

UK Viewpoint

Consumer Whisperer: rates gaining traction

Consumer confidence drops

We publish a mid-month update of our proprietary UK consumer confidence indicator. As our survey is real time we can examine whether sharply higher interest rate expectations have affected consumer spending plans. Our consumer confidence indicator has fallen two points since the start of July and five points since mid-June, reaching the lowest since early January. All components of confidence deteriorated. Higher interest rates appear to be biting.

Inflation expectations ease

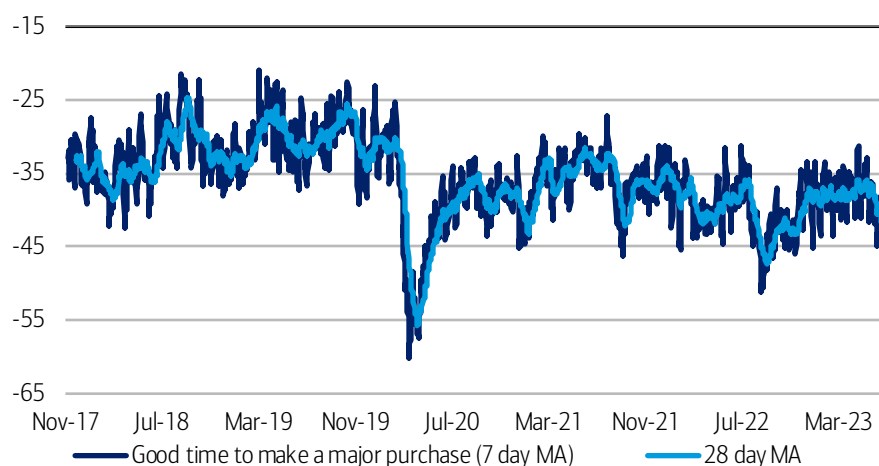
One-year ahead inflation expectations fell to the lowest since May 2021 and 5-year expectations to the lowest since August 2020. Our high frequency measure of expectations can be volatile, so we would be cautious, but it dropped sharply in the past couple of weeks. Wage expectations also dropped. It seems that an unexpected 50bp rate hike from the Bank of England (BoE) and sharply higher mortgage rates have cut through in a way that earlier rate hikes perhaps didn't.

Mortgage holders cut back

Mortgage holders mostly expect considerably higher mortgage rates when they refinance, and this is expected to drive a fall in spending. 60% of mortgage holders report having changed their spending in response to expected mortgage rate increases, with increasing numbers cutting back spending 'a lot'.

Exhibit 1: Spending plans fall as interest rates rise

Net % of consumers saying now is a good time to make a major purchase



Source: BofA Global Research

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18 July 2023

Economics
United Kingdom

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Data
Analytics



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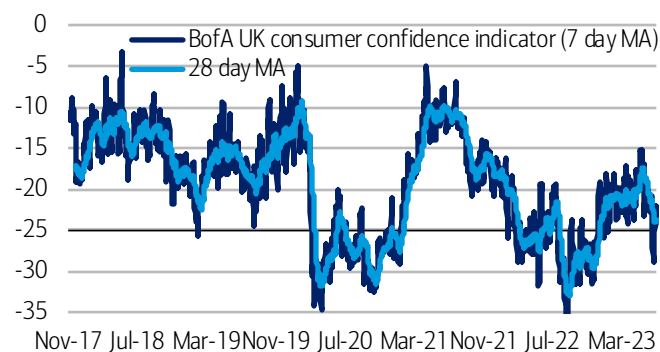
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Exhibit 2: BofA consumer confidence indicator

Fallen 2 points so far this month and five points since mid-June

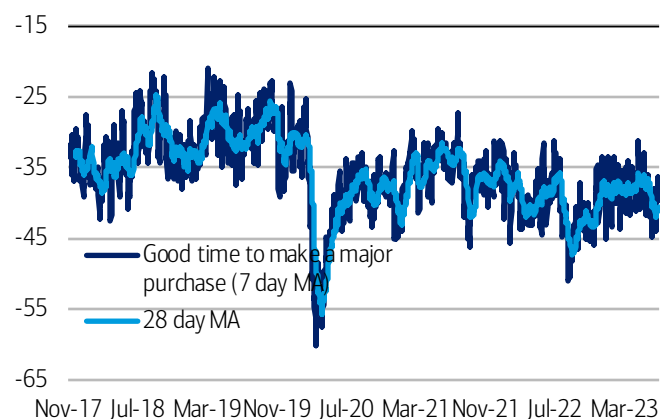


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Exhibit 4: Major purchase intentions

