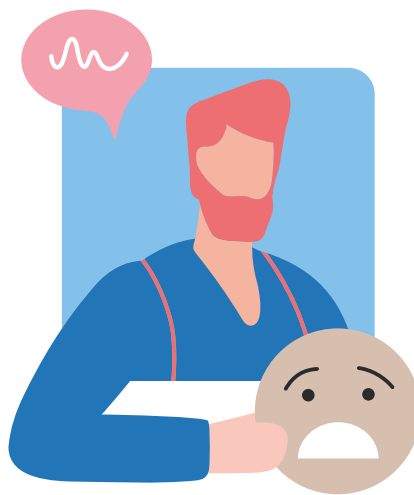




HOW DO YOU THINK CONSUMERS ARE FEELING NOW?



You may remember that, back in the Spring issue, we launched a new measure of consumer attitudes to their own financial situation and the wider economy – the Index of Consumer Sentiment. In some ways it wasn't ideally timed, to say the least, but because we had been tracking the measure for some time before we launched it, it does give us a very good picture of how consumer feelings have evolved over this very strange summer that we've all lived through.



It's hardly surprising that consumers are, rightly, worried about the economic impact of the Coronavirus and the measures taken to combat it. What's much more interesting is that their attitudes to their personal finances and the wider economy, over the short and long term, have been affected very differently.

Understanding consumer attitudes, and therefore being better able to predict their behaviour, makes the Index of Consumer Sentiment an important tool for businesses to understand and predict the economy, particularly in the wake of seismic events like a pandemic.

THE MEASURE - A REMINDER

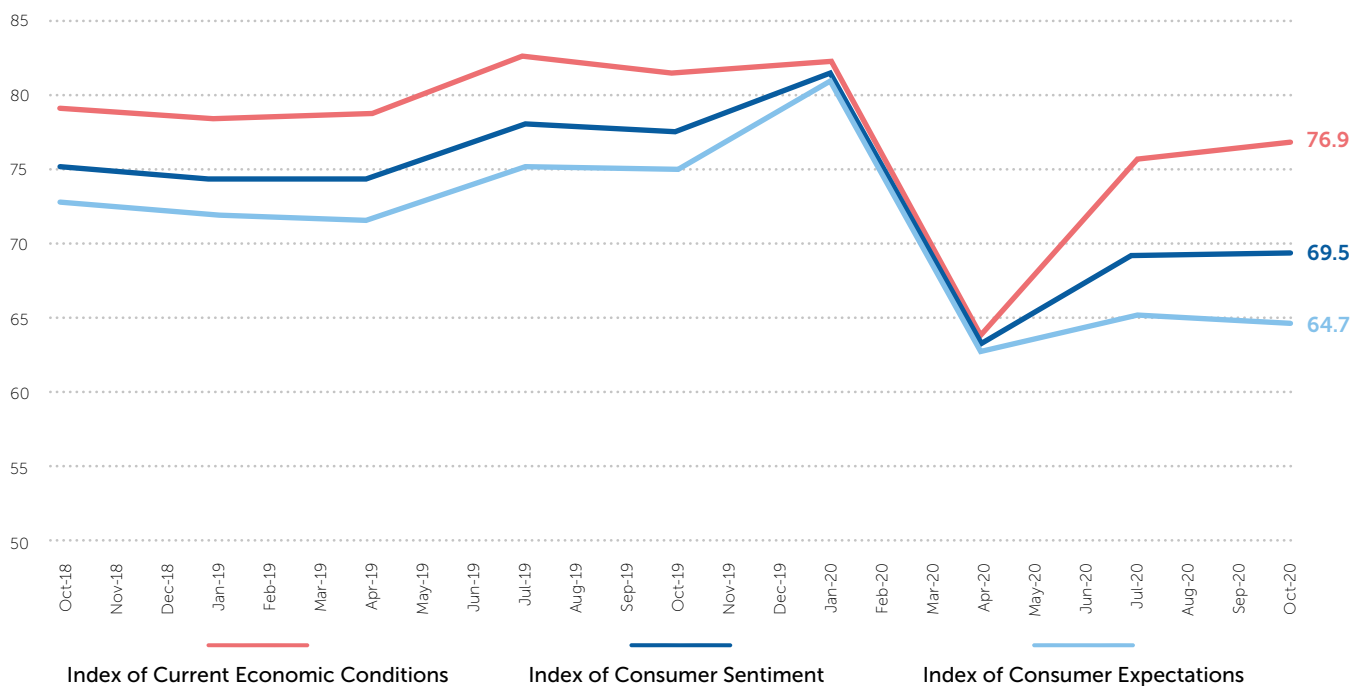
The Index of Consumer Sentiment measures three things (using a total of 5 questions):

