

UK Viewpoint

Consumer Whisperer: stabilising

Consumer confidence improves

Our proprietary UK consumer confidence indicator stabilised in February and remains weak (Exhibit 2). Falling gas prices drove a large confidence bounce in January ([UK Viewpoint: Consumer Whisperer: improving 01 February 2023](#)), but further gas price drops had little additional effect in February, possibly as real wages continue to fall and prospective utility bills remain much higher than a couple of years ago.

Hawkish signs for Bank of England

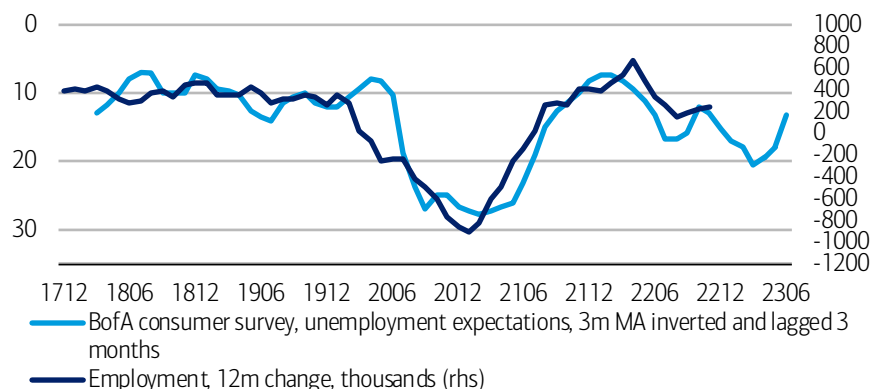
Our survey finds a large drop in unemployment expectations which have traditionally been a good leading indicator for jobs growth (Exhibit 1). 5-year inflation expectations also rose 10bp on the month, while a higher frequency 7-day moving average of responses shows 5-year expectations rising to the highest since December (Exhibit 11, Exhibit 15). On the whole expectations developments remain encouraging, with the proportion of people expecting extreme inflation well below levels from a few months ago. But the latest rise in expectations adds some concern.

Mortgage shock ahead

Our survey suggests much of the impact of higher interest rates is yet to feed through to consumer spending. Of those people with a mortgage our survey finds more than half expect to refinance at a mortgage rate below 4%, 120bp below the average advertised 2-year fixed rate in January and 70bp below the advertised 5-year rate. 46% of households with a mortgage expect to cut back spending in response to higher rates, but 40% have not changed spending yet. This suggests households may not on average be factoring in the extent to which mortgage rates have risen and a chunk of the spending response to higher rates is yet to be felt.

Exhibit 1: BofA consumer survey unemployment expectations, inverted vs. jobs growth

Jobs growth recovering



Source: BofA Global Research, ONS

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28 February 2023

Economics
United Kingdom

BofA

Data
Analytics



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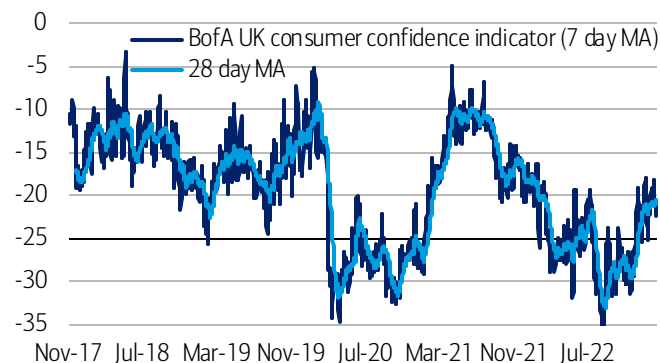
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Timestamp: 28 February 2023 01:45AM EST

Exhibit 2: BofA consumer confidence indicator

Rises one point in February as gas prices fall, remains weak

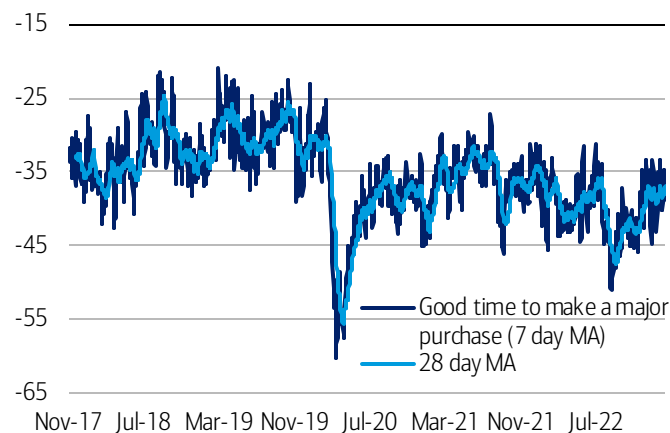


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Exhibit 4: Major purchase intentions

