

UK Viewpoint

Consumer Whisperer: weak but hawkish

Consumer confidence stable but weak

Our proprietary UK consumer confidence indicator has changed little since late January (Exhibit 2). Falling wholesale energy costs quickly fed through to improved consumer confidence in the second half of last year ([UK Viewpoint: Consumer Whisperer: improving 01 February 2023](#) and Exhibit 21). That probably subsequently drove some of the pick-up in business sentiment measures recently. Confidence has drifted since January, however, suggesting growth momentum will peak soon. Interest rate rises are meanwhile gradually feeding through to consumer spending, although for now still few households report cutting back (Exhibit 22).

Hawkish signs for Bank of England

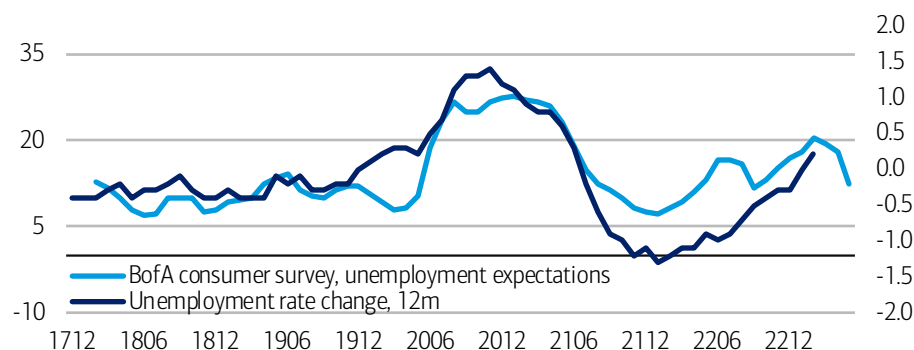
Despite still weak consumer confidence our survey provides several hawkish signals for the Bank of England. As sentiment has improved from the trough last year so unemployment expectations have dropped (Exhibit 1), suggesting the recent rises in the unemployment rate may not continue. This is consistent with an economy with a weak potential growth rate, where historically relatively weak growth is enough to keep the labour market tight. 1-year and 5-year inflation expectations have been broadly stable in recent months, while pay growth reached a new high for our survey (Exhibit 11).

Inactivity outlook improves

We repeat a set of questions about why people have left the labour force and whether they plan to return. Our survey suggests more inactive people plan to return to the labour market than when we asked these questions in August 2022 (Exhibit 19). A majority of the long-term sick now plan to return (Exhibit 18), although not anytime soon; most say they expect to return 'eventually'. Meanwhile, over 80% of those who retired and 45% of the long-term sick do not plan to return to work (Exhibit 18). Our survey suggests retirement since Covid reflects mainly non-financial factors.

Exhibit 1: BofA consumer survey unemployment expectations vs. unemployment rate change

Unemployment rate may not keep falling for much longer



Source: BofA Global Research, ONS

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16 May 2023

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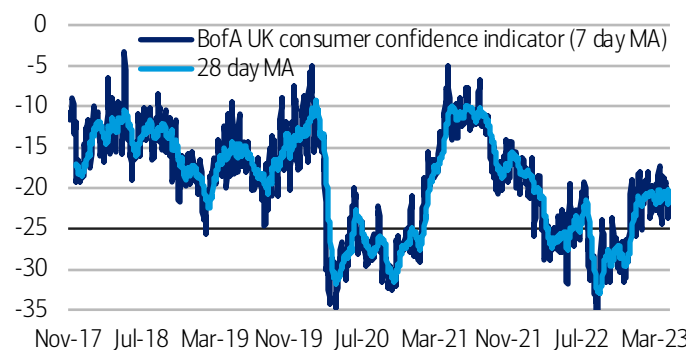
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Exhibit 2: BofA consumer confidence indicator

