Greece	45	15	36	4	52
Portugal	39	8	48	5	45
Italy	25	8	63	4	40
Germany	19	5	72	4	33
Turkey	38	26	28	9	32
Spain	27	9	58	6	31
France	21	17	56	7	24
Great Britain	14	15	62	9	10
Finland	8	14	66	11	-7
Sweden	7	7	68	19	-20
Denmark	6	8	69	18	-25
Norway	2	8	71	19	-48
<b>14 countries</b>	<b>24</b>	<b>12</b>	<b>58</b>	<b>7</b>	<b>28</b>

Table 1 presents the percentage share of the population falling into each segment in each country, starting with the country with the highest score on the Index.

Given that the Index score is based on the ratio of the financially vulnerable to the financially secure, it is reasonable to assume that countries towards the top of the table will be those with the highest proportions of vulnerable and the lowest proportions of secure households. Table 1 shows that this is largely true but that the picture is by no means uniform.

The numbers of financially vulnerable households ranged from a low of just two per cent in Norway, the country with the highest levels of relative financial security. However, despite the highest Index score having been recorded for Ireland, there were fewer financially vulnerable households there (39 per cent) than in Poland and Greece, where approaching a half of households fell into this segment (46 and 45 per cent respectively).

While Germany is notable for how few households (19 per cent) were financially vulnerable given its position in the table, Turkey is equally notable for the relatively large number of vulnerable households (38 per cent). Moreover, Turkey is one of only two countries – along with Greece – in which the vulnerable stand out clearly as being the largest of all the four segments.

In most other countries, the circumspect segment contained the largest share of the population, reflecting the overall average. These were households that were not often in financial difficulties and who did not expect their situation to improve. The circumspect group was especially large in Germany (72 per cent) and the Nordic countries (ranging from 66 per cent to 71 per cent). Turkey included the largest proportion of strivers – those that were experiencing financial difficulties fairly often but were optimistic for the future – of all the countries (26 per cent), whereas just two per cent of households in Ireland were strivers.

Mirroring the general picture for the financially vulnerable, markets in the top half of the table comprised far fewer financially secure households than those towards the bottom. The percentage share represented by these households ranged from two per cent of households in Ireland to 18 and 19 per cent of households in Denmark, Sweden and Norway.

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, Ireland, and examining any significant changes since 2008 and reflections since 2007. Each section is introduced with an overview of the economic conditions of the country in the months preceding the survey of consumer financial vulnerability.

## IRELAND

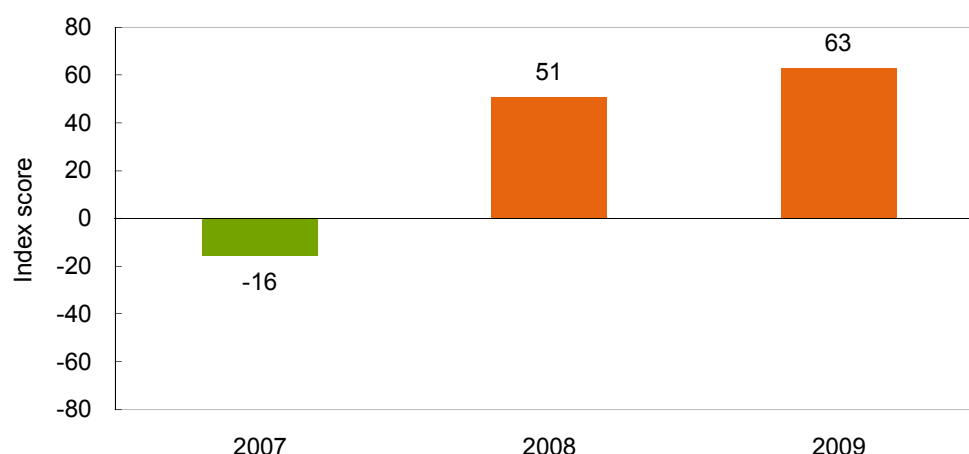
After four consecutive years of annual GDP growth above 5 per cent, the International Monetary Fund forecasts the economy will contract by 8.4 per cent this year, the steepest fall of any advanced economy.

The country was hit by a combination of a banking crisis and a slump in land and house prices. These have had a negative knock-on effect for both employment and household wealth. The Irish central bank expects unemployment is likely to average 12.75 per cent of the labour force this year, rising to an average of 15 per cent in 2010.

Job losses and falls in income triggered a fall in consumer spending of 6.2 per cent in the first quarter of the year, taking expenditure back to the levels of the end of 2005. Consumer borrowing has also fallen dramatically. The €2.0bn of new mortgages issued in the first quarter of 2009 was less than a third of the €6.3bn issued in the same quarter a year earlier.

The weak demand for housing has undermined property prices. House prices have fallen more than 21 per cent between their peak in February 2007 and May 2009. Just 96 homes were repossessed in 2008 – 0.01 per cent of the housing stock – although analysts fear that figure could rise dramatically this year and next.

**Figure 3: Vital statistics, Ireland**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	8	9	66	17	6th
2008	34	4	58	3	3rd
2009	39	2	57	2	1st

Of all the countries, the story for Ireland since 2007 is perhaps the most striking. Having been placed mid-table as the 6th most vulnerable country in 2007 with a Genworth Index score of -16, it climbed to 3rd place in 2008 with a score of 51. Having overtaken Portugal and Italy (ranked 1<sup>st</sup> and 2<sup>nd</sup> respectively in 2008), Ireland now finds itself ranked as the most vulnerable of all the 14 European countries surveyed in 2009 with an Index score of 63.

This is in fact the combination of two things: the apparent increase of 12 points on the Index itself; but more significantly that both Portugal and Italy saw falls in their own Index scores. As such, Ireland's current 2009 score of 63 points is not as high as that seen by Portugal in 2008 (which scored 70).

The elevated Index score for Ireland reflects a marginal increase in the proportion of households who were financially vulnerable combined with a negligible fall in the proportion who were financially secure. Some 39 per cent of households in Ireland were financially vulnerable in 2009. This compounds the already significant increase in the size of this group from eight per cent in 2007 to 34 per cent in 2008. It is also considerably higher than the average for all 14 countries of 24 per cent, although it is not the highest overall.

Meanwhile, only two per cent of households were financially secure in 2009. Although this reflects no real change from the already low level of three per cent in 2008, this is far lower than 2007 when this segment comprised 17 per cent of all households in Ireland. It is also considerably lower than the average of seven per cent for all 14 countries.

Looking to the two segments that do not affect the Index score directly, very few households – only two per cent – were strivers compared with four per cent in 2008 and nine per cent in 2007. This is far lower than the average of 12 per cent for all households in Europe. Finally, there was no real change in the share of the population represented by circumspect households, at 57 per cent in 2009 (from 58 per cent in 2008), which is also very similar to the average.

Overall, in Ireland we find that there has been a net movement, however marginal, to the financially vulnerable group from all other groups. All told, this is accounted for almost exclusively by a deterioration in optimism about the financial future for households in Ireland. So while we find that a similar proportion of households were experiencing financial difficulties sometimes (42 per cent) or more often than this (15 per cent) in 2008 and 2009, the proportion of householders expecting their own financial situation to get better in the coming months halved from one year to the next, from eight per cent to four per cent.

## POLAND

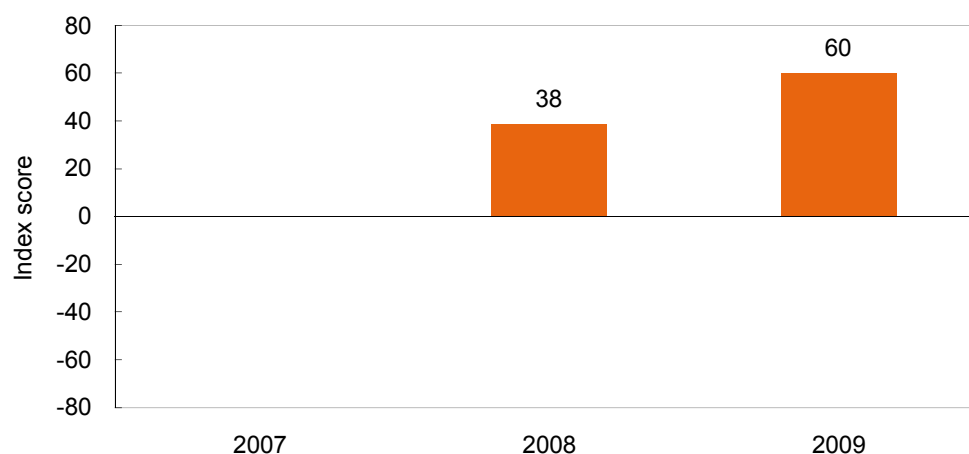
Poland, the largest of the emerging European economies, has all but escaped the threat of recession. However unemployment and rising inflation are keeping households under financial pressure.

