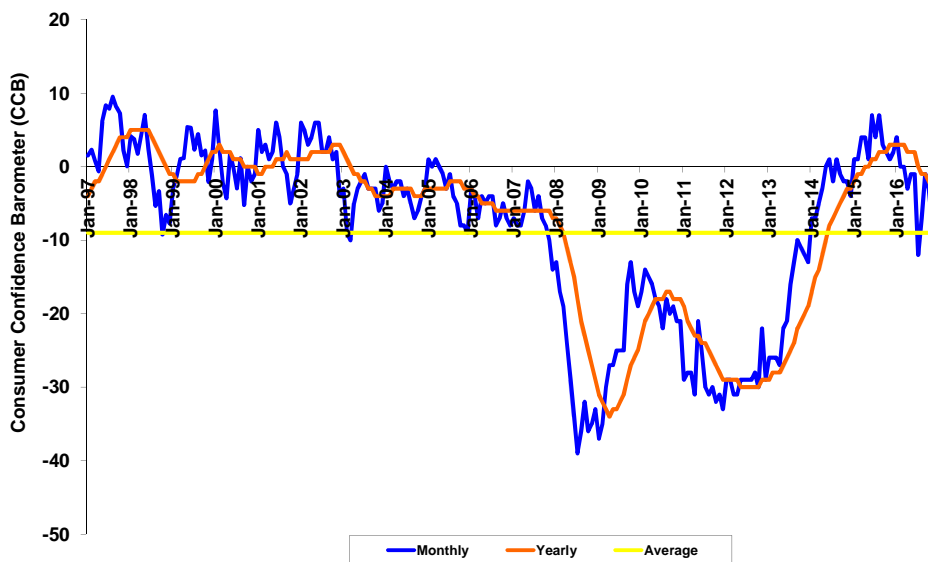


**Surge in inflation expectations deflates Brexit balloon and hits confidence**

Consumer resilience in the past 3 months following the Bank of England’s rate cut appears to have ended. November’s GfK Consumer Confidence Barometer (CCB) dropped by 5 points to -8, back to its weakest level since July (-12), following the Brexit vote on June 23<sup>rd</sup>.

All 5 sub-measures fell with the biggest fall in the spending climate measure on major purchases, down 9 points to +5. The combined economic situation measures slumped by 11 points to -47 (35 points down on November 2015), while the combined personal finance measures shed 6 points to +3 (4 points down on a year ago)

**UK consumer confidence 1997-2016**



Source: GfK / European Commission / JGFR

Neither the cost of living nor unemployment expectations are included in the headline CCB measure although will be reflected in consumer responses to the sub-measures. Both inflation and unemployment forward measures worsened considerably in November.

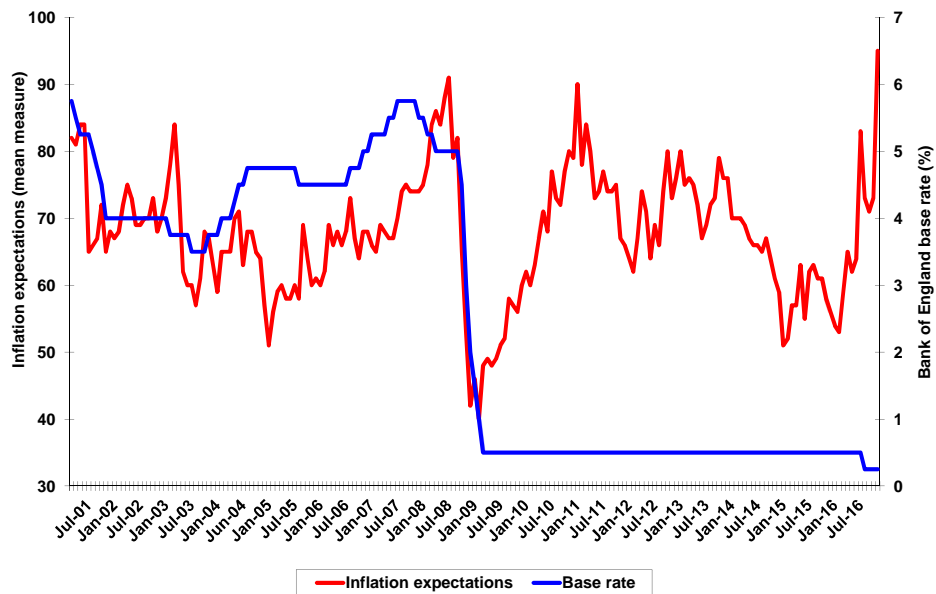
The measure of consumer prices over the next 12 months surged to a post Millennium high of 95, 22 points up on October. Consumers are also asked what the rise in consumer prices is set to be in the next 12 months, with the median measure of 4-5%, a multi-year high, and at a level where in the past a much higher bank rate would have resulted (around 6% - see chart on next page).

