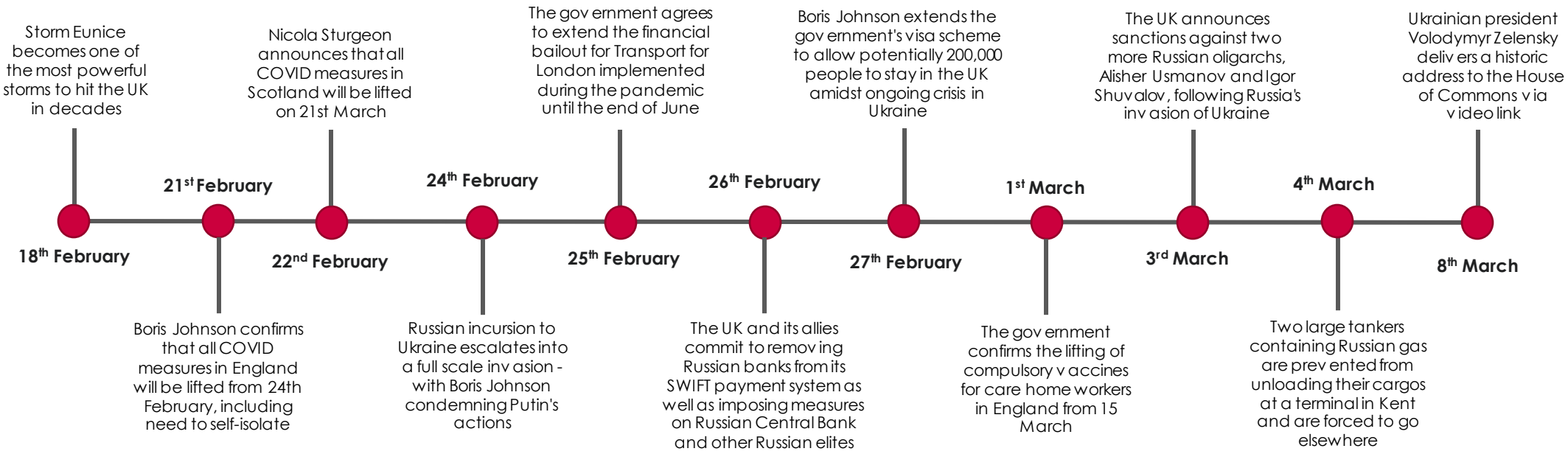
TRAJECTORY

The Optimism Index (UK)

Report: March 2022| Fieldwork: 3rd – 9th March

Last Month's Key Events



Headlines

UK Optimism March 2022

47

Down one point on February 2022

Down three points on March 2021

Rolling Average March 2022

49

Down two points on February 2022

Down two points on March 2021

Scale 0-100. A score of 50 or more indicates higher levels of optimism

Net spending expectations	**-23%**	*Net spending expectations remain cautious as costs rise further*
Net household confidence	**-26%**	*Household confidence continues to collapse*
Net Trust	**-14%**	*Period of crisis drives rise in trust in businesses and institutions*

Comment

Down we go. Another month, and although headline Optimism remains only moderately downbeat financial confidence is plumbing record depths.

Nearly half (43%) of the population expect their financial situation to get worse over the next year. This is not abstract pessimism based on macro-economic conversations about the deficit or sub-par GDP growth but real and realistic fear that the money people have will not cover what they need it too. The Russian invasion of Ukraine likely to driver further uncertainty, misery and inflation – but the snowball was already on its way down the hill before the first Russian tanks crossed the border.

This will have serious impacts on an economy just starting to wake up after the pandemic. Spending expectations are strongly negative for every category expect essentials, which is flat. Although there are pockets of positivity – including around 1 in 6 who are prioritising leisure, including holidays – there is also evidence of the price squeeze working its way up the income ladder. Since November, the proportion of people on less than £21k who feel their financial situation has declined has barely changed (from 37% to 38%) while those on more than £62k are now nearly three times as likely to feel worse off than they did in the Autumn.

How bad this gets remains to be seen. But it is clear that we are already in a period of economic constraint unlike anything many consumers will have experienced before.