- How people feel about their own financial situation
- How people feel about the general economy in the short term
- How people feel about the general economy in the longer term

As well as the overall index, there are two sub-indices – the Index of Current Economic Conditions, and the Index of Consumer Expectations. Comparing these gives a good sense of how customers feel right now versus their view of the future prospects for the economy.

The headline

You were probably expecting this. UK consumer sentiment plummeted between January and April this year (we run the survey quarterly). That's neither surprising nor very interesting, but the picture over the 6 months since then is more complicated, and more informative.



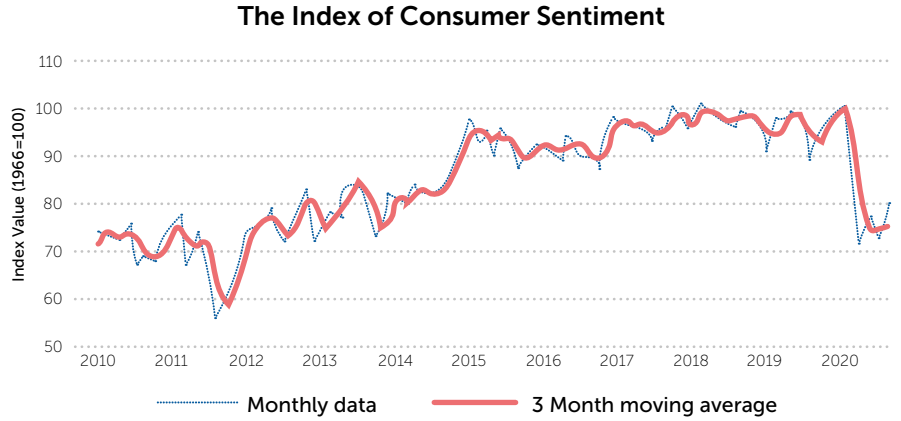
Looking at the sub-indices, it seems at first glance that consumers' confidence in current financial conditions bounced back surprisingly strongly over the summer, whilst their expectations for the future stayed depressed.

Comparison to the USA

We have chosen a methodology that allows us to compare consumer sentiment in the UK with the University of Michigan's Index of Consumer Sentiment¹. This had been running at a considerably higher level than in the UK, but plunged even more steeply during 2020 so that the scores for consumers in the UK and the USA were at their closest point in July. Since then the gap has again begun to widen, although it remains much smaller than before.

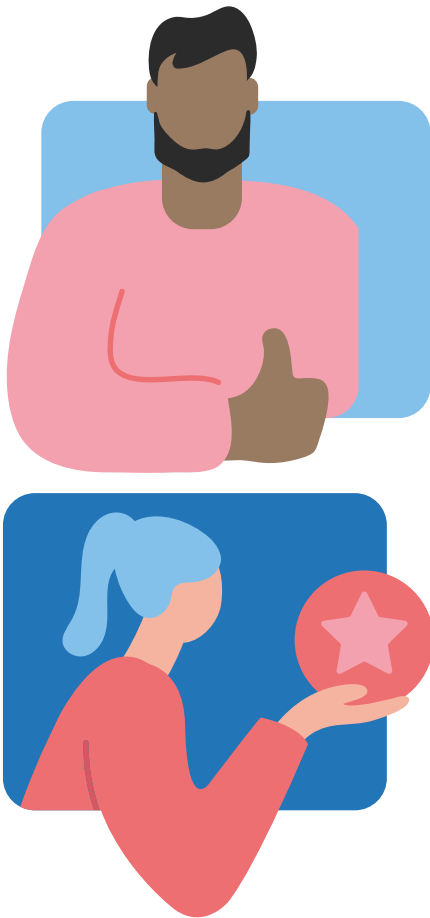
Beneath the index

To understand what's really going on, we need to turn to the individual questions that make up the indices. Each of the three headline index numbers is built on a combination of questions, which are



