Consumer Confidence Up

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Consumer Confidence up, despite looming rate hike

â€¢Â The Nationwide Consumer Confidence Index rose 9 points to 98 â€“ the largest rise since November 2005
â€¢Â Peoplesâ€™ expectations of the future rose 12 points returning to levels seen at the end of last year
â€¢Â The Spending Index was the only index to fall this month
â€¢Â Expectations of future house price growth have increased by almost 1% on last month

Consumer optimism picks up in October

The Nationwide Consumer Confidence Index has continued to improve since its slump after the August rate rise, increasing 9 points to take the index to 98 in October.Â The index has reached its highest point since the start of the year and is now higher than this time last year by 6 points.Â This recent improvement shows how quickly confidence has rebounded following the August base rate rise and raises questions about how consumers may respond to a further rate rise.Â All indices are compiled in partnership with TNS.Â

Consumers appear far happier about the future economic and employment situation with the Expectations Index rising 12 points â€“ the largest increase this index has ever seen.Â Despite a widely expected interest rate hike on the horizon the index is 9 points higher than this time last year suggesting that consumers are currently unconcerned about the impact of a further rate rise on jobs and incomes.Â A closer look at the figures shows that this surge in confidence has been driven by the fact that fewer people are gloomy about the future economic and employment situation; rather than an increase in the number who view the future positively.

Consumersâ€™ confidence about the current situation has also improved since the August rate change.Â Confidence about todayâ€™s economic and employment situation rose 4 points to 94 bringing it back in line with the same position this time last year and above its 3 month average.Â This rise has been driven by a number of factors; fewer people (only 17%) see the economic situation as â€˜badâ€™, this is the lowest level since September 2005, as people moved into the neutral category.Â People are also happier about jobs with half of the interviewed consumers believing that there are currently many jobs available (up from 48% in September).Â This may reflect fewer job loss announcements in recent weeks.

Concerns about spending resurface

The Spending Index was the only index to fall in October, falling 7 points, taking the index back down to 93 â€“ the second lowest position since the Index began in May 2004 (in December 2004, the index hit its all time low of 91).Â Official retail sales data (which also saw a fall) has suggested that consumers are resisting retailersâ€™ attempts to recover margin, preferring to wait for items to be discounted.Â

Stuart Bernau, Nationwideâ€™s executive director, said:
â€œMost market commentators seem to feel an interest rate rise is a forgone conclusion.Â Yet despite the expectations of a rise, consumer confidence has returned to the levels seen early this year.Â Consumers certainly appear more confident in jobs and the economy, but this has not translated into spending on the High Street.Â This reluctance to spend may give the MPC some comfort that inflation will not be further fuelled by a spending boom in spite of the welcome decrease in petrol prices.Â With all these factors for the MPC to consider the question on everyoneâ€™s lips is will they or wonâ€™t they increase rates in the run up to Christmas.â€•
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House price expectations improve

Expectations of future house price rises increased in October as consumers responded to the reported increase in house price inflation.Â Consumers now expect prices to rise 3.9% over the coming six months.Â This is up almost 1% on last month.Â With an interest rate rise expected, it is possible that house price growth expectations will moderate slightly in coming months as current and potential home owners evaluate their financial position before investing in bricks and mortar.Â Â Â Â Â Â Â Â Â Â Â Â Â Â Â