Little changed since late January

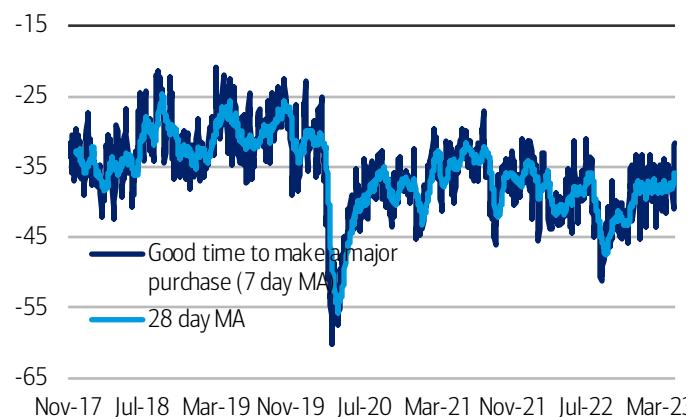


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Exhibit 4: Major purchase intentions

Unchanged

**Source:** BofA Global Research.

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Exhibit 6: Unemployment expectations

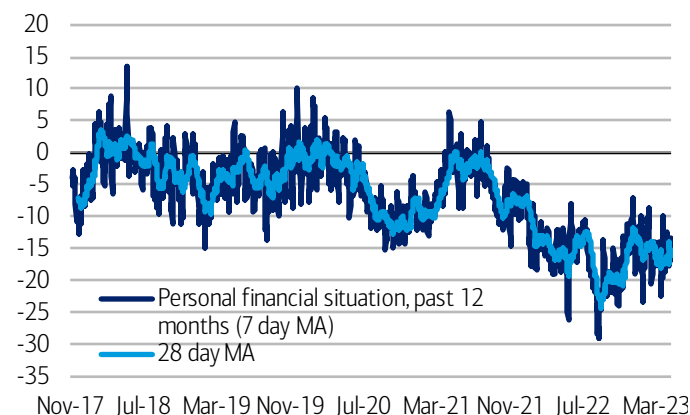
Up 2 points since March

**Source:** BofA Global Research.

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Exhibit 3: Confidence in personal financial situation

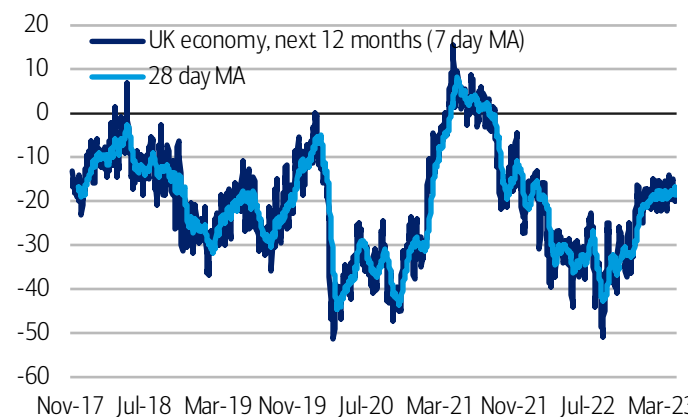
Up 5 points since March

**Source:** BofA Global Research.

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Exhibit 5: Confidence in the UK economy

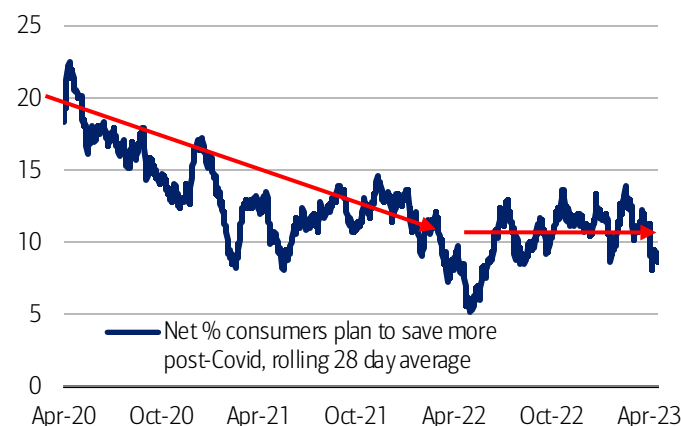
Up 3 points since March

**Source:** BofA Global Research.

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Exhibit 7: Post-Covid saving plans

