

Are you feeling bad enough yet?

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News Story

Housing market

So is this the Blitz spirit? Or are we all deluding ourselves?

"Given the circumstances we would have expected consumer sentiment to be a bit worse than at the moment as the impact of interest rates take effect and people feel their disposable incomes eroding," says Chris Davis.

One of the striking things about the break-down of the GfK figures is that the index for people's expectations about their personal financial situation over the next 12 months gives a reading of +13, while the view of the general economic situation over the next 12 months gives a reading of -13.

That suggests that people think it will be quite a bad year for the economy but it will not affect them too much.

"A lot of households don't know what's going to hit them until it hits them, especially when it comes to outgoings or mortgages," says Prof Buiter.

"However, household finances in the UK still are pretty strong - remember there has not been a collapse of the housing market or even a decline."

Care needs to be taken when interpreting consumer confidence data, according to Fionnuala Earley, chief economist at Nationwide.

"We have to be a little bit careful with surveys of slightly fuzzy things like consumer confidence because it could be reflecting that things aren't as bad as they thought they might have been," she says.

Also, interest rates may not be the biggest economic influence on people's sentiment.

"The big factor underlying people's feelings about the economy are their feelings about the labour market - and we're not seeing anything there that suggests that the labour market is going to go into freefall and there are going to be big increases in unemployment," Ms Earley says.

Turning point

There is much discussion of how long the lag is before interest rate rises take effect, but many economists say that it takes about a year.

That means that the first of the five rises is just starting to take hold now, so we may be at the turning point before consumers do start feeling the pinch.

But at the moment, a sudden downturn seems unlikely.

"If the housing market were to tank in the UK the way it has in the US I think people would start worrying," says Prof Buiter.

"But objectively one would expect households not to feel too bad because things aren't too bad."