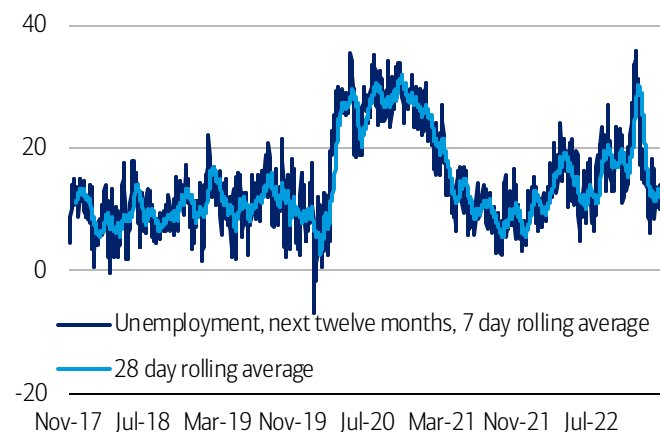
Improves two points in February, remains weak

**Source:** BofA Global Research.

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Exhibit 6: Unemployment expectations

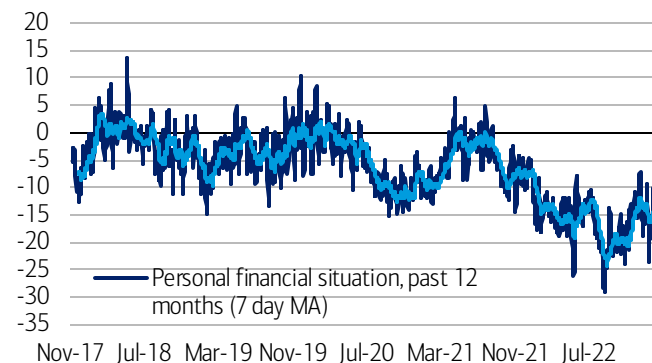
Stabilised in February

**Source:** BofA Global Research.

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Exhibit 3: Confidence in personal financial situation

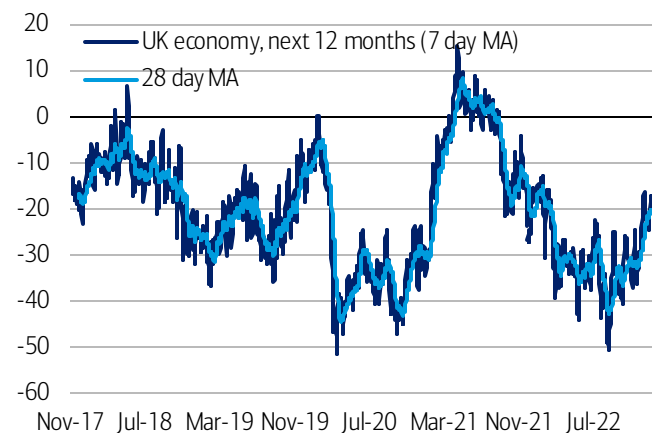
Improves two points in February as gas prices fall, remains weak

**Source:** BofA Global Research.

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Exhibit 5: Confidence in the UK economy

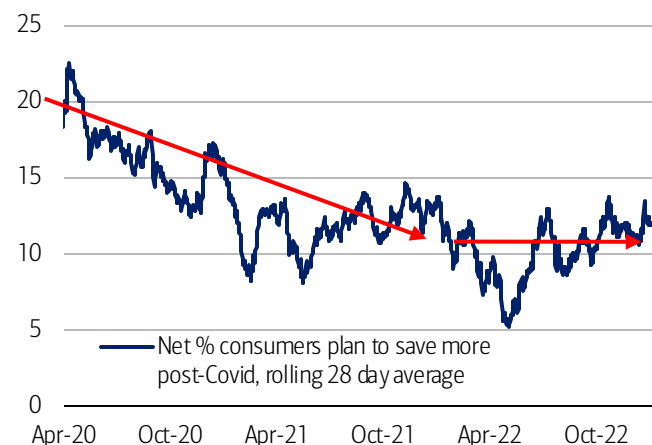
Improves two points in February, in pre-Covid (weak) range