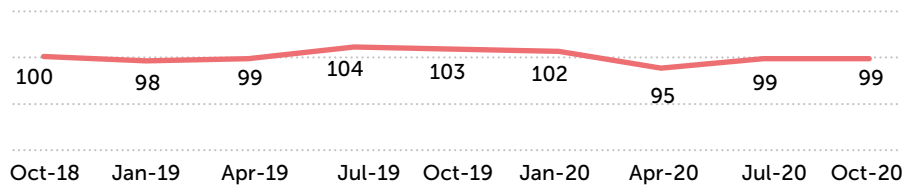
expressed as an index based on positive versus negative answers. In other words, a score of 100 means that the same number of people gave a positive answer as gave a negative answer, and a score below 100

means that there were more negative answers. Let's have a look at what's happened to each of the five questions over time...

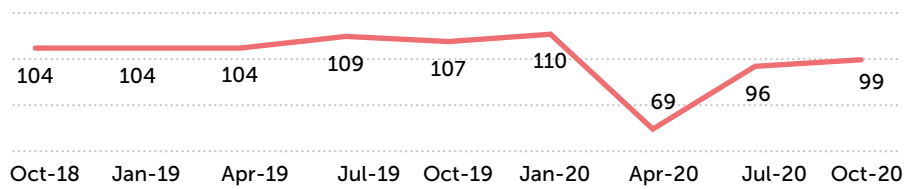


Change in questions

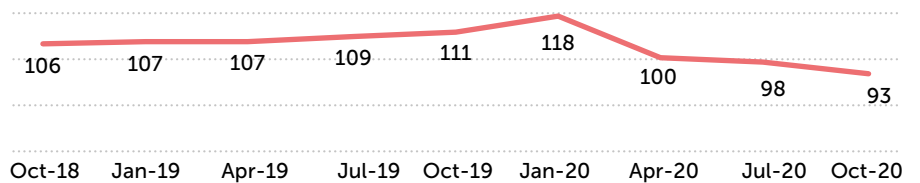
Better or worse off than last year?



Is now a good time to buy big things?



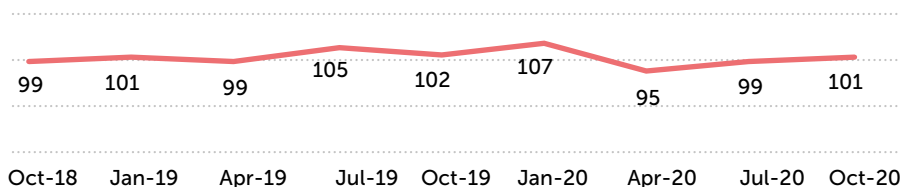
Long term business conditions



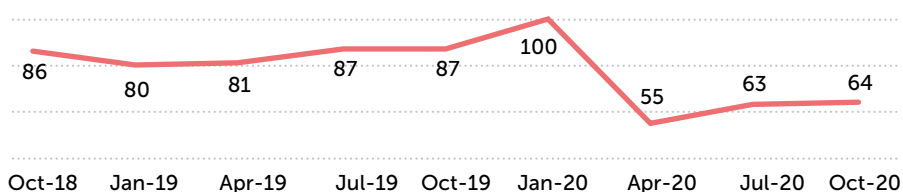
¹<http://www.sca.isr.umich.edu>

²<https://www.home.barclaycard/media-centre/press-releases.html>

Next year better or worse off?