We live in different times, deemed by many economists to be the ‘new normal’ with central banks in control by keeping interest rates very low and increasing the availability of credit through quantitative easing to boost demand; thereby generating new investment and keeping employment levels high.

While employment levels continue to be at record levels, the public for much of the past year fear rising unemployment.

In November unemployment expectations jumped to their highest since July, with 46% of adults expecting unemployment to increase, up from 40% in October, but little changed on a year ago (45%). The mean GfK measure (21) is the highest since July (24) immediately after the Brexit vote.

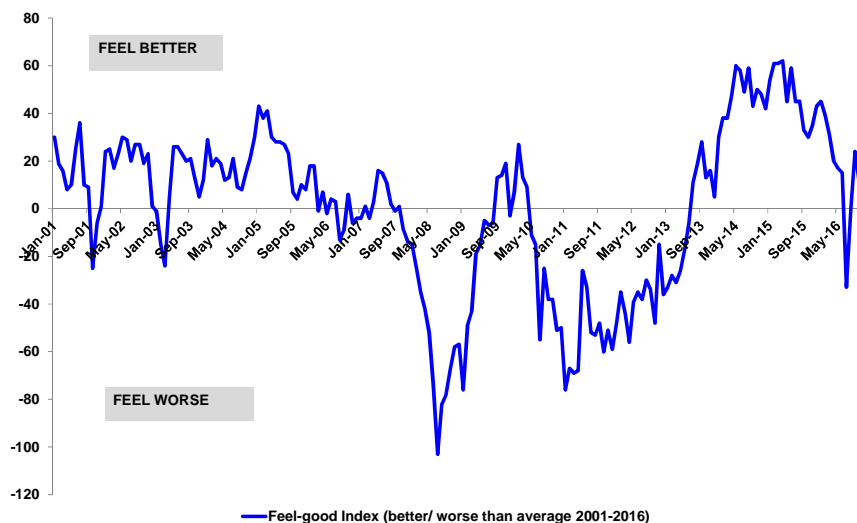
### Consumer price expectations in the next 12 months, 2001-16



Source: GfK / European Commission / JGFR

As a result of both inflation and unemployment expectations surging the JGFR Feel-Good Index is sharply lower in November, with forward measures of the economic situation and personal finance also weighing the index down.

### JGFR Feel-Good Index 2001 -16



Source: GfK / European Commission / JGFR

The Brexit balloon, full of consumer resilience in the early autumn, seems to have risen as far as it will go in the near term, with consumers facing a tough winter of Brexit speculation and uncertainty ahead, and the cost of Brexit (estimated £58 billion) now transparent.

One positive note may be the economic policies of the Trump Presidency as he turns back time to boost the US economy through old-fashioned infrastructure investment funded by government borrowing to boost jobs and productivity. Something the Autumn Statement also seeks to fashion in the UK. Certainly the financial markets have warmed to the new policy agenda.

**Survey notes:**

GfK interviewed 2,039 adults aged 16+, representative of the UK population between 1-15 November 2016

**More details:**

JGFR will be publishing the November Consumer Confidence monthly on December 6<sup>th</sup>

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