**Source:** BofA Global Research.

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Exhibit 7: Post-Covid saving plans

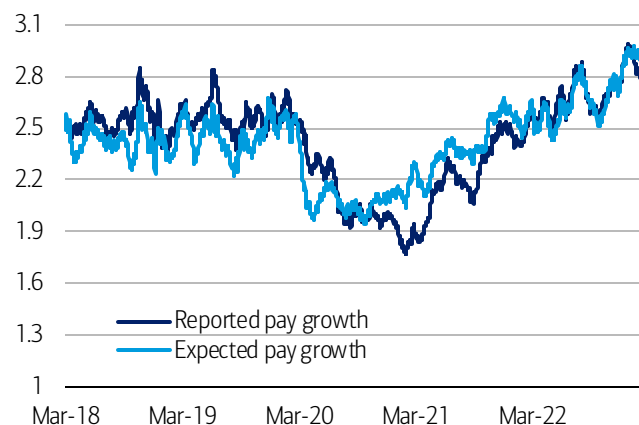
Consumers rebuilding saving rate after low point in May

**Source:** BofA Global Research.

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Exhibit 8: Reported and expected pay growth

Pay and pay expectations remain very strong

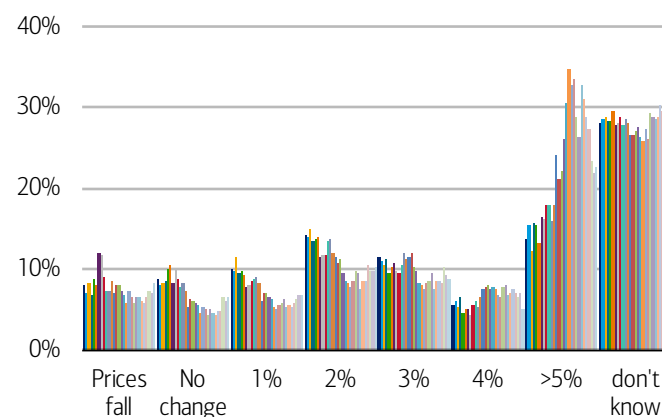


Source: BofA Global Research

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Exhibit 9: 12-month ahead inflation expectations

Proportion of consumers who don't know where inflation will be in a year's time holds near to highest in our survey (since 2018)

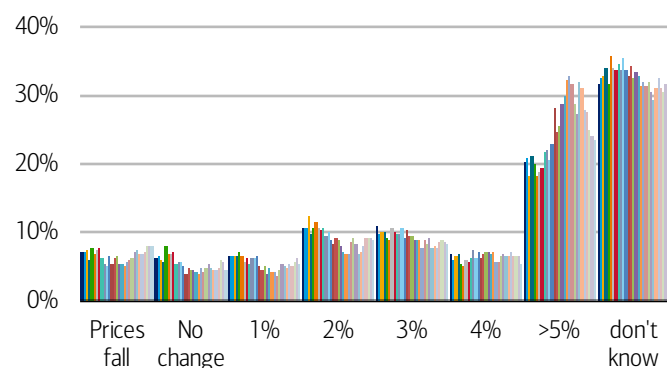


Source: BofA Global Research

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Exhibit 10: 5 year ahead inflation expectations

Proportion of consumers who don't know where inflation will be in five years time surges to highest in our survey history (since 2018)

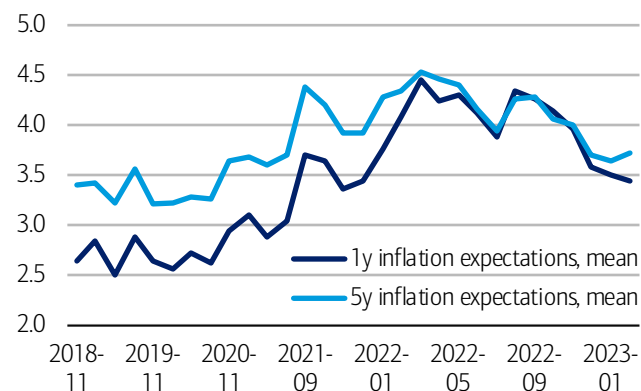


Source: BofA Global Research

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Exhibit 11: 1y and 5y inflation expectations

