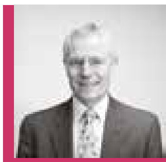
IS CONSUMER CONFIDENCE RATIONAL?



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As reported earlier in Customer Insight the TLF Sentiment Index showed a big increase in January especially for business conditions and the overall UK economy, but also, to a slightly lesser extent, for people's own personal finances. This is confirmed by other polls especially the post-election business polls from the IoD and the CBI which both showed big increases as well as the PwC consumer confidence survey released on January 28th.

If we look at this rationally, how much better were the prospects for the UK economy and the average person's personal finances on 1st January 2020 compared with 1st December 2019? On the plus side we had a stable Government that would be able to make and, more importantly, implement its decisions. Those worried about the outlook for the economy in the Labour Party's hands would be breathing a big sigh of relief. On the other hand, there was a significant percentage of the population that felt it would be better off with Labour policies and most of the big economic unknowns before the election hadn't changed. Most obviously, the details of a trade deal with the EU (if there is one at all) and the impact of that on UK businesses had not changed. Any rational, objective forecaster would have to conclude that the volume of trade with the EU post-deal was very unlikely to be as high as it is now. Since trade with any other country is lower than with the EU and it is inconceivable that the benefits of any new trade deals with other countries would be flowing until well after the end of the transition period, the only rational conclusion is that GDP, and therefore the average person's financial prospects, will be less good.

But people often base their judgements more on perception and gut feel than on hard facts, thoroughly analysed. It doesn't matter whether they are thinking about the performance of their Government, a recent experience visiting their local supermarket, or the process of making an insurance claim. All that matters is the customer's perception, not whether their views are right or wrong.

It is also vital not to confuse this method of arriving at judgements with conclusions about human intelligence. People are not stupid. (As an aside it wouldn't make any difference if they are. If you want your customers to be satisfied and loyal, the perceptions of those "stupid" customers are still more important than your understanding of the "hard facts". And to take this aside a step further, if people are stupid, you probably are too, so your understanding of the "hard facts" will be equally suspect.) In reality, human beings' proclivity to short cut most judgements is completely rational. There isn't time to adopt any other stance. There never has been, but with the constantly accelerating volume of information that we are presented with, using gut feel to short cut most judgements and decisions has never been more rational. It's not emotional; it's sensible.

There are some human feelings and behaviours that are emotionally driven but peoples' perceptions / judgements about their customer experiences do not come into that category.