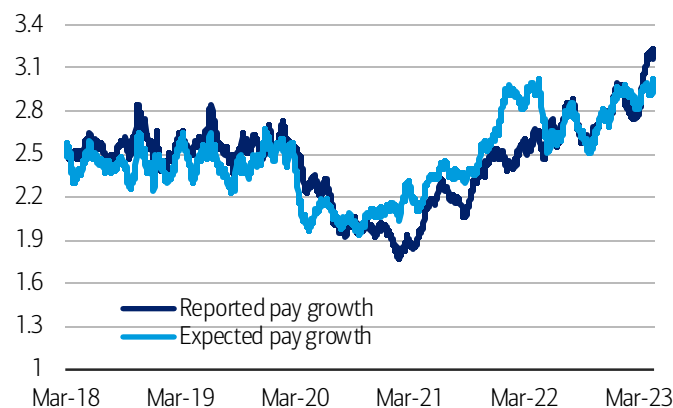
Consumers saving plans drop as growth recovers

**Source:** BofA Global Research.

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Exhibit 8: Reported and expected pay growth

Pay growth reaches new record high

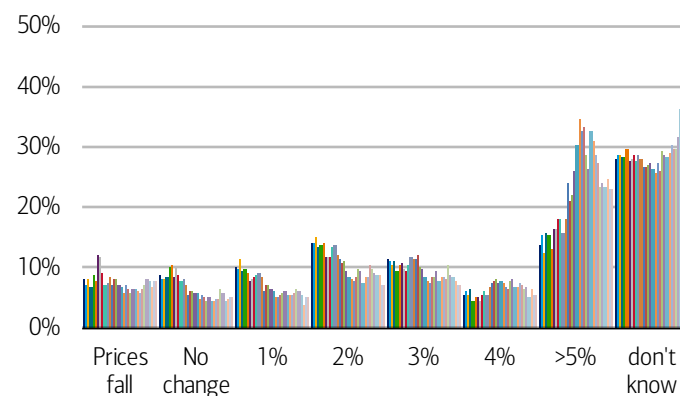


Source: BofA Global Research

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Exhibit 9: 12-month ahead inflation expectations

% expecting inflation above 5% rises to lowest since January 2022, % who don't know where inflation will be rises to new high for our survey

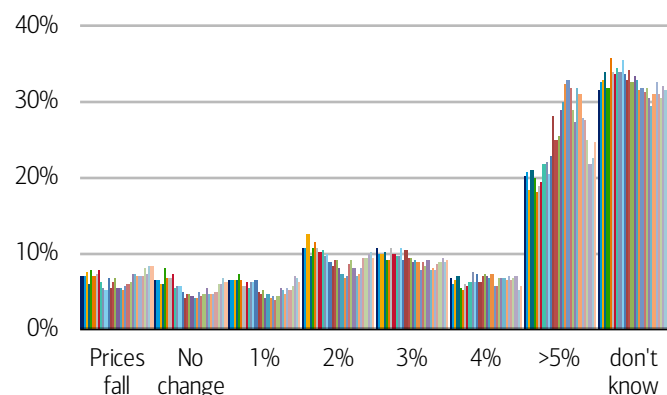


Source: BofA Global Research

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Exhibit 10: 5-year ahead inflation expectations

% expecting inflation above 5% rises to lowest in two years

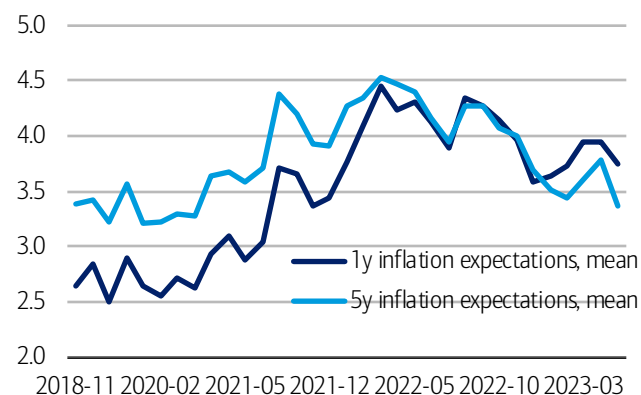


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Exhibit 11: 1y and 5y ahead inflation expectations