The economy grew 0.8 per cent in the second quarter taking the annual growth rate to 1.1 per cent. Despite falls in house prices in the year to March 2009, the construction sector has held up, partly due to European Union support. This has contributed to a stabilisation in the labour market. The rise in the unemployment rate, which peaked in March 2009, has been halted, although at 10.8 per cent is still above the 8.8 per cent recorded in October 2008. However a quarter of businesses plan to cut jobs in the second half of 2009, according to a June poll. Inflation at 3.6 per cent is above the government target of 2.5 per cent.

The fall in property prices has accelerated in Poland. Sale prices for homes in major Polish cities posted an annual fall of 4.0 per cent in March 2009 compared with minus 0.9 per cent in September 2008. Falling demand for home loans combined with tighter lending criteria for lending has led to a fall in mortgage borrowing. Banks lent PLN4.7bn in January-April 2009 compared with PLN13.6bn in the same period in 2008.

Homeowners have benefited from falls in interest rates from 8.6 per cent in September 2008 to 7.0 per cent in April 2009. Many Poles have mortgages in euros and Swiss francs. Those with unsecured borrowing have benefited from a recent appreciation in the zloty as well as a decline in interest rates from 5.2 per cent to 3.3 per cent over the same period.

**Figure 4: Vital statistics, Poland**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	-	-	-	-	-
2008	27	17	51	5	6th
2009	46	8	43	3	2nd

Since 2008, Poland has increased 22 points on the Index, from an Index score of 38 points to one of 60. This is the biggest increase of all the countries across the survey, and one of only three countries where the Index has increased: This moves Poland from 6<sup>th</sup> place in 2008 to 2<sup>nd</sup> place overall. It now has the highest number of those

who are financially vulnerable with almost half in this category (46 per cent), up from 27 per cent in 2008. Again, this is the biggest increase seen from 2008 to 2009, and Poland is one of only two countries where any increase in this category has occurred, the other being Ireland.

The increase in vulnerability stems from the rise in those who are often or always in financial difficulties, which moved from 26 per cent to 38 per cent (see Table A.1). Overall, 86 per cent were experiencing financial difficulties at least sometimes. There has also been a general drop in confidence about future prosperity with those who feel that their future financial situation will improve halving from 22 per cent to 11 per cent and those who feel it will be worse increasing from 16 per cent to 27 per cent. This is also reflected in the number of 'strivers' in Poland, which has more than halved since 2008 from 17 per cent to 8 per cent, as fewer people feel a sense of optimism about their financial future.



## GREECE

Greece may have escaped recession thanks to a 0.3 per cent rise in economic growth in the second quarter of 2009, but high levels of personal indebtedness leave it vulnerable. Forecasters expect the economy to contract by up to 3.5 per cent this year although the central bank is forecasting zero growth.

Rapidly rising unemployment and low consumer confidence are likely to lead to further falls in consumer spending as households tighten their budgets. The unemployment rate hit 8.5 per cent in May 2009, the most recent reported figure, up from 6.6 per cent a year earlier. Almost 100,000 Greeks joined the dole queue over that period.

However, restrictive labour practices have kept wages high. Average wages are rising by 8 per cent a year compared with 4 per cent for the euro area as a whole.

Real interest rates have risen sharply for new loans over the last year, both for mortgages and unsecured consumer credit over the last year. The consequent rise in the cost of servicing these personal debts is likely to lead to a slowdown in both consumer demand and house-building over the forecast period.

Greek consumers are more pessimistic than households in other European countries, which will also slow any consumer recovery. Households are unlikely to benefit from any fiscal stimulus measures because of Greece's relatively weak fiscal position.

**Figure 5: Vital statistics, Greece**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	-	-	-	-	-
2008	-	-	-	-	-
2009	45	15	36	4	3rd

Greece is one of two countries introduced to the survey in 2009, along with Turkey. It scored 52 points on the Genworth Index, much higher than the average Index score of 28 across the 14 countries overall. This places it towards the top of the table in terms of relative vulnerability.

A high proportion of the population were financially vulnerable (45 per cent) and a similarly small number who were financially secure (4 per cent). 40 per cent of those interviewed were experiencing financial difficulties often or always, which was the highest amongst the countries overall (see Table A.1). The proportion who were strivers was broadly similar to the average across countries, but householders in Greece were less likely to be circumspect than average; 36 per cent compared with 58 per cent overall.

Greece was home to a higher than average level of pessimism about future financial prosperity with a third (33 per cent) expecting their situation to get worse, compared with 19 per cent across the 14 countries overall (see Table A.1). Only Ireland had a bigger population with negative expectations (45 per cent).

## PORTUGAL

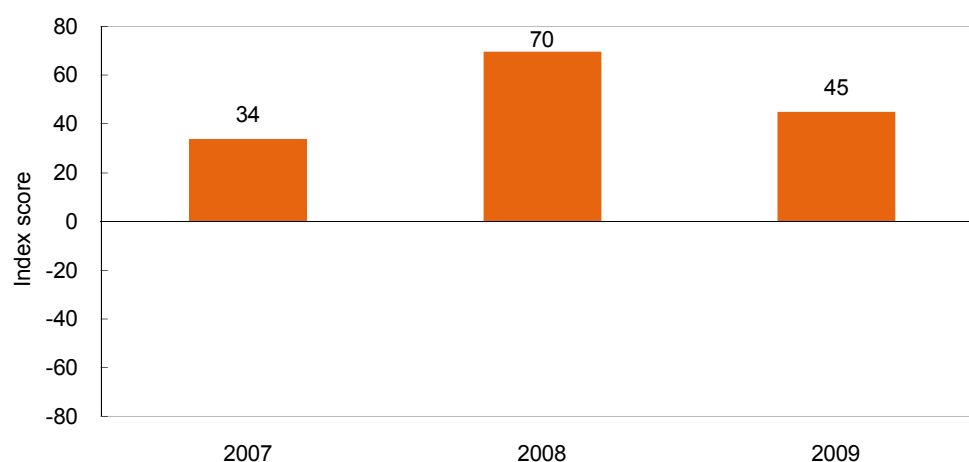
As a small open economy fully integrated into both the global economy and the world financial system, Portugal could hardly escape the impact of the crisis.

The economy is likely to contract by 3.5 per cent in 2009, its worst outturn in 34 years, after posting zero growth last year. This has led to a sharp rise in the unemployment rate to 8.9 per cent at the end of the first quarter of this 2009, from 7.9 per cent in the last quarter of 2008. This rise in joblessness combined with high levels of indebtedness has led to greater uncertainty over household income and wealth levels. Household debts amount to around 100 per cent of the country's GDP.

Property prices have also come under pressure. Since their peak at the end of 2006, house prices have fallen by 7.7 per cent. Figures for the first quarter of 2009 show that prices fell by 0.3 per cent on the quarter to leave the annual decline at 5.8 per cent. However falling prices – the central bank expects negative inflation of 0.5 per cent this year – will boost households' real incomes.

Private consumption is forecast to contract by 2.4 per cent in 2009, as households attempt to rebuild their savings and pay down debt at a time of rising unemployment.

**Figure 6: Vital statistics, Portugal**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	32	5	56	7	2nd
2008	61	5	31	2	1st
2009	39	8	48	5	4th

In relative terms, Portugal is one of the success stories. Although it has a Genworth Index score of 45, placing it as the 4<sup>th</sup> most vulnerable country in 2009, this is a substantial improvement on its score of 70 points and ranking as the most vulnerable country in 2008. The fall of 25 points on the Index for Portugal is among the largest of all the countries, matched only by Norway. And Portugal is one of only two countries (the other being Sweden) in which the share of the population represented by the financially secure has increased quite substantially, from two per

cent to five per cent. Nonetheless, Portugal has further improvement to make before levels of relative financial vulnerability return to those seen in 2007.

The increase in the number of financially secure households has combined with a substantial fall in the number of financially vulnerable households to explain the far larger than average improvement in the Index. Nonetheless at 39 per cent, the proportion of financially vulnerable households in 2009 remains well above the average of 24 per cent for all 14 European countries.

The strivers and the circumspect groups have also grown since 2008, standing at eight and 48 per cent in 2009 respectively. In effect, this shows a net movement of households in Portugal from the financially vulnerable segment being shared between all the other groups.

Further examination of the data shows that the shrinkage in the vulnerable group is due to a dramatic fall in the proportions of householders who said, in combination, that they were experiencing financial difficulties frequently and expected their situations to get worse (see Table A.2). These falls alone explain the growth in the other segments. However, they also offset a large increase, within the vulnerable segment, in the numbers of households that were often or always in financial difficulties and expected this to stay the same (from nine per cent to 21 per cent), a reminder that net movement can occur within a segment.

And although financial difficulties had alleviated somewhat, Portugal's improvement in relative financial vulnerability in 2009 was mostly driven by a decline in pessimistic expectations. In 2008, 55 per cent of households in Portugal expected their situation to get worse – far higher than the average of 30 per cent for all countries surveyed – falling to just 18 per cent in 2009, close to the cross-country average (see Table A.1).

