Despite risk of interest rate hike, consumer confidence picks up

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Consumer confidence begins to return to levels seen last year
The Nationwide Consumer Confidence Index rose two points in April to 90, its highest point since October 2006.Â This is the fourth consecutive rise and leaves the index 2 points higher than its three month average of 88.Â The increase suggests that consumers have come to terms with the three interest rate rises and are more upbeat going into the summer months.Â All indices are compiled in partnership with TNS.Â

Upbeat feelings about the future
People remain upbeat about the future with the fourth consecutive rise in the Expectations Index.Â Confidence about the future economic and employment situation continues to improve helping to bring the Expectations Index up 2 points to 91. This is a reversal of sentiment since December 2006 when the index was at its low point of 81(also seen in August 2006) and is driven by a big fall in the proportion of people feeling negative about the future economic and employment situation.

Consumers confident about the here and now
Sentiment about the current economic and employment situation has also improved for the second consecutive month. The Present Situation Index rose 2 points in April to 89 â€“ its highest level since November 2006 taking it above its three month average of 87.Â This second consecutive rise suggests that consumers do not see the higher rates as having damaged the economic environment.

Spending confidence picks up
Confidence about making either a major or household purchase picked up in April following an 11 point fall in March.Â This is likely to reflect the Easter sales season and it is too early to say whether spending confidence is clearly improved.Â The Spending Index rose 6 points to 89 but remains 18 points lower than a year ago and is the only index to be at its three month average and not above it.Â

Consumersâ€™ feelings about their household incomes in six months have remained remarkably stable since before the rate rises. Changes in interest rates and overall consumer confidence have done little to change this upbeat view.Â Â This could be explained by sentiment in the labour market where the proportion of consumers who think that there will be an average or higher number of jobs in 6 months time has not fallen below 50% since the survey began.

Fionnuala Earley, Nationwideâ€™s Chief Economist, said:
â€œThis increase in confidence suggests that consumers have come to terms with the recent interest rate rises.Â But with inflation more than 1% above target, it seems likely that the MPC will this week increase rates at least one more time.Â The extent to which this hits consumers confidence will to some extent depend on the impact of falling utility prices this summer against higher debt repayments.â€•

House price expectations pick up in April
Consumersâ€™ expectations of future house price growth improved in April with consumers now expecting house prices to rise by 3.5% over the coming six months â€“ up from 3.2% in March.Â This increase is probably prompted by media reports of rising prices, but with an interest rate rise on the horizon, consumers are likely to be more cautious over coming months.