Inflation expectations stabilized after drop in 2H 2022

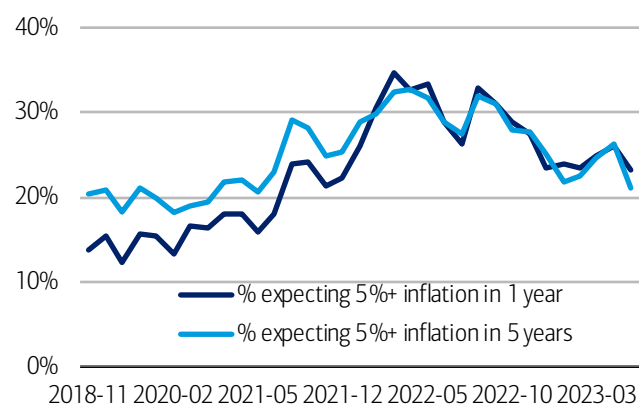


Source: BofA Global Research

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

% of consumers expecting very high inflation drops



Source: BofA Global Research

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Exhibit 13: 5-year inflation expectations, 7 day rolling average

High frequency measure of inflation expectations gradually falling in recent months after January spike

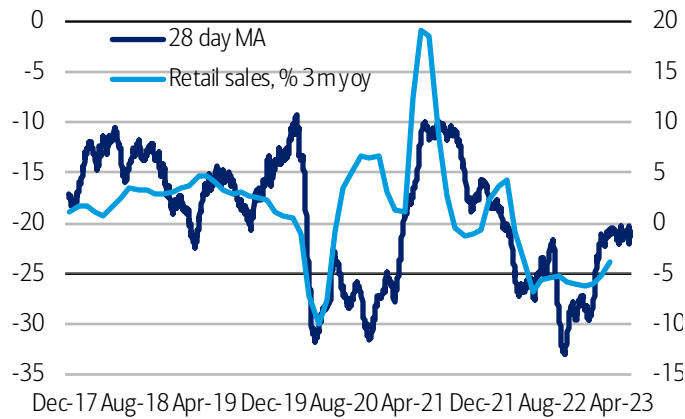


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Exhibit 14: BofA consumer confidence indicator and retail sales

Retail sales growth may improve

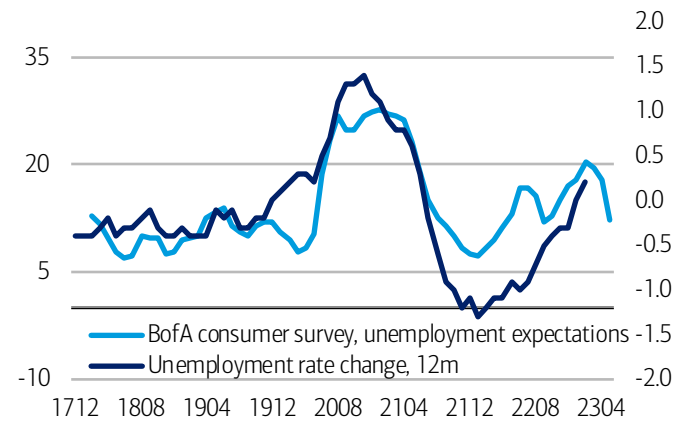


Source: BofA Global Research, ONS.

