Funding the Future

Why are consumers worried?

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UK consumers think there's trouble ahead and are cutting their spending as a result. That's the combined fault of the Bank of England and Rachel Reeves, and no one else but them can put matters right.

https://www.youtube.com/watch?v=QrmU0sCPY5g?si=UViqgHE-ptpEPmLP

This is the audio version:

https://www.podbean.com/player-v2/?i=xwbae-17c6705-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Consumers in the UK are worried, and I don't blame them.

Consumer surveys are quite important economic tools because they indicate the willingness of the UK consumer to go out and spend money. On the basis of that, businesses can plan the likelihood that they are going to need more or less stock to meet more or less demand from people for whatever it is that they have to offer.

These surveys are also important when it comes to government budgeting. If they're looking for growth, they need consumers to feel confident and consumers in the UK aren't doing that. They are, in fact, indicating at present that their level of confidence is declining, and let's look at why.

First of all, we know that the level of interest rates in the UK is too high. People are bored with having to pay too much rent and too much by way of mortgage interest and are therefore having to cut their budgets to suit the fact that this is an ongoing threat to their well-being, to which they're having to adjust by literally cutting their spending and reducing their well-being.

They're also bored by government that can't deliver growth, which it promises. If it didn't promise growth, it may be alright not to deliver it, but when it says growth is its goal, and it doesn't actually deliver anything at all, as is the case at present, consumers quite reasonably wonder what the heck is going on, and realise that, as a consequence, there may be a reaction from government including austerity, job losses, and tighter levels of government spending which are going to impact the services that are available to them, meaning that they might have to pay for things which in the past they did not do, and therefore they're going to save as a consequence.

Put these factors together - and it is as simple as putting together high interest rates and the failure of the government to deliver on its promises - and you get to a situation where consumers quite reasonably say, “This is the moment where I should be saving, because the future is uncertain.” And that's what they're doing.

They're saving money to pay their debts, which is true of the person who's renting and true of the person who has a mortgage.

Or they're saving their money to allow for future expenses, which they're anticipating because the government is shrinking its role in the economy, and therefore, people know that they might have to spend more to secure whatever it is they might need from an operation onwards, in the future. And in that case, it's hardly surprising that consumer confidence is falling.

The answer to this is, of course, twofold. If I've identified the problem in a very simple way, and I have, and I think entirely accurately, the argument as to how we can increase consumer confidence are as simply identified.

We could cut interest rates. We should be cutting interest rates. They do not need to be at the level they are. The Bank of England base rate at 4.75 per cent is 1.75 per cent over the base rate of the Euro. It does not need that differential. It is too high.

The base rate in Japan has just gone up to 0.5%. And their economy is not collapsing as a consequence.

So, we need to ask the question, why is it that the UK needs to be such an outlier when it comes to interest rates, that we are being punished for this fact?

The simple fact is, that if Rachel Reeves wants growth, the simplest, most straightforward, and obvious way to secure it is the demand that the Bank of England cut its base interest rate from 4.75 per cent to around that 3 per cent, which is working very well - well, acceptably well - in the Eurozone. That would get the process going, and I do not believe it would have any serious long-term consequence for the UK.

Sure, in the short-term the value of the pound will go down. That means, by the way, that our exports are more attractive and therefore there's a boost to our economy.

It does also mean that imports are more expensive. We will have to substitute for them with homemade products. No harm in that.

This is not an economic problem. This is an economic solution. But Rachel Reeves is refusing to intervene with the Bank of England and demand that it take place.

And the government has to stop the threat of austerity. When it is threatening to make public services more scarce so that parents might have to pay to tutor their children because they're not getting the support that they need in school; when people are frightened that they will not get the medical support that they require; when people believe that justice is beyond their reach; then they will react by saving.

If the government did the exact opposite and guaranteed that there would be public services - things like social care for elderly people - then families would cease worrying and would be able to spend more.

The answer to the problem of growth is that the government must spend because we now know that over the last 14 years where governments have bent over backwards to provide the economic environment which business has demanded as the precondition for them spending to deliver growth it has not delivered growth. It has delivered stagnation.

Business is not capable of producing the growth that we need. That is the simple, straightforward message that has to be drawn from this economic data. There is no other conclusion to be drawn. And yet, Rachel Rees keeps on banging her head against the same brick wall as her Tory predecessors did, thinking that somehow or other, if only she gives business what it wants, she will get the growth that she desires.

The answer is that people in the UK want the government to spend more because the reason why they are fearful is the shortage of the supply of government services.

They want healthcare.

They want social care.

They want decent education.

They want roads which aren't riddled with potholes.

They want a government that functions well.

And if they had that, they would have the confidence to go out and spend. Knowing that the basic infrastructure of their life was supported by a government that was acting on their behalf and had their best interests at heart.

But because that government does not exist, they don't spend.

Because the Bank of England is penalising them, they don't spend.

Because they're seeing that things are getting worse in the USA, and that might spill over into the UK, they don't spend.

Of course, consumers are frightened.

Of course, consumers are beginning to save more.

Of course, consumers are therefore sending out signals to the market that money is not going to be around in plentiful supply to deliver the growth that is the underpinning of the whole strategy of the Labour government, except for the fact it isn't because it's taking no steps to deliver it.

Consumers are usually intensely rational. Individually, they may not be able to explain their actions. Collectively, they send out messages which are normally extremely sensible. And they're doing so here. They're saying that unless the government changes the goalposts unless it spends to support their well-being, and unless it changes the economic environment in which this country operates, they cannot have the confidence to spend to deliver growth.

If Rachel Reeves wants growth, she has to change the economic goalposts. It's very simple, it's very straightforward, and she has to do it, or, the consumer will reject her, because that's what consumers do when they don't like the product offering that is put before them.