Short term business conditions



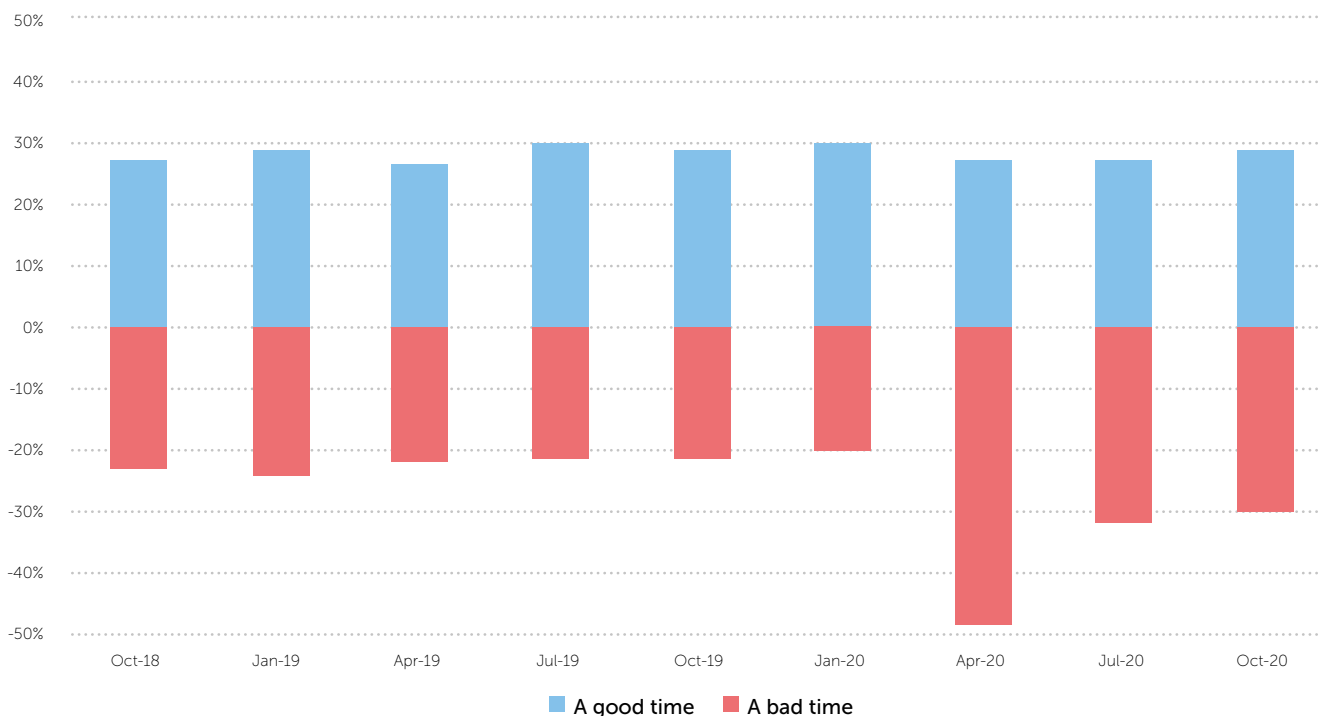
You can see that, although the other questions have experienced what would normally be seen as significant shifts, the really seismic change to consumer sentiment is restricted to two questions. The first of these, “Thinking about the big things people have to spend money on such as their car, a new television, furniture and things like

that, do you think now is a good or a bad time to buy major items?” plummeted in April, but has since recovered (driving the Index of Current Economic Conditions). This tallies with data from Barclaycard showing year-on-year drops in consumer spending of 36.5% in April and 26.7% in May, followed by a slow recovery from June onwards to

modest growth in August and September².

In fact if we look at the positive and negative responses per quarter, you can see that as many consumers are positive about this as they were before the pandemic, although more are negative...

Is now a good time to buy big things?