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Exhibit 15: BofA consumer survey unemployment expectations vs. unemployment rate change

Unemployment rate may not keep falling for much longer

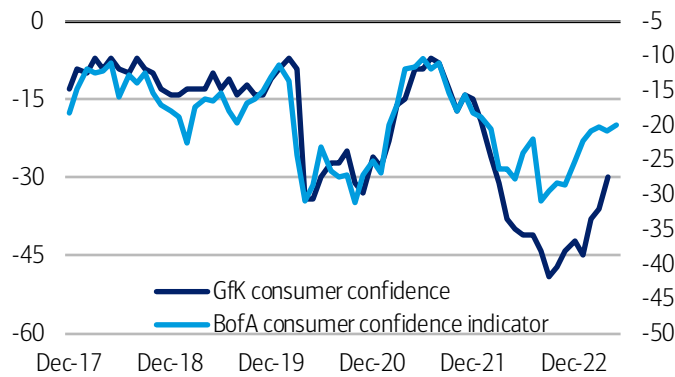


Source: BofA Global Research

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Exhibit 16: BofA consumer confidence indicator and GfK consumer confidence

BofA indicator suggests GfK consumer confidence to rise further

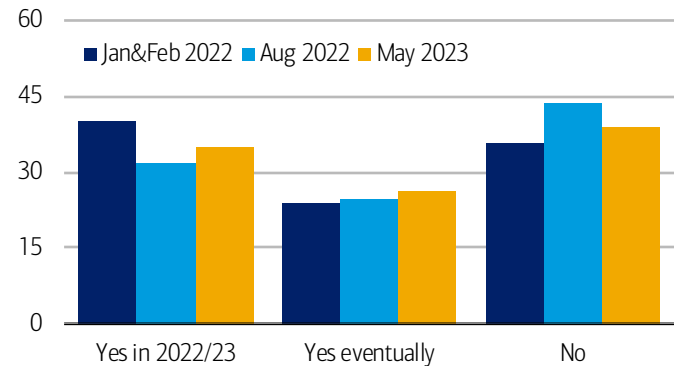


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Exhibit 17: Do you expect to return to work (if you had work before Covid but do not currently)

Slight improvement in plans to return to work since August, but deterioration since a year ago

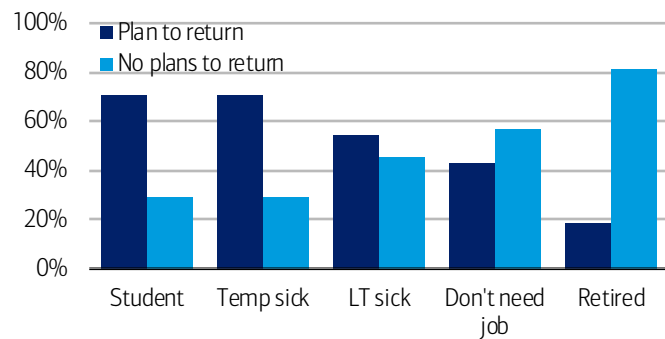


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Exhibit 18: Do you expect to return to work, split by reason for leaving workforce since 2019

People who retired since Covid do not plan to return, neither do 60% of long-term sick

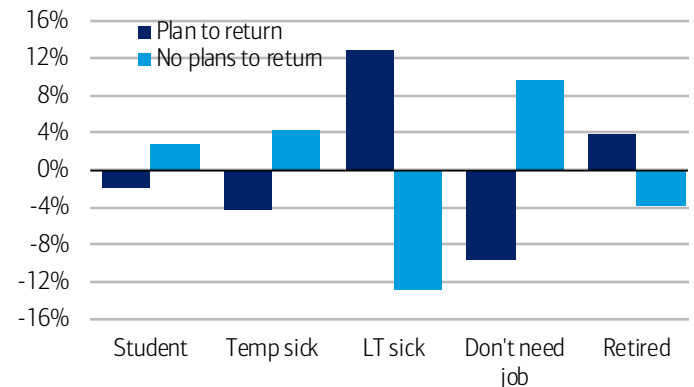


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Exhibit 19: Change in % planning to return, August 2022 to May 2023