1y falls to lowest since December 2021, 5y rises 10bp

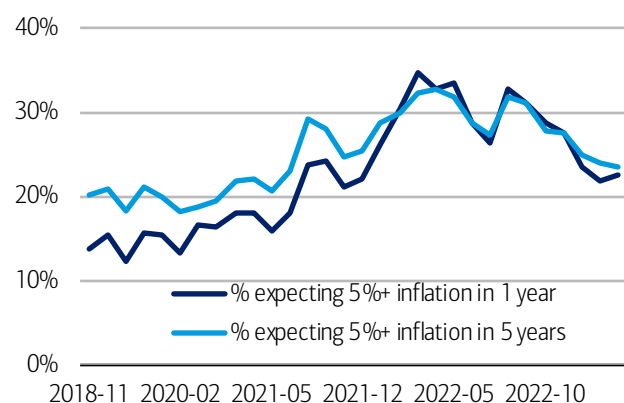


Source: BofA Global Research

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Exhibit 12: % expecting > 5% inflation in 1y and 5y

% of consumers expecting very high inflation falls to lowest since 2021

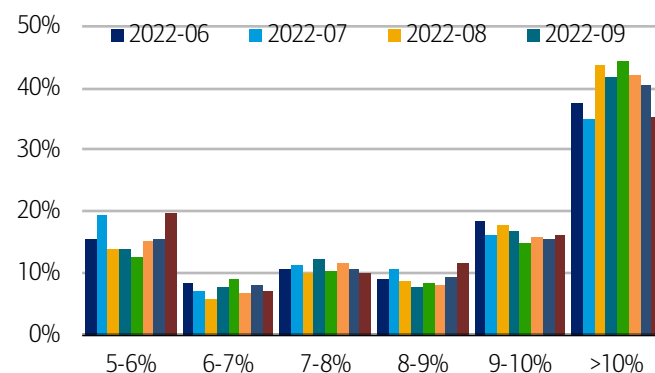


Source: BofA Global Research

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Exhibit 13: 12 month ahead inflation expectations, for those expecting > 5% inflation

Fall in % people expecting very high inflation

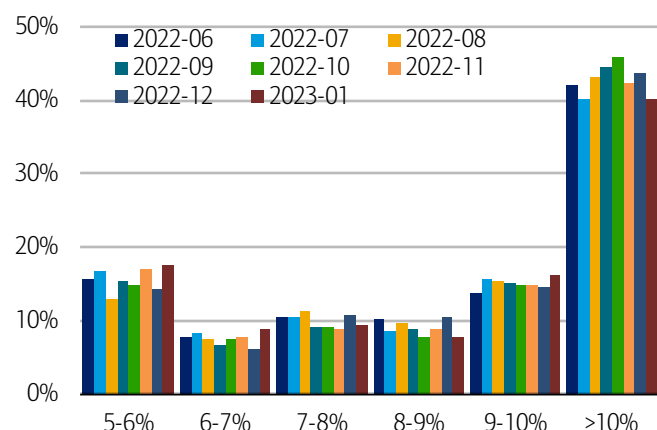


Source: BofA Global Research

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Exhibit 14: 5 year ahead inflation expectations, for those expecting > 5% inflation

Fall in % people expecting very high inflation

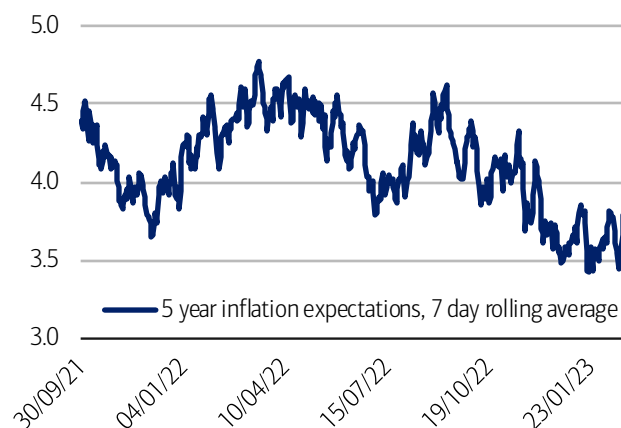


Source: BofA Global Research

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Exhibit 15: 5-year inflation expectations, 7 day rolling average

High frequency measure of inflation expectations rises to highest since early December

