



It's sometimes hard to have faith in the "wisdom of the crowd", but there is one thing that people are reliably good at—telling you how they feel. They're not always very good at explaining **why** they feel like that, which can be frustrating, but knowing how they feel means that we can come closer to understanding their behaviour, and make better decisions as a result.

That's the rationale behind the idea of measuring consumer sentiment and confidence—even though they may not be great macroeconomic thinkers, the way ordinary people feel about their finances and the prospects for the country has a big impact on their behaviour. That, in turn, has implications for the economy and for business.

In 2018 TLF Research launched a new measure of consumer sentiment on our online panel, modelled on the University of Michigan's Index of Consumer Sentiment, and we've tracking it quarterly ever since. In this article we'll explain how the index works, look at how it's changed in that time, and suggest some ways in which it could be used in the future.

Measuring consumer sentiment

Like the University of Michigan index that it's based on, our index aims to measure 3 things:

- **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**

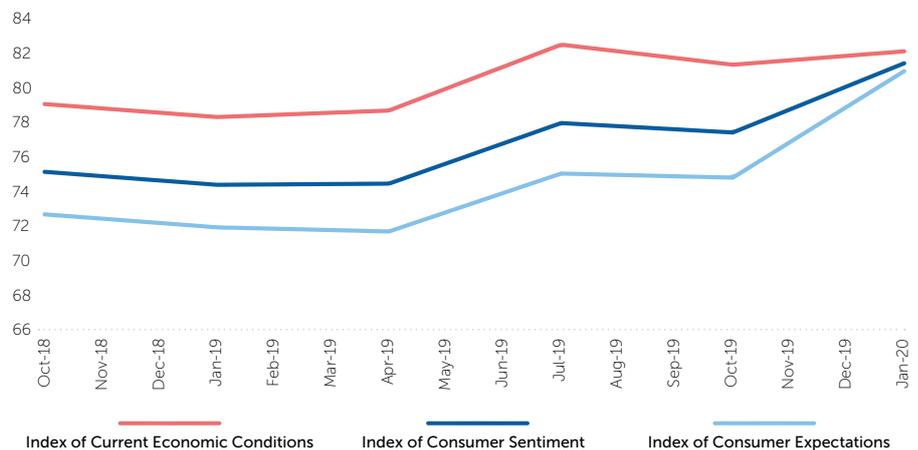
And it addresses those topics with 5 questions:

- Would you say that you and your family are better off or worse off financially than you were a year ago?
- 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?
- Looking ahead, do you think that a year from now you and your family will be better off financially, or worse off, or just about the same as now?
- 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?
- Looking further ahead over the next five years or so, would you say that in the country as a whole we'll have good times financially or that things will not be so good financially?

Those 5 questions together make up the Index of Consumer Sentiment. The first 2 are also used to create the Index of Current Economic Conditions, and the other 3 form the Index of Consumer Expectations.

How are UK consumers feeling?

As you can see in the chart below, all three indices have increased since we started measuring them in October 2018. In particular there was a big step up in January 2020, which it's hard to read as anything other than an endorsement from UK consumers for Boris Johnson's Brexit deal.





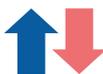
It's important to position that carefully. First of all, we can assume that the prospect of Brexit is likely to have been having a negative effect on consumer confidence for some time. One piece of evidence to support that is the fact that these scores are still low when compared to the figures for the USA.

January 2020



Index of Consumer Sentiment

USA: **99.8**
UK: **81.5**



Current Economic Conditions

USA: **114.4**
UK: **82.2**



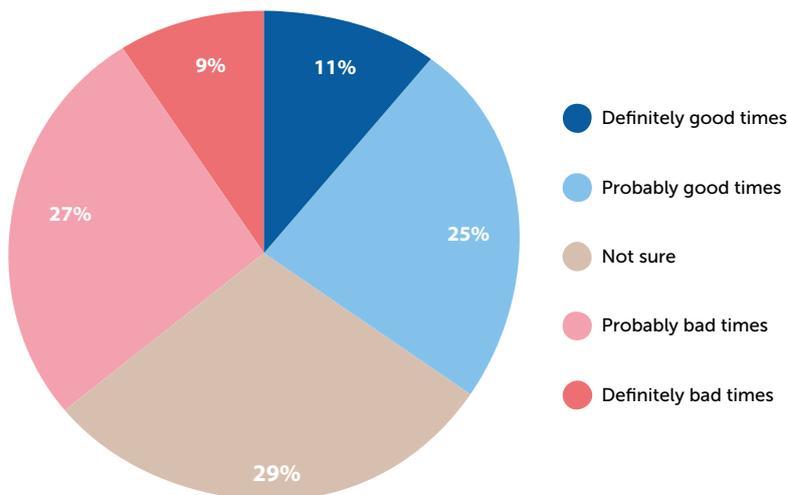
Index of Consumer Expectations

USA: **90.5**
UK: **81.0**

When we look at the scores for specific questions, such as whether the country will have good or bad times in the next year, consumers are revealed to be as divided as they seem to have been on almost everything since 2016.

In other words, reading this as a ringing

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endorsement for Johnson's leadership may be going too far, but it is certainly the case that this is by far the most positive outlook that UK consumers have had for the economy since October 2018. There are still plenty of people who feel pessimistic, but for the first time there are as many optimists as pessimists.

What next?

We're looking forward to maintaining the index of consumer sentiment as an ongoing insight into how UK consumers are feeling, and we'll be releasing the results once a quarter. Is January 2020 a peak, or is it the

beginning of a long-term recovery from the gloom of Brexit uncertainty? Only time will tell.

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 April's results coming soon.

Tom Kiralfy
Panel Manager
TLF Panel
tom@tlfpanel.com