Tom Johnson, Managing Director, Trajectory

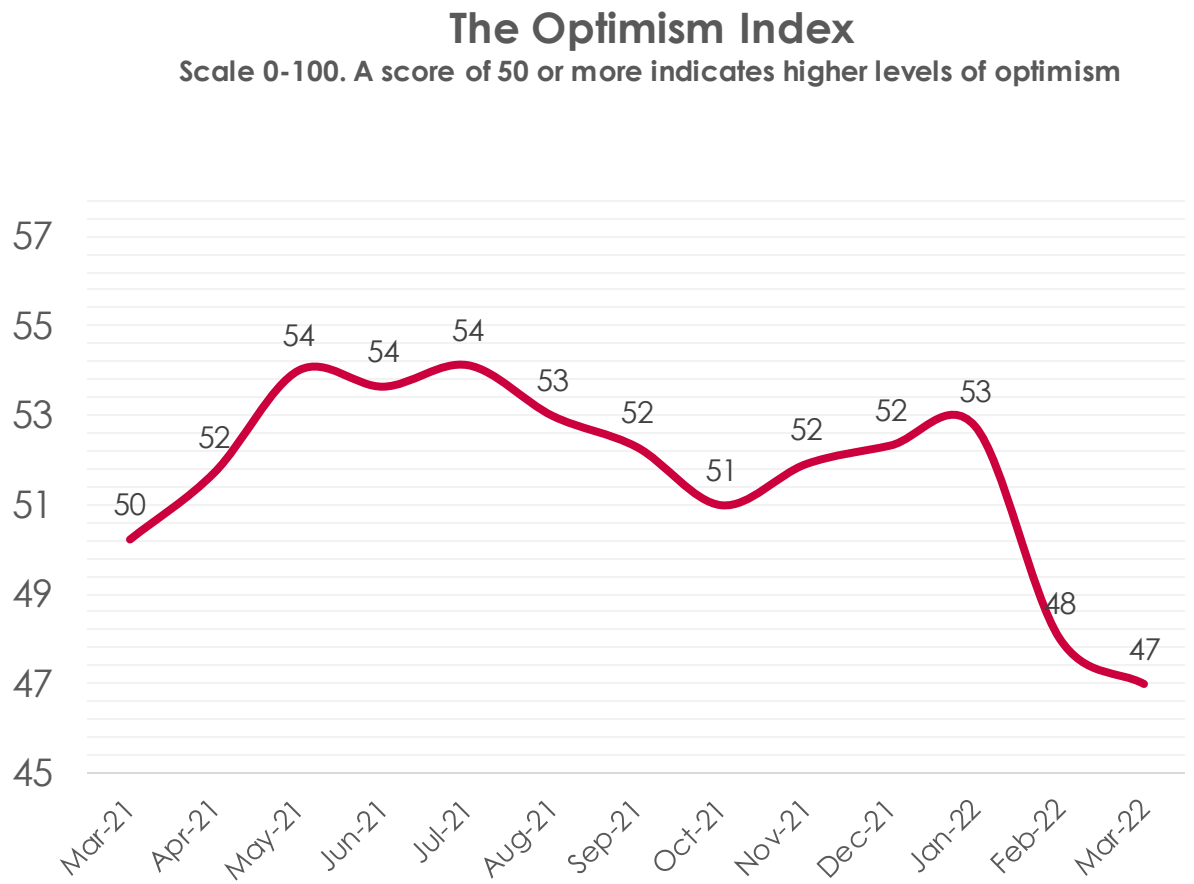
The Optimism Index: Headlines

- This month's edition of ***The Optimism Index*** sees consumer sentiment fall by one point from a score of 48 down to 47.

- With all remaining Covid restrictions being lifted, focus has almost entirely shifted away from the health impacts of the pandemic in the past few weeks. Household finances were already under severe pressure even before the Russian invasion of Ukraine, which will only add further uncertainty. The prospect of yet more price increases is a severe blow to optimism.

- As confidence collapses and prices skyrocket, consumers are understandably tightening the purse strings, through necessity rather than choice. Net saving expectations remain strongly negative despite declining expected spending on leisure.

- Whilst the majority have experienced a significant downturn in outlook, there remain small segments with more confidence. Recent months indicate more positive trends in leisure spending amongst the growing proportion who have travelled abroad in the past year. Current events are likely to further challenge this more bullish attitude, however.