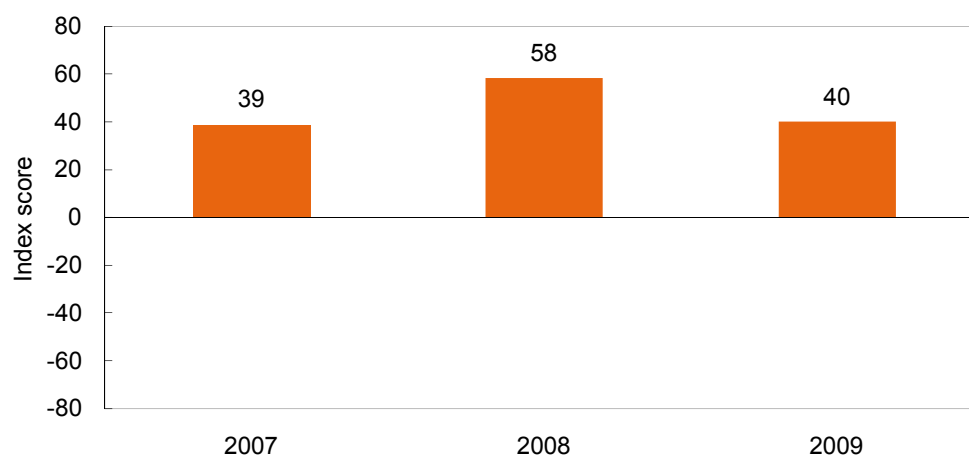
## ITALY

Italian households have taken a battering from the weakening labour market and by a further loss in asset values. The Banca d'Italia estimates that real estate wealth fell by more than 1 per cent between the third quarter of 2008 and the second quarter of 2009. The unemployment rate hit a 14-year high of 7.9 per cent, up from 7.1 per cent a year earlier. Almost 2 million Italians are out of work. As a result annual growth in household incomes has collapsed from an average of 2.7 per cent for 2008 to just 1.0 per cent in the first quarter of 2009.

However the impact of the decline in income growth has been more than offset by the collapse in inflation from 4 per cent in September 2008 to zero in August 2009. This helped real disposable incomes rise by 0.5 per cent annually in the first quarter of the year after falling by the same amount on average in 2008.

Households have also been insulated by more modest borrowing rates and less inflated house prices than their European neighbours. Volume of household debt as a proportion of disposable income has stabilised at 57 per cent and is well below the 93 per cent average for the euro area. Households have benefited from a fall in interest rates on new homes from 6 per cent last September to 4 per cent in May 2009, albeit with smaller declines in consumer loan rates.

**Figure 7: Vital statistics, Italy**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	29	7	59	5	1st
2008	38	6	54	3	2nd
2009	25	8	63	4	5th

A fall of 18 points gives Italy a score of 40 on the Genworth Index in 2009, and places it as the 5th most vulnerable country out of 14 countries surveyed. Although the balance remains tipped substantially towards relative financial vulnerability, Italy is notable for having regained the level of relative financial vulnerability originally observed in 2007, when it scored 39 points on the Index. The only other country to have achieved this is Norway (albeit in relation to relative financial security).

The share of households in Italy that were financially vulnerable in 2009 (25 per cent) was far smaller than found in the previous wave of the survey (38 per cent). This fall brings it in line with the average for all countries (24 per cent). However, there was no real change in the proportion of households in Italy that were financially secure (four per cent), far lower than the average across Europe (seven per cent).

The number of strivers was also similar in 2009 (eight per cent) compared with 2008 (six per cent). Instead, shrinkage in the financially vulnerable segment was matched by an increase in the circumspect's share of the population, as was typical for the subset of 12 countries surveyed in both 2008 and 2009 as a whole.

Again, as we saw for the subset of 12 countries overall, the net movement of households from the vulnerable to the circumspect reflects overall improvement in the frequency of experiencing financial difficulties and of a shift from feeling pessimistic about the future financial situation of the household to expecting things to stay the same (and even to get better). However, the effects of these changes have been more marked in Italy than for the 12 countries as a whole. The proportions of householders who never or hardly ever experienced financial difficulties increased from 29 per cent to 37 per cent, while the proportion who expected their situation to get worse fell from 35 per cent to 20 per cent (see Table A.1).

## GERMANY

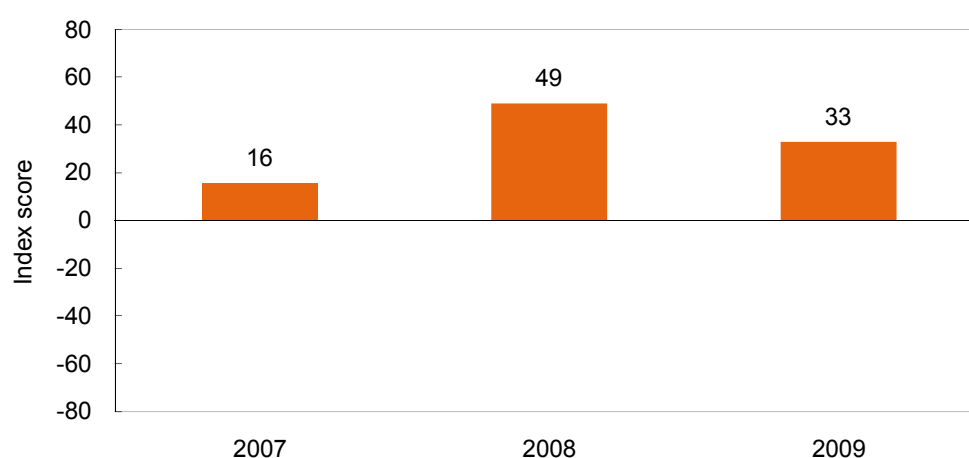
Europe's largest economy appears to be past the worst after a striking slump in economic growth and a rise in unemployment over the past year. Germany posted quarterly growth of 0.3 per cent in the second quarter of 2009. This was up from minus 3.5 per cent in the previous quarter, which had been the worst outturn since the Second World War and the weakest of any rich nation.

The recovery is in line with surveys that indicate that consumer confidence is returning. Car scrapping initiatives boosted spending.

However unemployment is likely to continue to rise. The jobless total has risen by 317,000 since November 2008, the month that marked the end of almost three years of falling unemployment. A worsening labour market will weigh on households' wealth and income. So far retail sales have fallen in 10 of the 12 months to June 2009.

However consumers are less exposed to debt than in other European countries, mainly because they failed to join in the house price speculation seen in other European countries. While house prices trebled in the UK and Spain between 1997 and 2007 they were virtually unchanged in Germany. The latest figures show prices fell by 1.5 per cent in the year to March 2009 compared with a fall of 3.5 per cent in the 12 months to September 2008.

**Figure 8: Vital statistics, Germany**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	15	7	71	7	3rd
2008	29	5	63	3	4th
2009	19	5	72	4	6th

Germany is among the subset of countries whose Index score improved in 2009, falling to 33 points from 49 in 2008. Like most countries, however, it remains far more vulnerable in relative terms compared with the baseline in 2007 (16 points).

Germany's position among the European countries surveyed has improved year on year. Having been the 3<sup>rd</sup> most vulnerable country in 2007, it was 4<sup>th</sup> in 2008. It now finds itself ranked as the 6<sup>th</sup> most vulnerable (equivalent to the



5<sup>th</sup> most vulnerable for the 12 countries surveyed in 2008 and 2009), seeming to reflect the signs of economic recovery there.

This improvement is accounted for almost entirely by a fall in the proportion of households in Germany that were financially vulnerable, from 29 per cent in 2008 to 19 per cent in 2009. This was in fact lower than the average for all countries (24 per cent) and far lower than in Turkey (38 per cent), which scored very similarly to Germany on the Index. In contrast, very few households in Germany were classed as financially secure in 2009 (four per cent) – reflecting no real change on 2008 (three per cent) – explaining why the Index scores for Germany and Turkey were similar.

Turning our attention to the two segments that do not contribute directly to the Index, the proportions who were strivers remained stable (five per cent), while the proportion who were circumspect increased from 63 per cent in 2008 to 72 per cent in 2009. In effect, this shows that there was a net movement of households from the financially vulnerable to the circumspect between these two snapshots in time, reflecting the cross-country average.

Underlying this change was a fall in the proportions of householders who reported being sometimes, often or always in financial difficulties (from 56 per cent to 43 per cent) with a commensurate rise in the numbers saying they had never or hardly ever experienced financial difficulties (see Table A.1). And while there was negligible change in the proportions who expected their situations to improve in the next 12 months, far fewer expected their situations to get worse in the 2009 survey (16 per cent) than in 2008 (28 per cent). As such, it is the increase in the proportions of householders who said in combination that they were hardly ever in financial difficulties and expected the financial situation of their household to stay the same – from 23 per cent to 34 per cent of all households in Germany – that accounts for most of the increase in the circumspect group (see Table A.2).