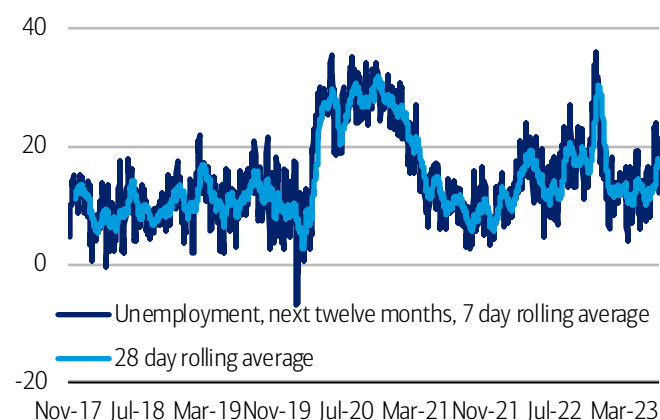
Fallen one point this month, four points since mid-June

**Source:** BofA Global Research.

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Exhibit 6: Unemployment expectations

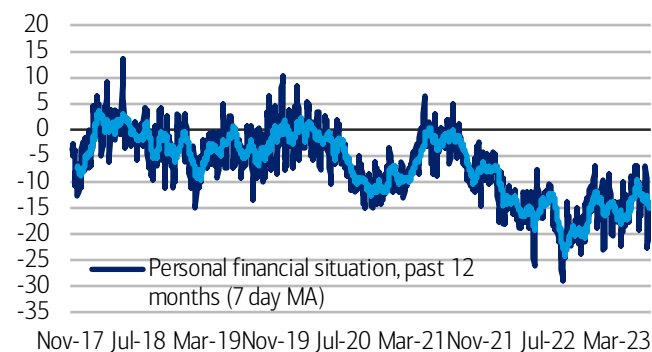
Up 3 points this month, 6 points since mid-June

**Source:** BofA Global Research.

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Exhibit 3: Confidence in personal financial situation

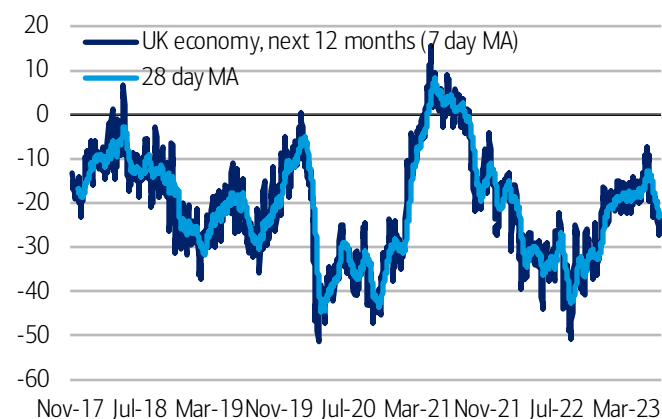
Fallen 2 points this month

**Source:** BofA Global Research.

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Exhibit 5: Confidence in the UK economy

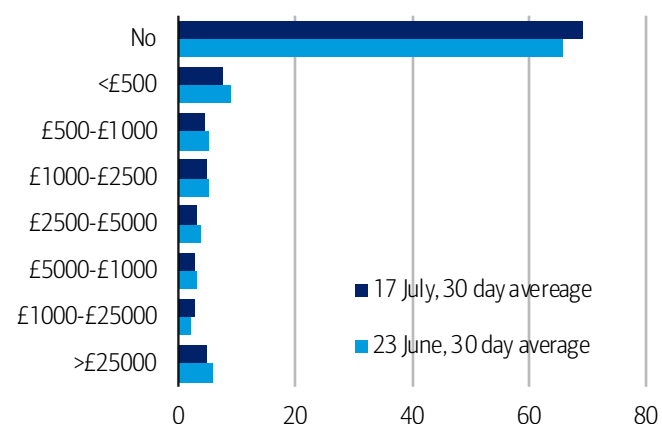
Fallen 3 points this month, 8 points since mid-June

**Source:** BofA Global Research.

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Exhibit 7: Running down saving