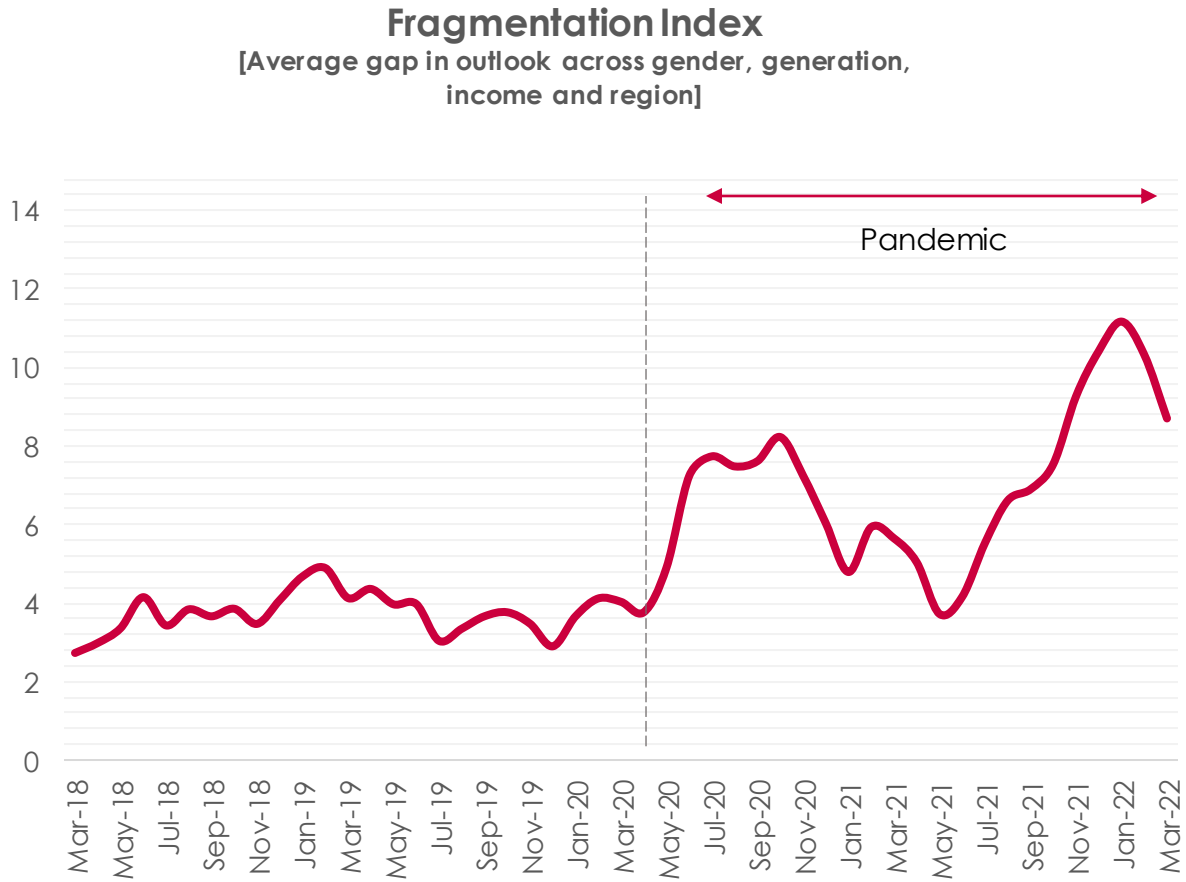
The Extent of Fragmentation

- This month we introduce a new measure examining the overall degree of fragmentation in outlook across the population. The Fragmentation index measures the average gap in outlook across different cohorts (including older and younger generations, higher and lower incomes, men and women and London and the South East versus the Rest of the UK.

- Generally, fragmentation has been higher since the start of the pandemic – although this was declining in the first half of last year. Since the reopening of the economy and the beginning of financial pressures fragmentation as steadily increases.

- March brings a closing of the gap in outlook across both gender and age, but the key driver is a four point decline in the gap between high and low income households, with this often historically being the case during periods of recession.

- With financial pressures rising, fragmentation will be a key lens for understanding the uniformity of experience across the population.