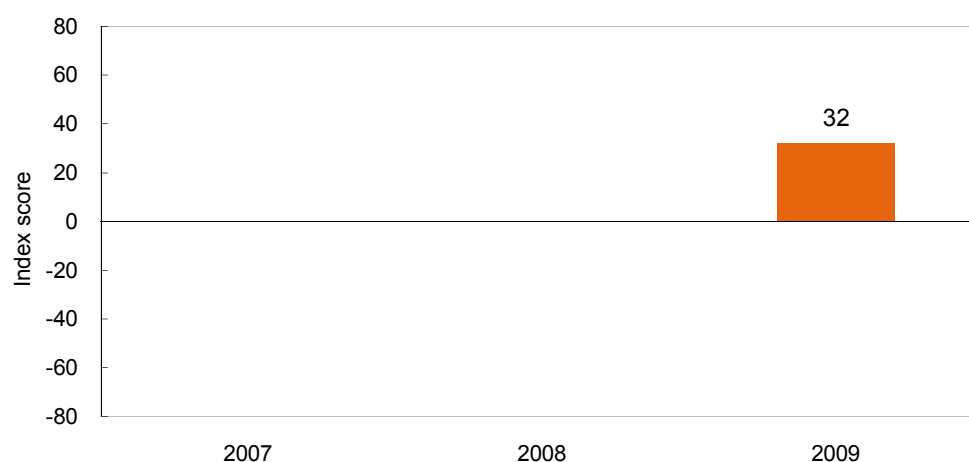
## TURKEY

The sharpest impact of the global downturn on Turkey has been felt by its workforce. The unemployment rate jumped to 17.0 per cent at the end of the second quarter of 2009 from 11.5 per cent a year earlier. More than 450,000 Turks lost their jobs over that period. Consumer spending fell by 9.2 per cent in the first quarter of the year contributing to a 13.8 per cent fall in economic growth in the year to March 2009.

Fortunately Turkish households have relatively low levels of debt. Total household debt amounted to just 13.6 per cent of the country's GDP in 2008, compared with an average of 56 per cent across the European Union. Rising interest rates have eaten into consumers' wealth as debt interest payments rose by 26 per cent over 2008. However rising incomes meant that the ratio of household interest payments to disposable income, one of the main indicators of households' repayment capacity, rose from 3.3 per cent to 3.6 per cent - low by global standards. However the largest share of borrowers by income level belongs to the lowest income group, with 46 per cent in the third quarter of 2008, implying that this group will suffer a disproportionate share of debt problems.

One vulnerable area is credit card lending. While consumer lending declined between September 2008 and March 2009, credit card balances incurring interest charges increased by 24.6 per cent over the same period. Since credit card interest rates are higher than consumer loan rates, this group of borrowers is more vulnerable.

**Figure 9: Vital statistics, Turkey**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	-	-	-	-	-
2008	-	-	-	-	-
2009	38	26	28	9	7th

Turkey is the second country introduced to the survey in 2009. Its Index score of 32 places it mid-table compared to the overall Index score of 28.

It had a higher proportion of those who were financially vulnerable (38 per cent) than the 14 countries overall (24 per cent), and of the individual countries with comparable Index scores, such as Spain (27 per cent) and Germany

(19 per cent). The number of those who were financially secure (nine per cent) was higher than most countries other than Great Britain and the Nordic ones.

However, in the groups not defining the Index, there was a marked difference in Turkey compared to the countries overall. In contrast to the average across the 14 countries, the proportion of strivers was a far bigger part of the population and was the largest proportion of any country in the survey; 26 per cent compared with 12 per cent. Similarly, the number who were circumspect was far lower than the average and again the lowest across all countries; 28 per cent compared with 58 per cent overall. This suggests that consumers in Turkey were rather more polarised in their experience of financial vulnerability than many other countries.

Underlying these findings was a considerable amount of optimism about the future economic position among households in Turkey. More than a third of householders (34 per cent) believed their future financial situation would improve, compared with just 18 per cent across the 14 countries overall (see Table A.1).

## SPAIN

Spain has been one of mainland Europe's major victims of the financial crisis. While France and Germany posted growth in the second quarter of 2009, the Spanish economy contracted by 1.1 per cent. This took the annual decline to 4.2 per cent, the steepest drop since the 1970s.

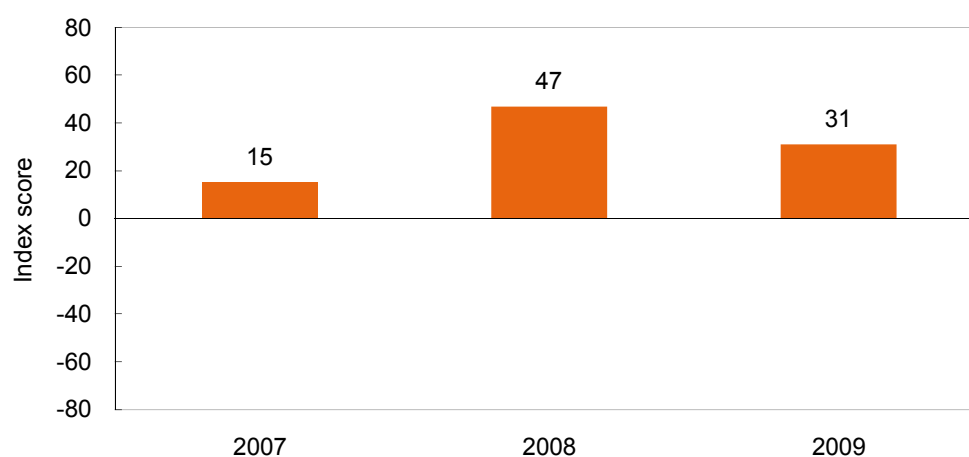
The main factor behind the decline is the collapse of the bubbles of house prices and residential construction. House prices fell by 1.9 per cent in the second quarter taking the annual decline in the year to June 2009 to 8.3 per cent. New house-building projects have fallen to about one fifth of their peak level and one million construction jobs may be lost as a result.

The negative impact on households' financial position was compounded by the continuing sharp rise in the jobless total. The employment rate fell by 7.2 per cent in the year to June 2009 while the jobless rate is now running at 17.9 per cent. Almost 1.2 million Spaniards lost their jobs in the 12 months to June 2009.

Unsurprisingly consumer spending is falling as households struggle to manage their debts. Household debt levels have doubled to 130 per cent of gross disposable income in the past 10 years.

On the positive side households are benefiting from a fall in prices, with inflation posting a 1 per cent decline between January and June. This will offset pressures on household income.

**Figure 10: Vital statistics, Spain**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	17	8	67	8	4th
2008	37	6	52	4	5th
2009	27	9	58	6	8th

Spain's score of 31 points on the Genworth Index places it as the 8th most vulnerable of all countries surveyed in 2009 and the least vulnerable of the southern European countries. This represents an improvement on the Index of 16 points compared with 2008 – slightly more than the average – and an improvement of one place in the ranking from the 12 countries surveyed in both years (due to Poland's deterioration in relative financial vulnerability).

Although no single country can be considered typical of the average in 2009, Spain is seemingly the most similar of all 14 countries surveyed.

The improvement for Spain is explained mostly by the significant fall in the percentage of households that were financially vulnerable, from 37 per cent in 2008 to 27 per cent in 2009. This mirrors marginal increases in the size of each of the other groups. The apparent increase in the proportion who were financially secure – from four per cent to six per cent – also contributed to Spain’s overall healthier picture.

The combination of responses to the Index questions that saw the biggest change between 2008 and 2009 was for households that were sometimes in difficulties and expected their situation to get worse, falling from 14 per cent to six per cent (see Table A.2). This translated into a moderate increase in the number who were sometimes in difficulties and expected their situation to stay the same, from 14 per cent to 20 per cent and modest increase for some other combinations of responses. This typifies the overall picture for Spain, where the tendency for households to report being frequently in difficulties was fairly stable but expectations for the future improved quite considerably (see Table A.1).