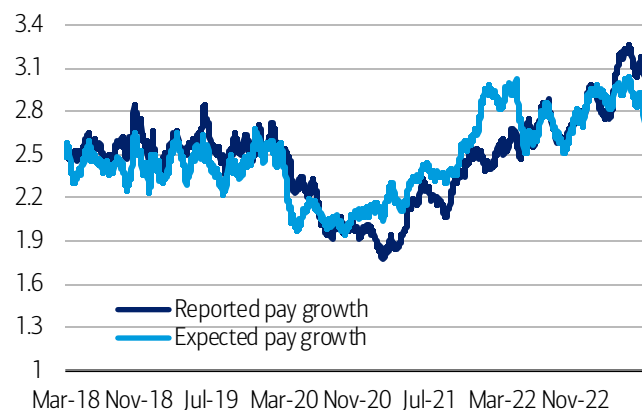
Have you built up more savings in your bank account than ore the Covid-19 pandemic?

**Source:** BofA Global Research

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Exhibit 8: Pay growth remains high, expectations drop

Reported and expected pay growth

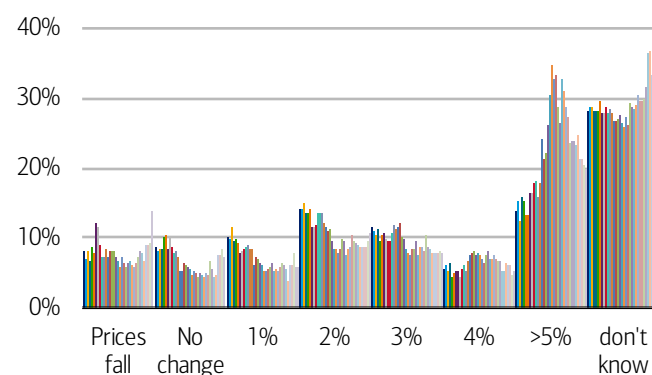


Source: BofA Global Research

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Exhibit 9: % expecting inflation above 5% falls to lowest since August 2021

12-month ahead inflation expectations

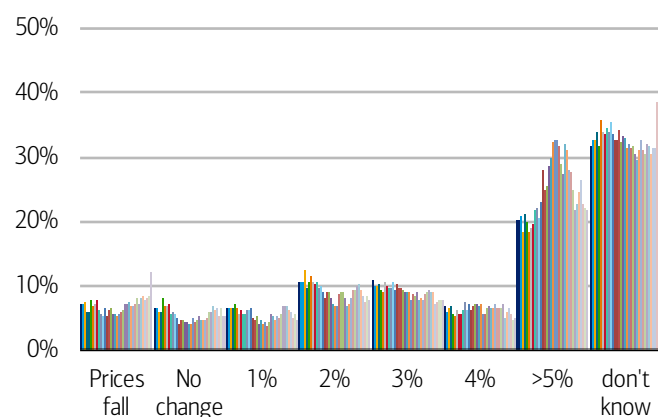


Source: BofA Global Research

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Exhibit 10: % expecting inflation above 5% falls to lowest since May 2021

5-year ahead inflation expectations

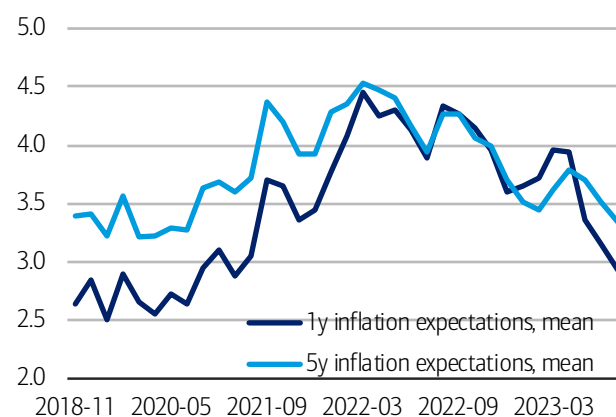


Source: BofA Global Research

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Exhibit 11: Inflation expectations fall, particularly at 1 year horizon, 5 year seems stuck around 3.5%