The Optimism Index: Rolling Average

- The three month rolling average of ***The Optimism Index*** falls by two points this month, down from 51 to 49.

- Consecutive topline scores below 50 have had a significant impact on longer term trends in sentiment. Falling below 50 for the first time in more than a year, the longer term average now sits at a lower level than at this time twelve months ago – when the UK was still under tight lockdown restrictions.

- With those restrictions now lifted, consumers are no longer able to look forward to a 'return to normality', with the realities of the post-pandemic economic landscape beginning to sink in.

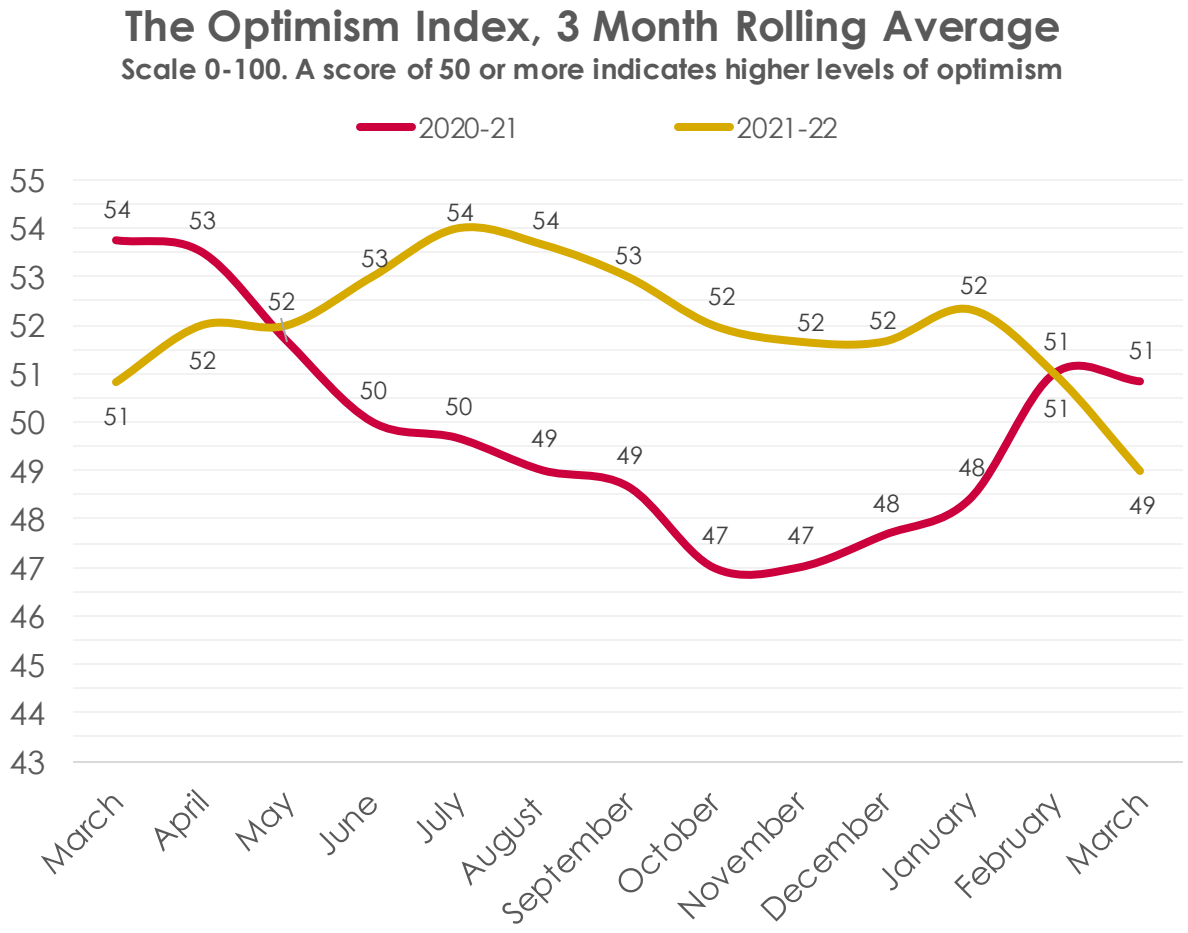


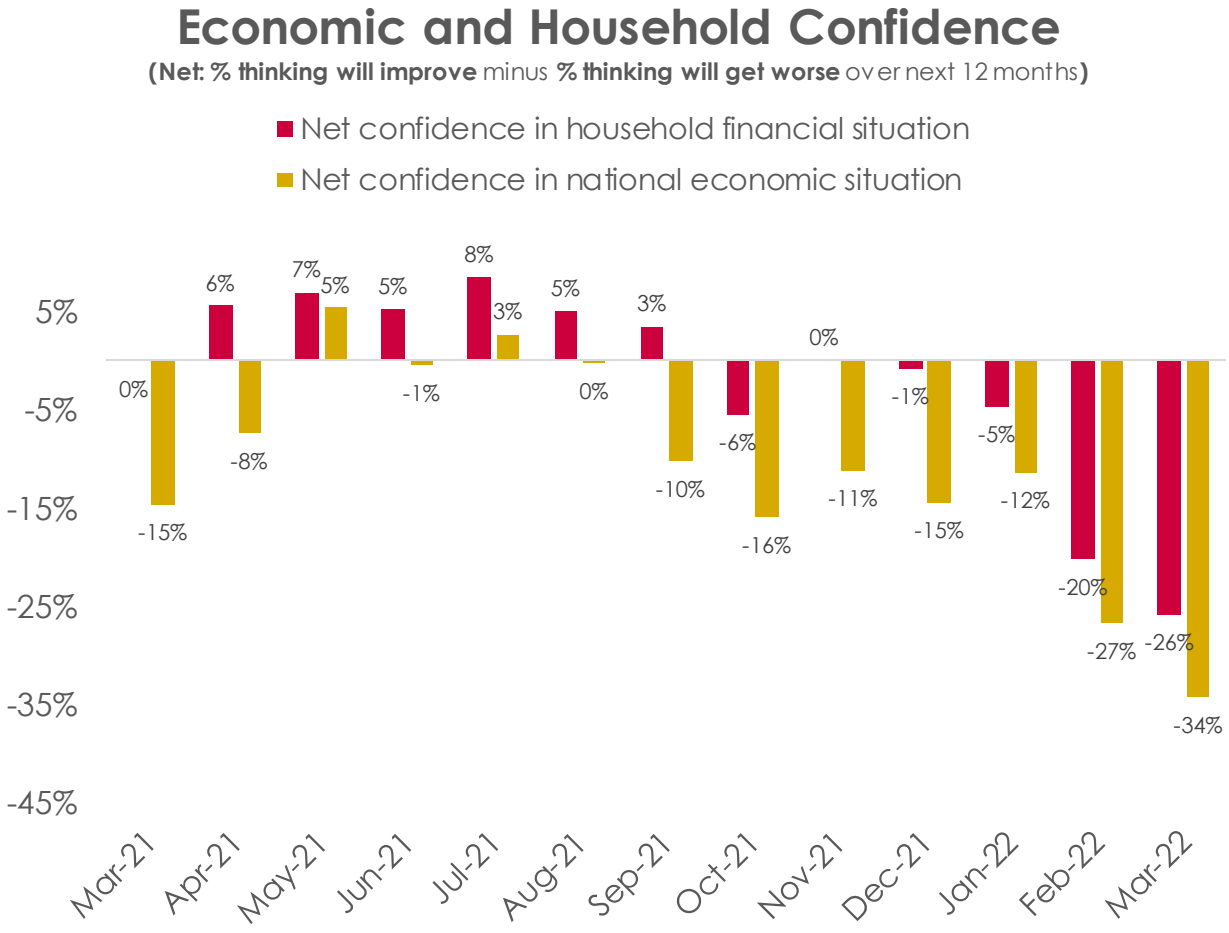
Chart labels are rounded to whole numbers, but *The Optimism Index* is rounded to one decimal place

Economic and Household Confidence

- This month sees yet more consumer confidence records broken. Net confidence in the economy as a whole has worsened further, down from -27% to -34% whilst at a household level there is a 6% fall from -20% to -26%.

- Last month's subterranean numbers were already a record low for household confidence, a further 6% fall digs further into unprecedented negative territory. With events in Ukraine driving further uncertainty, consumers are bracing themselves for a squeeze on household finances unlike anything we have seen in recent decades– with catastrophic consequences for confidence.