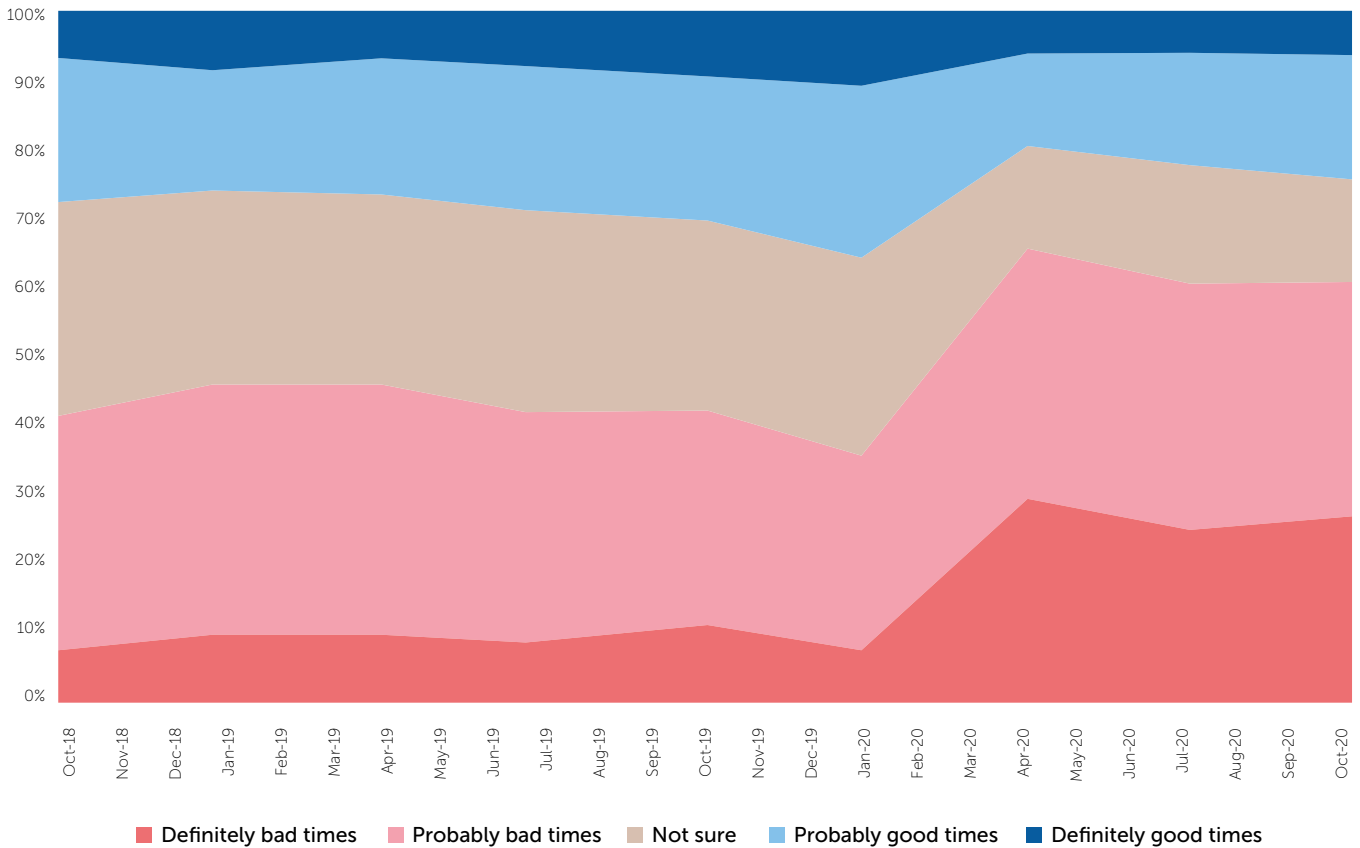


The other big mover, “Now turning to business conditions in the country as a whole, do you think that during the next 12 months we’ll have good times financially, or

bad times?” plummeted and has stayed low, driving the Index of Consumer Expectations. No doubt reflecting fears over both the impact of Coronavirus and a potential

no-deal Brexit, a fairly large majority of consumers expect business conditions to be bad over the next year.

Short term business conditions



So what have we learned?

Let’s pull together some key conclusions:

- Consumers are very concerned about the short-term future of the economy.
- Consumers are relatively positive about their own financial position. In fact more expect to be better off next year than expect to be worse off.
- The early days of lockdown, when there was much uncertainty about jobs, were not seen as a good time to make a big purchase, but many have returned to their former confidence.
- Data from our Index of Consumer Sentiment tracks well with Barclaycard’s spending data, showing the link between consumer attitudes and behaviours.

- Confidence in the long-term future of the economy is declining steadily, and continuing to fall (where other questions have bounced back). This suggests a quieter, but more profound, unease about the UK’s economic future. It’s impossible to know which combination of Coronavirus, Brexit, or other factors are causing this lack of confidence; but it will inevitably have repercussions in terms of consumer spending if it is not reversed soon.

Get in touch if you have any questions about the index, or if you’d like more details about the data and methodology, and keep your eyes open for future results.



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