## FRANCE

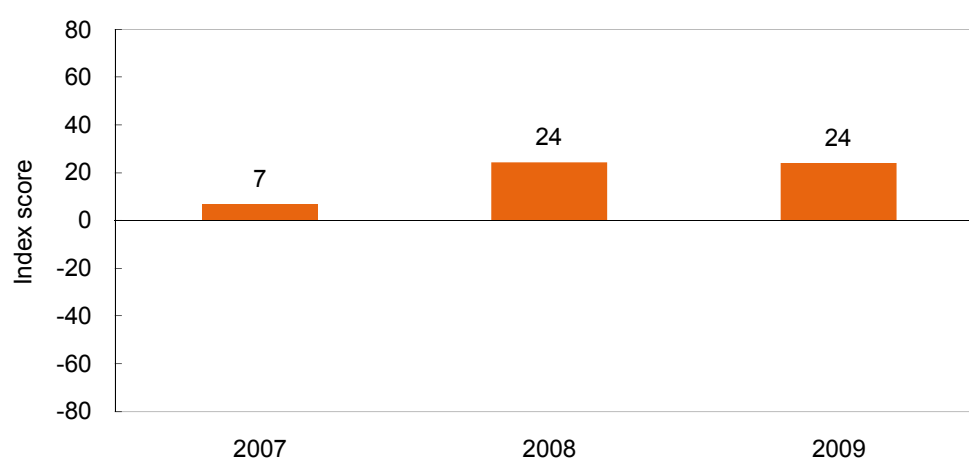
France emerged from recession in June 2009 after a full year of economic decline. Quarterly growth of 0.3 per cent marked the end of four quarters of contraction thanks in part to strong consumer spending. Indeed, French households were happy to spend even when the economy was contracting with household spending growing in each of the last five quarters.

Households are in a better financial shape than elsewhere. Household debt as a share of GDP is less than half that in Britain or in the US. Households will get some relief from low levels of inflation. Both underlying and headline inflation could fall close to zero by the end of 2010.

France has less exposure to world trade and the government's stimulus package supported growth. But with unemployment on the rise it seems only a matter of time before consumption starts to trail off. France's unemployment rate jumped in the first quarter of 2009 by the biggest increase since 1975, to 8.7 per cent of the workforce. The rate is now 9.5 per cent compared with 7.8 per cent in September 2008.

French homeowners have suffered four quarters of price falls and at the end of March 2009 house prices were on average down 5.7 per cent on a year earlier. Consumer problems are rising; 19,236 borrowers filed for bankruptcy in June 2009, an annual rise of 17.5 per cent.

**Figure 11: Vital statistics, France**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	16	19	53	12	5th
2008	22	16	55	7	7th
2009	21	17	56	7	9th

Perhaps reflecting the mixed signs in the economy, the picture for France in terms of relative financial vulnerability in 2009 is one of almost complete constancy compared with 2008. The Index score of 24 represents no change, as does its position mid-table as the 9th most vulnerable country in 2009 (equivalent to 7th from the 12 countries surveyed in 2008).

France saw a fairly muted change in the level of relative financial vulnerability between 2007 and 2008 compared with the far larger deterioration observed for many of the other countries. Then, it had been comparatively modest increases in numbers of vulnerable households and falls in the numbers of secure households. As such, France will still only need to make the moderate degree improvement needed by many of the other countries surveyed to see its levels of relative vulnerability return to baseline levels.

Since 2008, there has been no real change in the proportions of the population that were financial vulnerable and financially secure in 2009, standing at 21 per cent and seven per cent respectively. Despite this, it is important to point out that expectations for the future improved slightly at the aggregate level in France (see Table A.1). There were fewer householders in 2009 (19 per cent) who reported thinking that their household's financial position would get worse in the next 12 months compared with 2008 (27 per cent), this decrease being reflected in an increase in the numbers who thought it would stay the same. So while this has not resulted in net movement between the four segments, there has been some marginal movement within individual segments, particularly the vulnerable and the circumspect, in terms of the prevalence of particular combinations of responses to the two Index questions (see Table A.2).



## GREAT BRITAIN

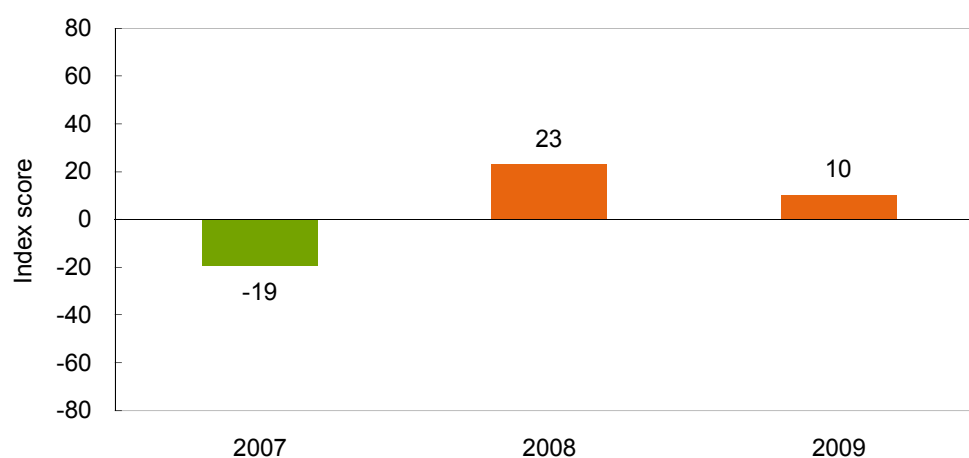
Among the club of rich countries, the United Kingdom has seen one of the most dramatic declines in output over the past 12 months. The economy contracted by 5.5 per cent in the year to June 2009. This compares with September 2008 when the economy was still growing at an annual rate of 0.6 per cent.

The biggest impact of the slowdown on consumers has been on the housing and jobs markets. House prices fell 10.1 per cent in the year to August 2009, according to Halifax Bank, albeit better than the minus 12.4 per cent seen last September. However every silver lining has a cloud. Mortgage possession orders made in the courts rose to 26,215 in the second quarter of the year from 23,076 in the first quarter.

Individual insolvencies rose 27.4 per cent in the year to June 2009 to a record 33,073, which may be a harbinger for further rises in repossessions. Households hold a total of £1.46 trillion of debt (including mortgage borrowing).

On the positive side steep cuts in interest rates and falls in prices of key goods such as petrol, electricity and gas will boost consumers' wallets. In June 2009 Ernst & Young estimated the average UK family with a mortgage was 25 per cent better off each month than it was a year earlier.

**Figure 12: Vital statistics, Great Britain**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	7	12	64	17	7th
2008	22	8	62	8	8th
2009	14	15	62	9	10th

The Index score for Great Britain in 2009 shows an improvement on 2008, having fallen from 23 points to 10. Although its score is higher only than the Nordic countries, unlike those countries the balance remains tipped towards relative financial vulnerability in 2009. It is also some distance from its baseline score of -19 in 2007, when Great Britain as a whole was experiencing relative financial security.

The improvement in the Index score since 2008 is explained almost entirely by the shrinkage in the size of the vulnerable segment, from 22 per cent to 14 per cent. In contrast, there was negligible change in the size of the

secure segment. The proportions that were circumspect were also similar in both years. It therefore appears that the increase in the size of the strivers segment, from eight per cent to 15 per cent, was the result of a substantial net movement of households from the financially vulnerable segment.

The growth in the number of strivers hints at the underlying story for Great Britain. There was a substantial shift towards optimism, with 15 per cent in the 2008 survey expecting their own financial situation to improve in the next 12 months rising to 24 per cent in 2009. The number expecting their situation to get worse more than halved (from 36 per cent to 13 per cent). These changes are far greater than the average for all countries and are unlike any other individual country in magnitude.

To a large extent, this redresses the situation in 2008 when the picture had been one of greatly heightened levels of pessimism since 2007 – far higher than any other country in proportionate terms. Notably, it also more than offsets the effect of steady increase in the proportions often or always experiencing difficulties since the baseline. This was measured at 16 per cent in 2009 compared with 13 per cent in 2008 and 10 per cent in 2008 (see Table A.1). Mirroring the macro economic picture described above, this underlines the experience of increased hardship among a minority of households – whether from loss of earnings or other factors – while the majority appear to have benefited from low interest rates and lower commodity prices.

## FINLAND

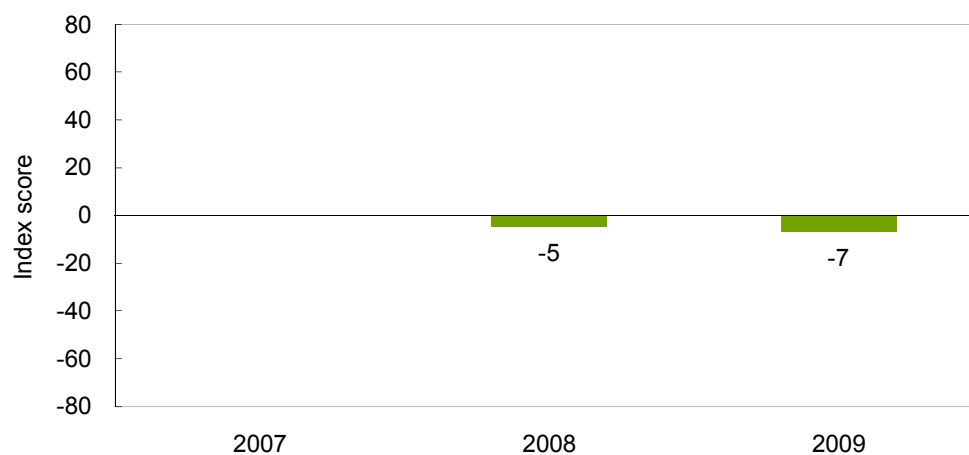
After three years between 2006 and 2008 when they spent more than they earned, Finns have remembered how to save. Household savings are expected to rise as consumers cut back on their spending in the light of the economic downturn.

