

Are you feeling bad enough yet?

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News Story

Do you remember the "elusive feel-good factor"?

It cropped up a lot in the mid-1990s, as the then chancellor of the exchequer and the Bank of England wondered why their cuts in interest rates were not having the desired effect on spending on Britain's high streets.

Prime Minister John Major even blamed a lack of it for his government's unpopularity.

Now we may be seeing the opposite. Even though the Bank of England has raised interest rates five times in a year, people are not curbing their spending as much as perhaps they should.

The feel-bad factor may turn out to be elusive as well.

"For the majority of people in the economy there is still a bit of a feel-good factor, although that may be starting to diminish," says Richard Jeffrey from Ingenious Securities.

"For many of those people, the feel-good factor is a bit unrealistic at the moment and would probably be reduced without further action on interest rates."

Last week's stock market volatility may have upset people in the City, but consumer sentiment is rarely hit by movements on the share markets.

Crisis management

If consumers can still feel good after five rate rises, what can you do if you are a member of the Bank of England's Monetary Policy Committee (MPC) and you are trying to rein in spending by increasing the cost of borrowing?

Professor Willem Buiter from London School of Economics used to have to take such decisions when he was a member of the MPC - he says that the problem is the length of time it takes for rate rises to have an effect.

"The lags are variable and uncertain and it's the unpredictability of the lags and the magnitude of the effects of monetary policy that make it difficult," he says.

"But that doesn't mean the central bank cannot do something effective at short notice should there be a real feel-bad factor and a financial crunch. For crisis management the lags can be very short indeed."

'Brown bounce'

The Bank of England is certainly not involved in crisis management at the moment and the surveys of consumer confidence reflect that.

GfK NOP's report on consumer sentiment for July showed a slight fall, but that was mainly a correction, taking the score back to the level in April before the so-called "Brown bounce" - a rise in sentiment after Gordon Brown became prime minister in late June.

"There have been reports about the Brown Bounce," says Chris Davis from GfK NOP. "I think maybe the changing of the political guard has been a positive thing - people feel that the interest rate adjustments needed to happen and I think generally people think the government has things under control."

Nationwide's measure of consumer confidence actually rose in July, with failed terrorist attacks, flooding in the north of England and a rise in interest rates failing to rattle the British consumer.