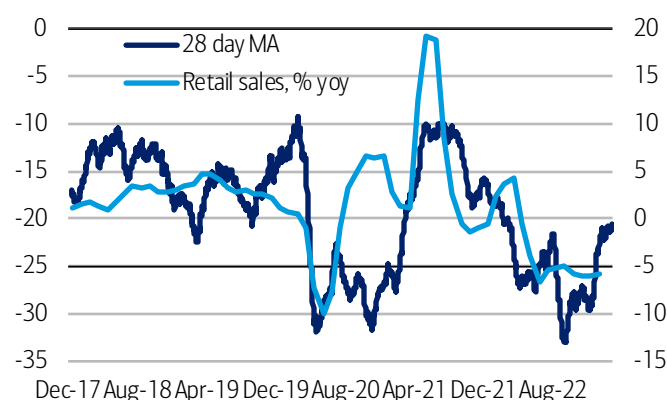


Source: BofA Global Research

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Exhibit 16: BofA consumer confidence indicator and retail sales

Retail sales growth may improve

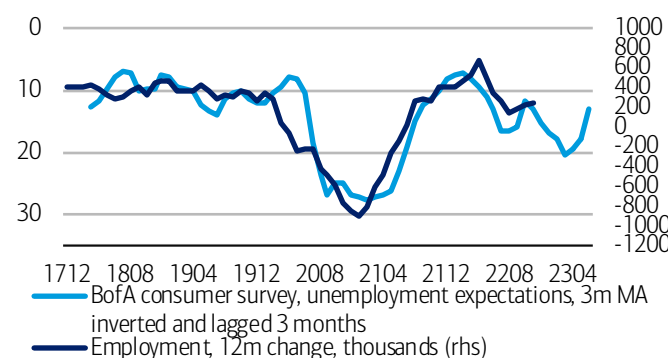


Source: BofA Global Research, ONS.

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Exhibit 17: BofA consumer survey unemployment expectations and employment change

Latest consumer confidence data suggest employment stopped falling

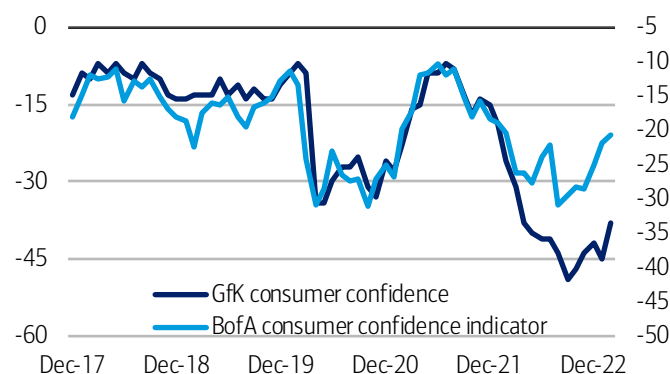


Source: BofA Global Research, ONS.

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Exhibit 18: BofA consumer confidence indicator and GfK consumer confidence

BofA indicator suggests GfK consumer confidence to rise further

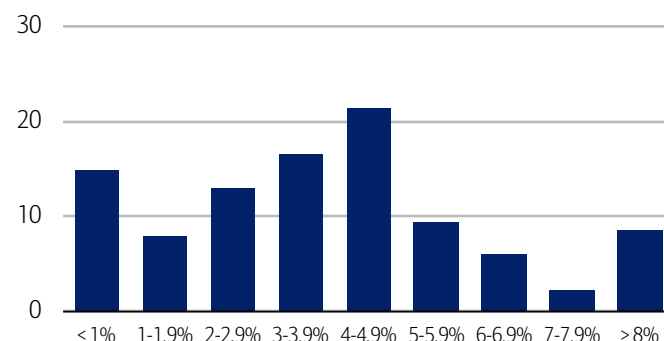


Source: BofA Global Research

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Exhibit 19: What interest rate do you expect to pay on your mortgage when your current mortgage deal ends?