1y and 5y ahead inflation expectations

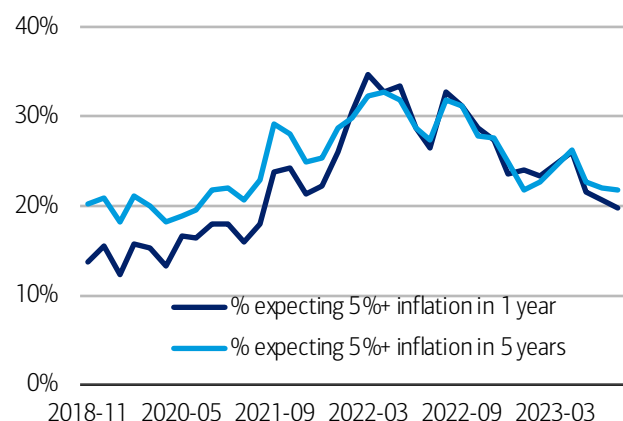


Source: BofA Global Research

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Exhibit 12: % of consumers expecting very high inflation falls

% expecting > 5% inflation in 1y and 5y



Source: BofA Global Research

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Exhibit 13: Sharp fall in inflation expectations as mortgage rates surge

5-year inflation expectations, 7 day rolling average

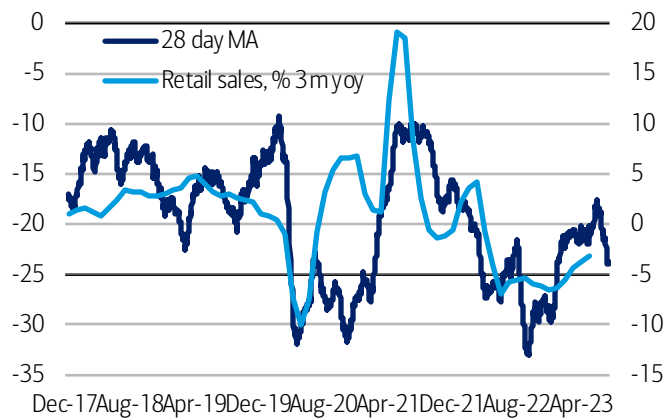


Source: BofA Global Research

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Exhibit 14: Confidence drop challenges retail recovery

BofA consumer confidence indicator and retail sales

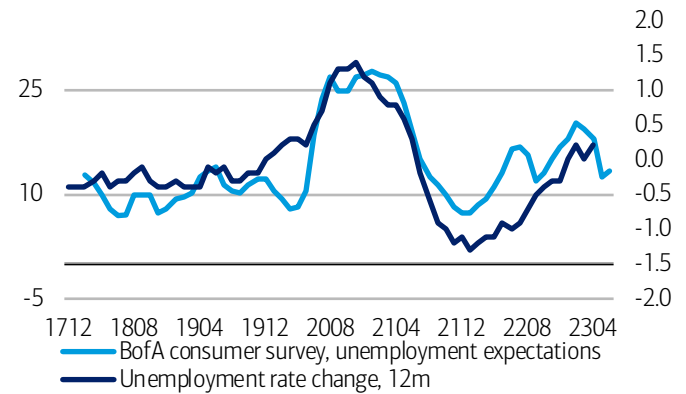


Source: BofA Global Research, ONS.

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Exhibit 15: Unemployment rate to keep gradually increasing

BofA consumer survey unemployment expectations vs. unemployment rate change

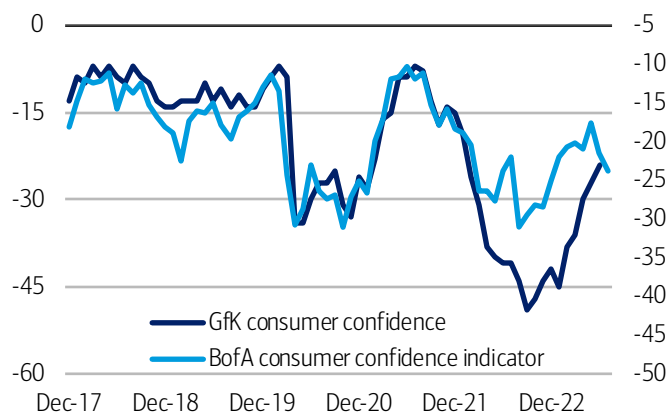


Source: BofA Global Research

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Exhibit 16: GfK catches up with BofA indicator