The central bank expects the economy to contract by 5 per cent in 2009, one of the worst outturns for the EU. The labour market too continues to weaken. The number of people unemployed rose by 57,000 in June 2009 compared with a year earlier pushing the unemployment rate up from 6.8 per cent to 9.1 per cent.

However Finnish households will be protected by growth in disposable real income thanks to strong growth in wages and salaries agreed in multi-annual pay deals in 2007, cuts in income tax and a slowdown in inflation. Housing prices rose much more moderately in Finland than in many other European economies during the property boom earlier this decade. This has limited the scale of the falls. Prices rose by 3.9 per cent between the first and second quarters of this year to take the annual decline to 2.8 per cent at the end June 2009 compared with 3.3 per cent at the end of 2008.

In general, mortgage credit standards are prudent and the consumer loans backed by real estate collateral are limited.

**Figure 13: Vital statistics, Finland**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	-	-	-	-	-
2008	8	13	69	10	9th
2009	8	14	66	11	11th

There has been very little change in the situation in Finland since it entered the Genworth Index in 2008. Across the 12 countries that were in the 2008 survey, Finland remains in 9<sup>th</sup> place with an Index score of -7 against an average Index score of 27 points, a shift of only 2 points from -5 in 2008. There has also been negligible change in the size of each of the four groups.

Finland's ranking is most similar to the other Nordic countries. As a group they were the only countries in both 2008 and 2009 to have a negative Index score, signifying their relative financial security when compared with the other European countries. Whilst they had similar a proportion of households classed as financially vulnerable as other Nordic countries, Finland however had lower levels of those considered financially secure (11 per cent compared with 18/19 per cent). It is this that explains their higher Index score in comparison to the rest of the Nordic countries surveyed.

Although there was no real change in expectations about the future financial situation of the household, there was improvement in the experience of current financial difficulty in 2009. The proportion of households in Finland who reported never experiencing financial difficulties at the time of the interview increased considerably from 22 per cent in 2008 to 30 per cent in 2009 (see Table A.1).

## SWEDEN

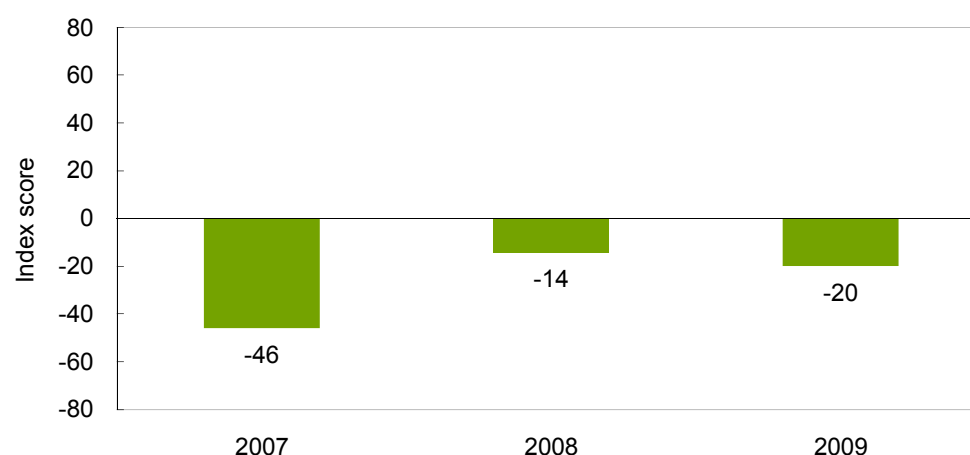
Swedes benefited from their country's exposure to the global economic boom during the good times and have felt considerable pain since the world economy turned. As its export markets dried up, firms laid off staff. Almost 145,000 people were made redundant between October 2008 and June 2009, the largest increase in a nine-month period since records began.

The unemployment rate has risen 6 per cent in September last year to above 8 per cent in June 2009. Wage growth has slowed markedly. The central bank expects the economy to contract by around 4.5 per cent in 2009, which would be the largest decline since 1940.

Households have reined spending drastically amid a climate of low consumer confidence. Consumer spending fell at an annual rate of 3.0 per cent in the first quarter of 2009.

Homeowners have not suffered major falls in house prices despite a decade-long boom. Last year saw a 2.9 per cent average fall while the central bank forecasts a 0.2 per cent decline in 2009. Analysis by the central bank has shown that the ability of Swedish households to service their mortgages is not particularly affected by higher unemployment. This is due to a combination of an extensive social safety net and the fact that the largest part of the household sector's debt is held by households with two wage earners.

**Figure 14: Vital statistics, Sweden**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	3	8	61	28	10th
2008	7	7	72	14	10th
2009	7	7	68	19	12th

Sweden has seen a slight improvement in its relative financial security in 2009, and has remained towards the bottom of the table in 12<sup>th</sup> ranking, equivalent to the 10<sup>th</sup> position it held in the 2008 survey of 12 countries. Like Denmark and Finland, Sweden is in a fairly similar position to 2008, and has yet to get back to the situation it was in 2007.

The apparent decrease in the Index score can be attributed to the higher proportion of the population who were considered to be financially secure in 2009 (19 per cent compared with 14 per cent in 2008). This increase is largely the result of a net movement of households from the circumspect segment. This has dropped marginally from 72 per cent to 68 per cent. Meanwhile there has been no real change in the numbers who were vulnerable or strivers.

Nearly one in five (18 per cent) of the Swedish householders thought that their household's financial situation would be worse in the future (see Table A.1). This was about average for all the countries in the survey, but was considerably higher than any of the other Nordic countries; all three of these comprised only 10 per cent or fewer who believed the situation would get worse, suggesting a comparative lack of confidence amongst Swedes in their financial future.

Sweden has continually had a lower than average proportion of those experiencing financial difficulties at least sometimes, less than one in five in 2009 (19 per cent), from a peak of only 22 per cent in 2008. At the other end of the scale, the number who have hardly ever experienced financial difficulties has gradually risen from 24 per cent in 2007 to 34 per cent in 2009, and those who are never experiencing financial difficulties remains much lower in 2009 (47 per cent) than it was in 2007 (58 per cent).

## DENMARK

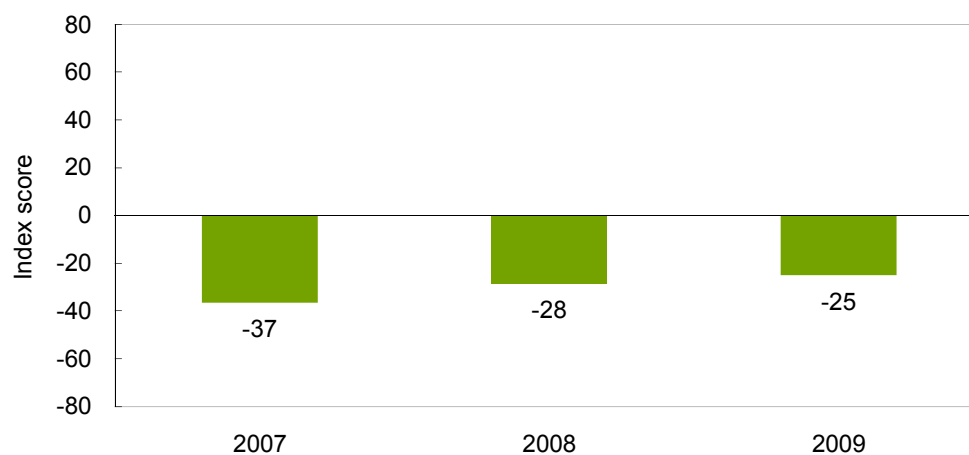
The traditionally conservative Danish household may not have embraced the consumer boom of the 2000s with the relish of some of its neighbours but it has still suffered from the economic downturn.

House prices rose 84 per cent in the 10 years to the end of 2008 versus 150 per cent in France and 162 per cent in Spain yet Danish house prices have fallen sharply recently. The price of the average single-family or terraced house fell 10.8 per cent in the 12 months to March 2009, one of the steepest falls in Europe.

Denmark, which is highly integrated in the global economic, financial and trade networks, was the first European country to go into recession. Although it did emerge from the downturn, the central bank predicts the economy will contract 2.5 per cent this year. Unemployment has risen dramatically. The unemployment rate has jumped from 1.7 per cent in September 2008 to 3.7 per cent at the end of July 2009. In human terms the dole queue has lengthened from 43,700 people to 103,300 - and may rise as high as 190,000, exceeding the 2003 peak of 170,000 in the wake of the dot.com crash.