52% of households expect to pay < 4% interest rate on their mortgage when they refinance, well below current mortgage rates

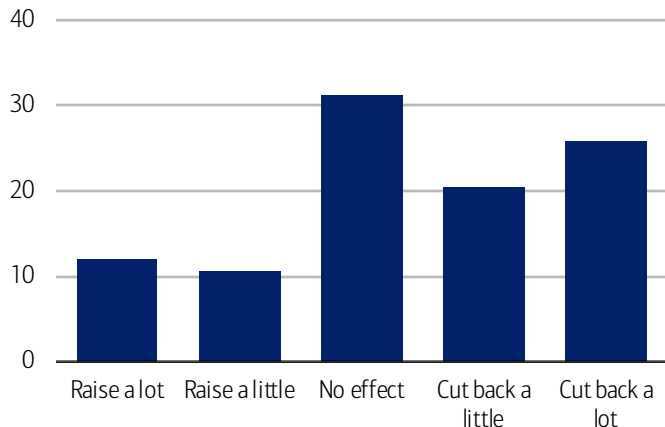


Source: BofA Global Research.

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Exhibit 20: How would the change in mortgage payments you expect affect your spending on other goods and services?

46% of households expect to cut back spending in response to higher mortgage rates

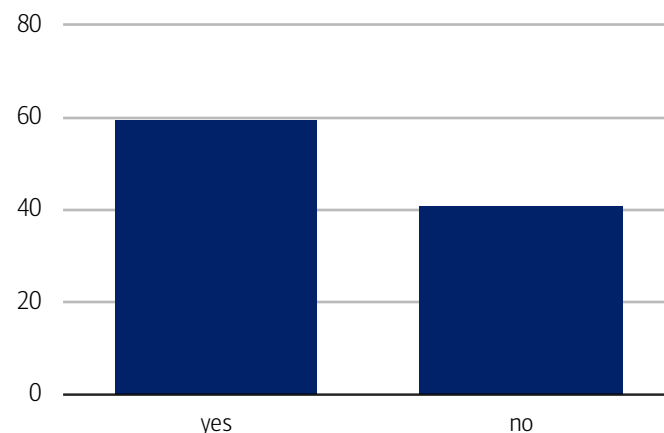


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Exhibit 21: Have you already changed your spending because you expect your mortgage interest rate to rise?

40% of households have not changed spending

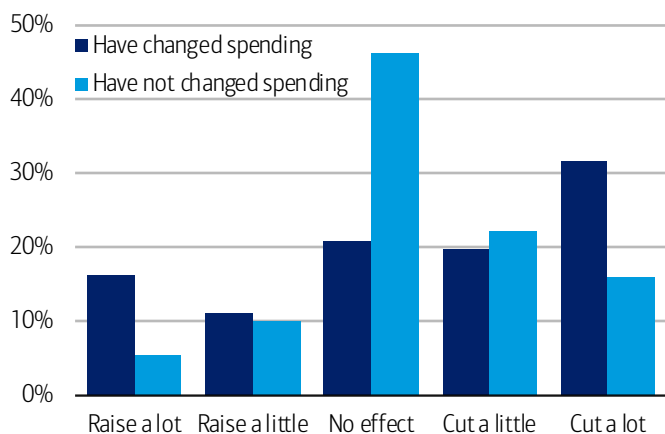


Source: BofA Global Research

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Exhibit 22: Impact of mortgage rates on spending split by whether households have already changed spending

40% of households who have not changed spending yet plan to cut back

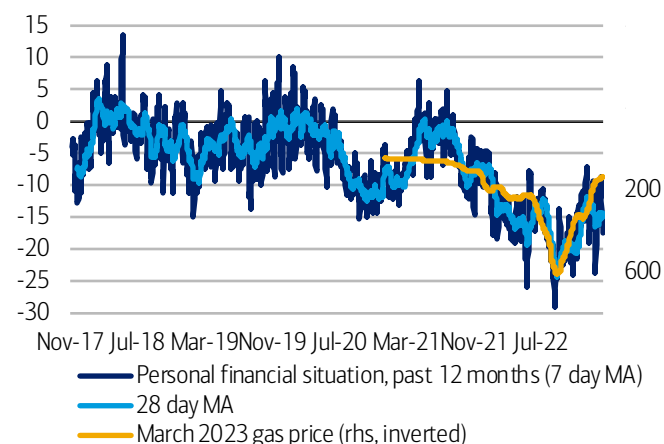


Source: BofA Global Research

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Exhibit 23: Personal financial situation and wholesale gas price

Sentiment improved with gas price fall in January, but correlated faded in February



Source: BofA Global Research

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Box 1: Survey method and questions**Sampling method**

Our survey data is collected online by survey company RIWI using 'Random Domain Intercept Technology'. This directs respondents who enter an incorrect or lapsed URL address to a randomised RIWI survey site. People who make errors entering a URL address should constitute a random sample of the online population.

