Macroeconomic outlook 2017

In 2017, large economic changes (rather than micro industry wide triggers) will deliver the challenges across collections and recoveries. The key focus must be to maintain flexibility around strategy and suppliers, whilst also building capacity to deal with an overall increase in delinquency and default.

Rising inflation squeezes disposable income

The devaluation of the pound and the fact that the new Government has signalled the end of austerity in the UK, means we should expect to see inflation creeping up in 2017. It is our view that inflation will be in the 2% to 3% range by the end of 2017 and whilst this is not high by historical standards, it does represent a significant movement when compared to the last five years.

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Typically inflation impacts different consumers in different ways and won't be evenly distributed. People living with financial difficulties or problem debt are more likely to be subject to a higher personal inflation rate than those not in debt, driven by lower incomes, higher housing costs and the rising cost of everyday expenditure like food, heating and travel.

Interest rates remain stable

If inflation does exceed 2% then eyes will quickly turn to the Monetary Policy Committee, within the Bank of England, to see whether they will react and raise interest rates. During the acrimony of the Brexit vote, some of the walls around the independence of the Bank of England began to look a little less solid. However, it now appears that political involvement in setting the Bank of England base rate will remain indirect and it is likely to remain unchanged during 2017. This will continue to provide relief for those most indebted individuals who are especially susceptible to small movements in the base rate.

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Limited real wage growth

Growth in the living wage is expected to continue towards the Government's stated aim of £9 per hour but outside of this gradual increase, we would expect to see very little growth in UK median wage rates during 2017. The challenges thrown up by Brexit and rising import costs are likely to see UK firms focusing on cost reductions in order to remain competitive in the domestic market. So, with inflation expected to grow, we anticipate that real wages will remain at current levels or marginally erode over the year, impacting real disposable income.

Impact on consumers

Against the backdrop of these macroeconomic factors and coupled with falling consumer confidence, we expect to see a decline in overall consumer spending in 2017. While consumer credit has been growing since the 2008 financial crisis, it is our expectation that this will begin to flatten in 2017.

Consumers with good affordability (particularly homeowners with equity) will have access to a wide range of cheap credit, but will be less likely to take-on any new unsecured credit in the next 6 -12 months and will remain focussed on paying down existing commitments. Whereas, households with lower affordability are more likely to use expensive credit products to get through the month and it is likely that where this population has access to credit they will continue to borrow.

Given the continued macroeconomic turbulence expected in 2017, we are likely to see an increasing number of 'new' customers entering into collections and recoveries who are unused to dealing with arrears and will expect a different type of engagement from their creditors.

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In summary…

In 2017 the level of economic uncertainty is probably greater than at any time since the financial crisis almost a decade ago. Here in the UK, we have to navigate the fall-out from an inconclusive general election vote, and Brexit as well as ongoing budgetary and banking crises. All these factors create further uncertainty around the key macroeconomic indicators.

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