Danish households are partly insulated from the impact of falling house prices and rising unemployment by their strong financial position. While household debt has risen, it has not exceeded the gain in asset values so that the asset-to-debt ratio has remained around two-to-one.

**Figure 15: Vital statistics, Denmark**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	4	9	64	22	8th
2008	5	10	68	18	12th
2009	6	8	69	18	13th

Along with France, Finland and Sweden, Denmark has showed no real change in levels of relative financial vulnerability since 2008. Its Index score now stands at -25 points, comparable to its score of -28 in 2008, indicating that it remains relative secure financially. Although Denmark has lost its position as the most financially secure country, this is more a reflection of the level of improvement in Norway. Unfortunately for Denmark, the lack of improvement in 2009 means it still has some ground to make up before it returns to its baseline levels.



The lack of change in the Index score was the result of no real change in the share of the population made up by the vulnerable or the secure segments. There was also no change in the size of the segments that do not define the Index score directly.

Despite the overwhelming picture of consistency for Denmark, there is some indication that a degree of confidence may be returning. There was a small fall in the number of households that expected their situation to get worse, from 11 per cent in 2008 to seven per cent in 2009, with a commensurate increase in the proportions who thought their situation would stay the same (see Table A.1). The effect of this was not large enough to result in substantial changes in the size of the segments; instead it appears to have resulted in some subtle movements within the segments, particularly among the circumspect households (see Table A.2).

## NORWAY

Norway has escaped the worst effects of the global recession and Norwegians are now seeing signs that their personal position is improving.

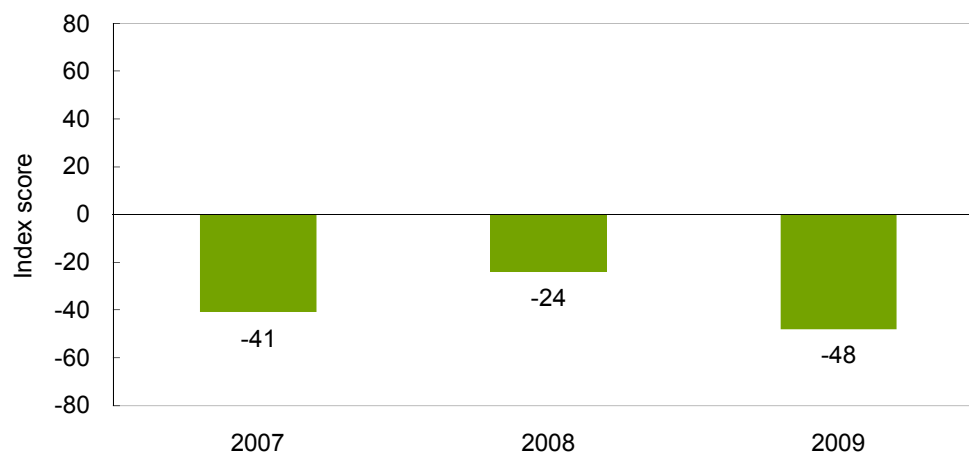
House prices rose in August 2009 for the fifth month in a row after a two-year property downturn ended a five-year boom. Prices are now 4.6 per cent higher than in August 2008. The increases have persuaded forecasters to revise their outlook from a 10 per cent drop for 2009 to zero growth.

The country emerged from a technical two-quarter recession in June 2009, posting growth of 0.3 per cent over the second quarter (excluding the offshore oil and gas sectors that make up a quarter of the economy). Unemployment has started to fall. Seasonally adjusted unemployment stood at 2.8 per cent in July 2009, unchanged from June and down from 3.1 per cent in May. However it is still above the 1.7 per cent recorded in September 2008.

The improvement in fortunes is the result of the biggest government stimulus package in more than 30 years and record low interest rates. There is market speculation that Norway will later this year become the first country in the industrialised world to raise interest rates.

However there are clouds on the horizon. There were a total of 1,384 bankruptcies in the second quarter of 2009, an annual rise of 58 per cent.

**Figure 16: Vital statistics, Norway**



	Percentage (%) in each group				Position
	Financially vulnerable	Strivers	Circumspect	Financially secure	
2007	4	8	60	27	9th
2008	7	6	67	20	11th
2009	2	8	71	19	14th

Against a largely promising economic backdrop, Norway has shown one of the biggest improvements on the Genworth Index in 2009. Its score has decreased considerably from -24 in 2008 to -48 in 2009. As a result, Norway has replaced Denmark as the bottom rated country in the Index, and is one of only a few countries that have

moved back to a similar Index score as that of 2007. Norway's score is now substantially lower than any other country in the survey.

Reflecting their very low Index score, Norway also has the lowest number of those who were financially vulnerable. In the other Nordic countries the number of people who were financially vulnerable remained constant whereas in Norway it decreased from seven per cent in 2008 to two per cent in 2009.

The data underpinning these findings show that the improvement seen in Norway is almost exclusively the result of any pessimistic expectations about the future situation of the household being all but overcome (see Table A.1). In 2008, there was a small core of households that expected their situations to get worse; but this has fallen even further to just four per cent in 2009, matched by an increase in the number who thought things would stay the same (61 to 68 per cent).

There was a marginal decrease in the proportion of households in Norway that often or always experienced financial difficulties to just three per cent (lower than for any other country). Even so, the number that were sometimes in difficulty did not change and, standing at 14 per cent, this has remained steady since the baseline, suggesting that a further fall in the Index score for Norway in 2010 is unlikely.

## INTRODUCING THE USA

For the first time, the Genworth Index of consumer vulnerability was extended beyond Europe in 2009 to the USA.

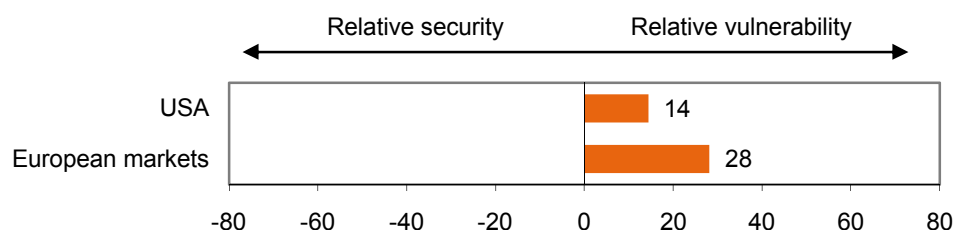
The world's largest economy may be emerging from its worst recession since the 1930s. The economy contracted by 1.0 per cent in the second quarter of the year, a visible improvement from the -6.4 per cent in the first quarter of 2009. The economy may return to growth in the second quarter. However with consumers still handicapped by credit restrictions, a backlog of high debts and high unemployment, the economy may be some way from a sustainable recovery.

Falls in house prices combined with high loan-to-value mortgage ratios have left a fifth of households in negative equity – where the value of their home is less than the debt owed on it. Lenders launched foreclosure proceedings on a record 1.5 million properties in the first half of 2009, or one in every 84 households. This decline in property values together with falls in US share prices and rising numbers of job losses have seen large amounts of household wealth wiped out, making it harder for consumers to meet other debts.

The level of people behind on their loans hit a new high in the first three months of 2009. Those more than 30 days overdue rose to 3.23 per cent from 3.22 per cent in the previous quarter. The ratio of consumer credit to disposable personal income is close to all-time highs at around 24 per cent and volumes of new loans have shrunk as households have cut back on borrowing.

The jobless rate has doubled from 4.4 per cent in March 2007 to 9.4 per cent in July 2009.

**Figure 17: Vital statistics, USA**



	Percentage in each group (row per cent)				Index score
	Financially vulnerable	Strivers	Circumspect	Financially secure	
USA	20	20	49	10	14
European markets	24	12	58	7	28

Given the harsh economic climate in the USA of recent months, it is perhaps surprising that relative financial vulnerability was lower in the USA at 14 points on the Index compared with the average of 28 points for the 14 European countries. Nonetheless, this above-zero score shows that the overall picture in the USA was one of consumer vulnerability rather than security. Of all the individual European markets surveyed, the Index score for Great Britain (10 points) is most similar to the USA.

This comparatively low consumer vulnerability score reflects the finding that a smaller proportion of households in the USA were financially vulnerable (20 per cent) and slightly more households were financially secure (10 per cent) compared with households in Europe (24 per cent and seven per cent respectively). Although the Index scores for Great Britain and the USA are similar and the proportions of secure households are similar, the percentage of households that were financially vulnerable is substantially higher in the USA compared with Great Britain.

Turning to the two remaining segments, the figures above show that proportionately there were more strivers in the USA (20 per cent) than in Europe overall (12 per cent), and fewer households that were circumspect (49 per cent compared with 58 per cent). And taking into account these proportions, it is clear that the profile of US householders in terms of the breakdown of the segments is unlike that of any single European country surveyed.