BofA consumer confidence indicator and GfK consumer confidence

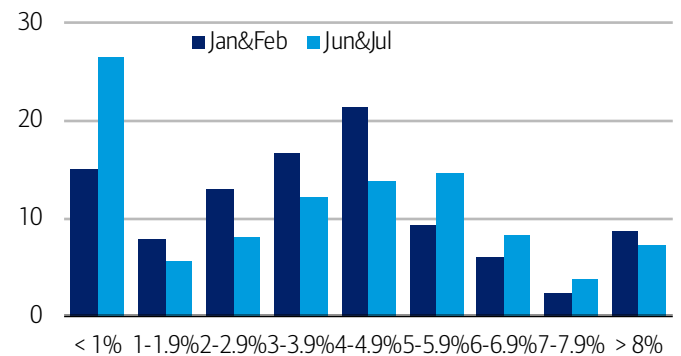


Source: BofA Global Research

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Exhibit 17: Sharp market repricing drives large changes in mortgage rate expectations

What interest rate do you expect to pay on your mortgage when your current deal ends

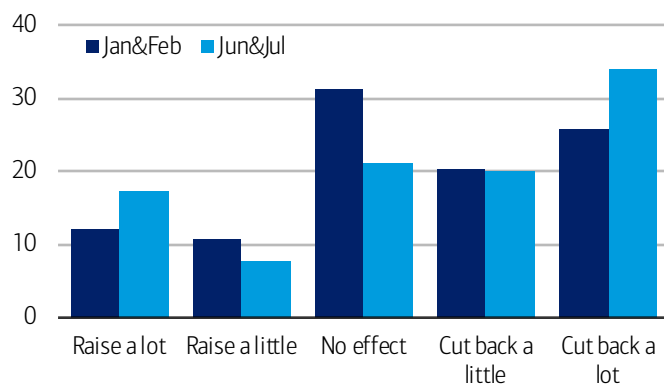


Source: BofA Global Research

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Exhibit 18: Higher expected mortgage rates cut spending

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

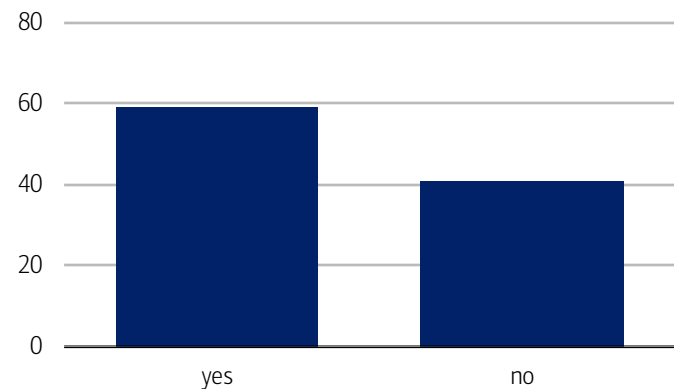


Source: BofA Global Research

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Exhibit 19: 60% of consumers have changed spending already

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

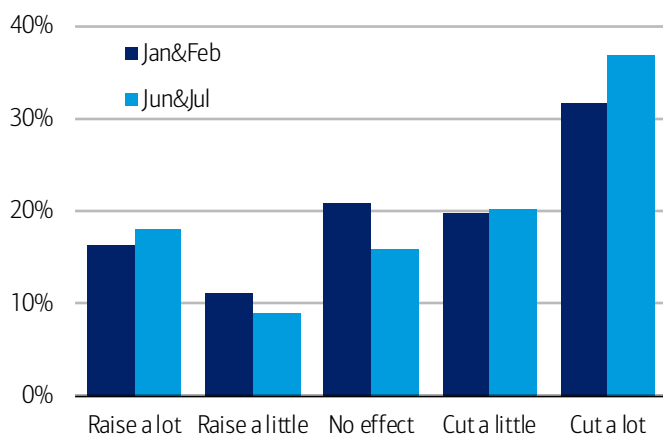


Source: BofA Global Research

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Exhibit 20: Impact of rate hikes becoming increasingly negative

Change in spending for those people with a mortgage who have responded to higher expected interest rates



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 June, Question 2 had the highest sample size at 5,287. Question wording is shown in the next section. These are larger than a

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

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.
7. How much do 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.
8. How much do 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.
9. 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
10. How have you responded to higher food prices? Spent more on food, Switched to cheaper brands / types of food, Eaten less / skipped meals, Used a food bank, Eaten out less or had fewer takeaways, Eaten out more or had more takeaways, Don't know, I don't think food prices have risen
11. Have you built up more savings in your bank account than before the Covid-19 pandemic? No; Yes, less than £500 more; Yes, £500 - £1,000 more; Yes, £1,001 - £2,500 more; Yes, £2,501 - £5,000 more; Yes, £5,001 - £10,000 more; Yes, £10,001 - £25,000 more; Yes, saved more than £25,000 extra.
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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