One potential advantage of this survey method is that it does not rely on surveying a panel of self-selected online respondents. Studies of the 2015 UK General Election polling experience found, for instance, that traditional pollsters

“reached an atypical group of youngsters, who were unusually engaged with politics.”¹

The potential disadvantage of this method is that we collect less comprehensive personal data about respondents, which means we cannot weight the sample with as many variables as some pollsters. That said, the more random the underlying sample is the less need there is to weight the results. But there is a risk that our sample is skewed towards heavy internet users.

Every survey method has advantages and disadvantages. At the least, the method we employ is not currently used to construct a measure of UK consumer confidence so it should provide a potentially useful alternative view.

Sample size

Because some people choose not to respond to every question we will not have the same sample size for every question. We have run our survey continuously since 16 November 2017. For December, Question 2 had the highest sample size at 5,536. Question wording is shown in the next section. These are larger than a typical UK consumer confidence survey. The long-running GfK UK consumer confidence survey sampled 1998 adults in November 2017, for instance.

We plan to publish a report every month with our results. Since we are surveying on-line we cannot guarantee the precise sample size in advance. But we hope to achieve 2,500 responses at least to every question. The typical numbers of responses per day suggest we will be able to achieve that sample size in a typical month.

We may publish ‘flash’ consumer confidence readings if events make it worthwhile to do so given the less statistically significant results that result from the smaller sample sizes in a ‘flash’ report.

Survey questions

The survey questions we use in this report are:

1. Over the past year, your financial position has: improved a lot; improved a little; not changed; worsened a little; worsened a lot.
2. Right now is it a good time to make a major purchase, like a car or a TV? Right time; not the right time; don't know.
3. Do you expect the UK economy over the next 12 months to: improve a lot; improve a little; not change; worsen a little; worsen a lot?
4. Do you expect UK unemployment in the next year to: fall a lot; fall a little; stay about the same; rise a little; rise a lot?
5. How has your pay changed in the past year? It hasn't, not employed; my pay was cut; pay was frozen; raise less than 1%; raise 1%; raise 2%; raise 3%; raise 4%; raise 5%.
6. How do you expect your pay to change in the next year? I expect my pay to fall; pay freeze; raise less than 1%; raise 1%; raise 2%; raise 3%; raise 4%; raise 5%. Note: those people responding “not employed” to question 5 were excluded from question 6.

¹ ‘General election opinion poll failure down to not reaching Tory voters’, The Guardian, 19 January 2016.

7. When life returns to normal or some sort of normal after coronavirus, do you plan to: Save a lot more money; Save a little more money; Save the same amount as before; Save a little less money; Save a lot less money.
8. How much to you think prices in the shops will generally change in the next 12 months? Prices will go down; prices will not change; increase 1%; increase 2%; increase 3%; increase 4%; increase 5%+; don't know.
9. How much to you think prices in the shops will generally change in the long-run (in 5 years)? Prices will go down; prices will not change; increase 1%; increase 2%; increase 3%; increase 4%; increase 5%+; don't know.
10. You say that you expect prices in the shops to rise 5% or more over the next 12 months, by how much do you expect them to rise? 5-6%; 6-7%; 7-8%; 8-9%; 9-10%; more than 10%, don't know.
11. You say that you expect prices in the shops to rise 5% or more over the long run (in 5 years), by how much do you expect them to rise? 5-6%; 6-7%; 7-8%; 8-9%; 9-10%; more than 10%, don't know.
12. Do you have a mortgage? Yes, no.
13. What interest rate do you expect to pay on your mortgage when your current mortgage deal ends? <1%, 1-1.9%, 2-2.9%, 3-3.9%, 4-4.9%, 5-5.9%, 6-6.9%, 7-7.9%, ≥8%.
14. How would the change in mortgage payments you expect affect your spending on other goods and services? Raise spending a lot, Raise spending a little, No effect, Cut back spending a little, Cut back spending a lot.
15. Have you already changed your spending because you expect your mortgage interest rate to rise? Yes, no.

Constructing BofA consumer confidence indicator

We use the answers to questions 1-4 to construct our consumer confidence indicator. We first calculate a 'net percentage balance' of responses to each question individually. That means subtracting the percentage of respondents given the 'negative' response to the question (e.g. financial position worsened) from the percentage giving the 'positive' response (e.g. financial position improved). The consumer confidence indicator is then calculated as the simple average of the four balances.

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