Taken together, the findings suggest that it is comparatively more optimistic expectations for the future financial position of the household that is driving the more positive picture in the USA overall. Further examination of the data confirms this to be the case: overall some 31 per cent of US households expected the financial situation of their household to improve, compared with just 18 per cent of their counterparts in Europe (see Table A.1). In contrast, the experience of current financial difficulties in the USA was broadly similar to those in the Europe.

# APPENDICES

**TABLE A.1 RESPONSES TO THE INDEX QUESTIONS**

			Column percentages %		
			2007	2008	2009
Denmark	Frequency of experiencing financial difficulties	Often or always	6	7	6
		Sometimes	14	17	16
		Hardly ever	26	33	32
		Never	54	44	46
	Expectations for future financial position	Improve	32	27	26
		Stay the same	59	61	67
		Get worse	9	11	7
		Unweighted base	899	882	859
Finland	Frequency of experiencing financial difficulties	Often or always	-	11	10
		Sometimes	-	33	27
		Hardly ever	-	35	32
		Never	-	22	30
	Expectations for future financial position	Improve	-	23	25
		Stay the same	-	70	65
		Get worse	-	7	10
		Unweighted base	-	983	972
France	Frequency of experiencing financial difficulties	Often or always	20	20	21
		Sometimes	31	32	31
		Hardly ever	23	24	23
		Never	26	24	25
	Expectations for future financial position	Improve	31	23	23
		Stay the same	56	50	58
		Get worse	13	27	19
		Unweighted base	802	901	872
Germany	Frequency of experiencing financial difficulties	Often or always	12	20	15
		Sometimes	26	35	28
		Hardly ever	32	32	39
		Never	29	13	17
	Expectations for future financial position	Improve	14	8	9
		Stay the same	71	63	75
		Get worse	14	28	16
		Unweighted base	626	648	709
Great Britain	Frequency of experiencing financial difficulties	Often or always	10	13	16
		Sometimes	21	30	33
		Hardly ever	23	25	30
		Never	47	32	22
	Expectations for future financial position	Improve	29	15	24
		Stay the same	65	49	62
		Get worse	6	36	13
		Unweighted base	658	749	705
Greece	Frequency of experiencing financial difficulties	Often or always	-	-	40
		Sometimes	-	-	40
		Hardly ever	-	-	11
		Never	-	-	9
	Expectations for future financial position	Improve	-	-	19
		Stay the same	-	-	48
		Get worse	-	-	33
		Unweighted base	-	-	694

Ireland	Frequency of experiencing financial difficulties	Often or always	8	15	15
		Sometimes	24	42	42
		Hardly ever	21	24	26
		Never	46	19	17
	Expectations for future financial position	Improve	26	8	4
		Stay the same	64	54	51
		Get worse	10	39	45
		<i>Unweighted base</i>	<i>695</i>	<i>683</i>	<i>747</i>
Italy	Frequency of experiencing financial difficulties	Often or always	19	22	17
		Sometimes	40	49	46
		Hardly ever	20	19	21
		Never	20	10	16
	Expectations for future financial position	Improve	12	9	12
		Stay the same	62	56	68
		Get worse	26	35	20
		<i>Unweighted base</i>	<i>455</i>	<i>617</i>	<i>616</i>
Norway	Frequency of experiencing financial difficulties	Often or always	5	5	3
		Sometimes	14	13	14
		Hardly ever	24	31	31
		Never	57	50	52
	Expectations for future financial position	Improve	35	27	27
		Stay the same	59	61	68
		Get worse	6	12	4
		<i>Unweighted base</i>	<i>773</i>	<i>835</i>	<i>851</i>
Poland	Frequency of experiencing financial difficulties	Often or always	-	26	38
		Sometimes	-	52	48
		Hardly ever	-	16	11
		Never	-	6	2
	Expectations for future financial position	Improve	-	22	11
		Stay the same	-	62	63
		Get worse	-	16	27
		<i>Unweighted base</i>	<i>-</i>	<i>488</i>	<i>584</i>
Portugal	Frequency of experiencing financial difficulties	Often or always	20	46	37
		Sometimes	40	43	43
		Hardly ever	23	9	13
		Never	17	2	6
	Expectations for future financial position	Improve	12	8	13
		Stay the same	60	37	69
		Get worse	29	55	18
		<i>Unweighted base</i>	<i>671</i>	<i>760</i>	<i>545</i>
Spain	Frequency of experiencing financial difficulties	Often or always	15	26	25
		Sometimes	27	31	31
		Hardly ever	24	18	17
		Never	35	25	27
	Expectations for future financial position	Improve	16	11	15
		Stay the same	70	53	64
		Get worse	14	36	21
		<i>Unweighted base</i>	<i>538</i>	<i>674</i>	<i>618</i>
Sweden	Frequency of experiencing financial difficulties	Often or always	5	7	6
		Sometimes	12	15	13
		Hardly ever	24	31	34
		Never	58	46	47
	Expectations for future financial position	Improve	36	21	25
		Stay the same	54	60	57
		Get worse	10	19	18
		<i>Unweighted base</i>	<i>731</i>	<i>816</i>	<i>851</i>

Turkey	Frequency of experiencing financial difficulties	Often or always	-	-	37
		Sometimes	-	-	41
		Hardly ever	-	-	16
		Never	-	-	5
	Expectations for future financial position	Improve	-	-	34
		Stay the same	-	-	38
		Get worse	-	-	28
		<i>Unweighted base</i>	-	-	542
USA	Frequency of experiencing financial difficulties	Often or always	-	-	24
		Sometimes	-	-	35
		Hardly ever	-	-	27
		Never	-	-	14
	Expectations for future financial position	Improve	-	-	31
		Stay the same	-	-	55
		Get worse	-	-	15
		<i>Unweighted base</i>	-	-	714

Average for all countries (excluding the US)			10/12 markets	12/14 markets
Frequency of experiencing financial difficulties	Often or always	14	20 / 20	20 / 22
	Sometimes	27	34 / 36	34 / 34
	Hardly ever	25	24 / 24	26 / 25
	Never	33	21 / 20	21 / 19
Expectations for future financial position	Improve	22	14 / 15	17 / 18
	Stay the same	64	54 / 55	65 / 62
	Get worse	14	32 / 30	18 / 19
	<i>Unweighted base</i>	6,848	7,565 / 9,306	8,929 / 10,165

Percentages are based on weighted data. Base excludes don't knows and refusals and is limited to those who answered both Index questions.



**TABLE A.2 COMBINATIONS OF RESPONSES DEFINING THE SEGMENTS**

		Row percentages %											
		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
		Vulnerable			Strivers		Circumspect					Secure	
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
	2009	3	1	1	2	6	9	21	2	34	2	8	10
Finland	2007	-	-	-	-	-	-	-	-	-	-	-	-
	2008	5	1	2	4	8	22	26	2	17	2	6	4
	2009	5	1	2	4	10	15	22	4	22	3	6	5
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
	2009	9	5	7	7	9	15	15	4	18	4	4	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
	2009	6	6	6	3	2	20	34	3	15	1	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
	2009	6	4	3	5	10	19	21	3	16	2	6	3
Greece	2007	-	-	-	-	-	-	-	-	-	-	-	-
	2008	-	-	-	-	-	-	-	-	-	-	-	-
	2009	15	19	11	7	8	21	6	2	6	1	2	2
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
	2009	3	13	23	<1	2	17	18	7	14	2	1	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
	2009	8	7	10	2	6	30	17	2	14	<1	2	2
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
	2009	1	<1	1	2	6	7	22	2	38	2	7	12
Poland	2007	-	-	-	-	-	-	-	-	-	-	-	-
	2008	13	9	6	4	13	33	13	1	4	<1	3	2
	2009	20	16	10	2	6	33	8	<1	2	<1	2	1
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
	2009	21	14	4	2	6	33	10	<1	4	~	3	2

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
	2009	12	10	6	4	5	20	12	2	20	3	2	4
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
	2009	2	2	3	2	4	5	19	6	31	7	9	10
Turkey	2007	-	-	-	-	-	-	-	-	-	-	-	-
	2008	-	-	-	-	-	-	-	-	-	-	-	-
	2009	13	16	9	8	17	15	7	2	3	1	7	2
USA	2007	-	-	-	-	-	-	-	-	-	-	-	-
	2008	-	-	-	-	-	-	-	-	-	-	-	-
	2009	9	7	4	9	12	18	18	2	10	1	7	4

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; '~' indicates there were no cases in the sample.

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## OUR RESEARCH PARTNERS

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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, mainly from the consumer's perspective.

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 a report to the European Commission on the nature and causes of over-indebtedness, has undertaken a review of the evidence on saving among lower-income households and, more recently, has been involved in analysis of the results from the Wealth and Assets Survey (for which Andrea also contributes to the Technical Group on an ongoing basis).

The Personal Finance Research Centre (PFRC) at the University of Bristol in the UK was established in 1998 by Professor Elaine Kempson CBE 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, with a particular emphasis on methodological studies and index construction. 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 and others.

Macro economic commentary was provided by:

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