Improvement in proportion of sick and retired who plan to return to work

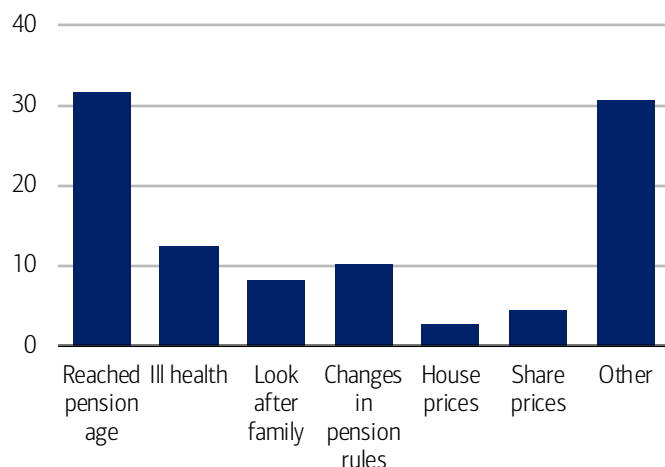


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Exhibit 20: If you retired since Covid what was the reason?

Retirement for the most part reflects factors unlikely to reverse

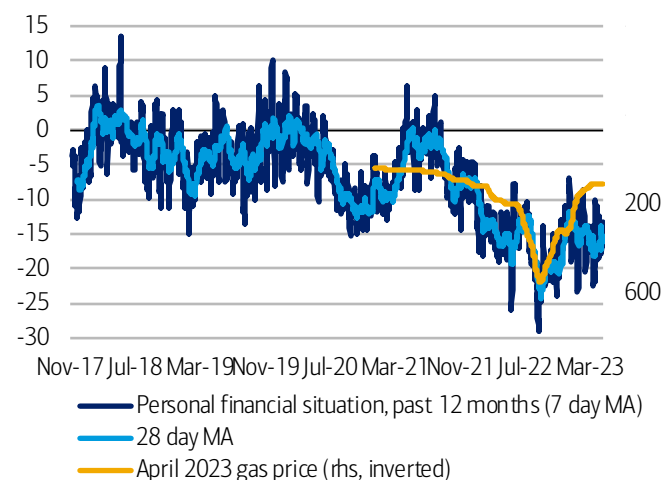


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Exhibit 21: Personal financial situation and wholesale gas price

Sentiment improved with gas price fall in January, but correlation faded since

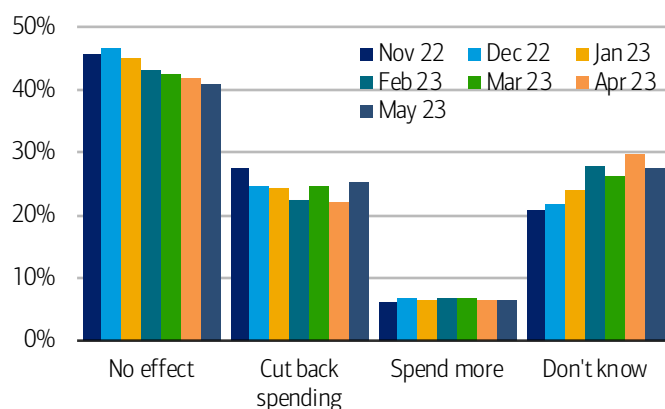


Source: BofA Global Research

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Exhibit 22: Effect of mortgage rate changes on spending

Interest rate hikes gradually feeding through



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 April, Question 2 had the highest sample size at 5,580. 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. What effect have rising mortgage rates had on your spending plans? No effect, I have cut back my spending, I plan to spend more, Don't know
11. Before COVID did you have paying work, as an employee or self employed, but you have now stopped working? Yes, No
12. What is the primary reason you have stopped working since the pandemic?- I am looking for work, I am now a student, I am looking after the family/home, I am temporarily sick, I am long-term sick or disabled, I believe there are no jobs available, I have not yet started looking for a job, I do not need employment, I am retired
13. Do you expect to return to work? Yes, I plan to return in 2022; Yes, I plan to return eventually; No
14. You said you stopped working because you were sick. What best describes your situation? Covid, Long-Covid, Waiting for GP appointment (for non-COVID sickness), Waiting for hospital treatment (for non-COVID sickness), Depression / mental illness, Other
15. You said you stopped work because you retired. Did you retire because: Reached state pension age, My ill health, To look after a family member, Changes in pension rules allowing you to take a pension from age 55, House price rises boosted wealth, Share price increases boosted wealth, Other.

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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