- Despite these trends, just over one in six (17%) of consumers expect their own finances to improve this month. Since January, this proportion has fallen by just 8%, whilst in the same period the proportion expecting their finances to worsen has risen by almost twice the amount (29% to 43%) – with this increase a greater influence on the topline trends in net confidence that we have seen since the turn of the year.



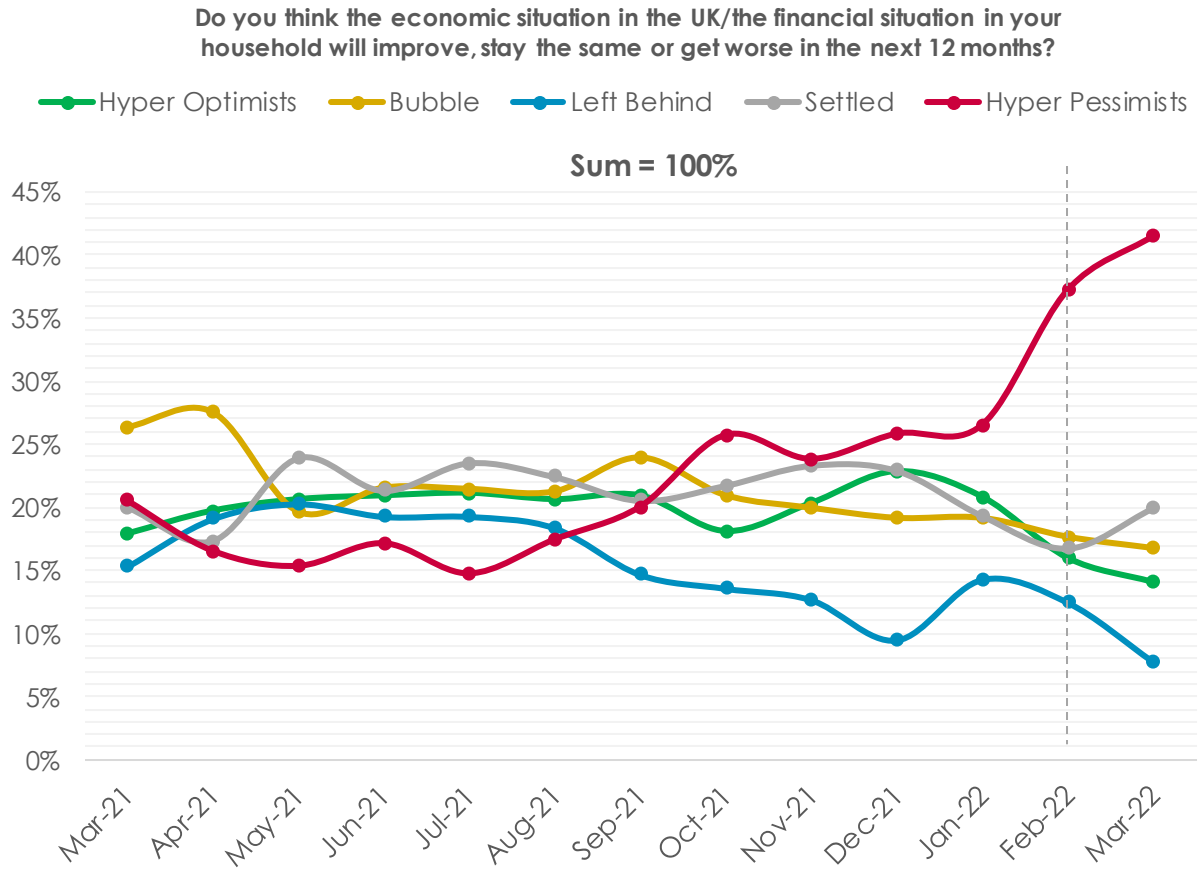
Consumer Confidence Groups

- Further decline in both measures of confidence has again driven significant changes in our consumer confidence groups this month.

- Hyper Pessimists see a 5% increase up from 37% to 42%, now accounting for twice the proportion of consumers than at this point twelve months ago. This finding has again been paralleled by a decline in those feeling 'Left Behind' – falling by 5% and occupying fewer than 10% of respondents for the first time in well over a year.

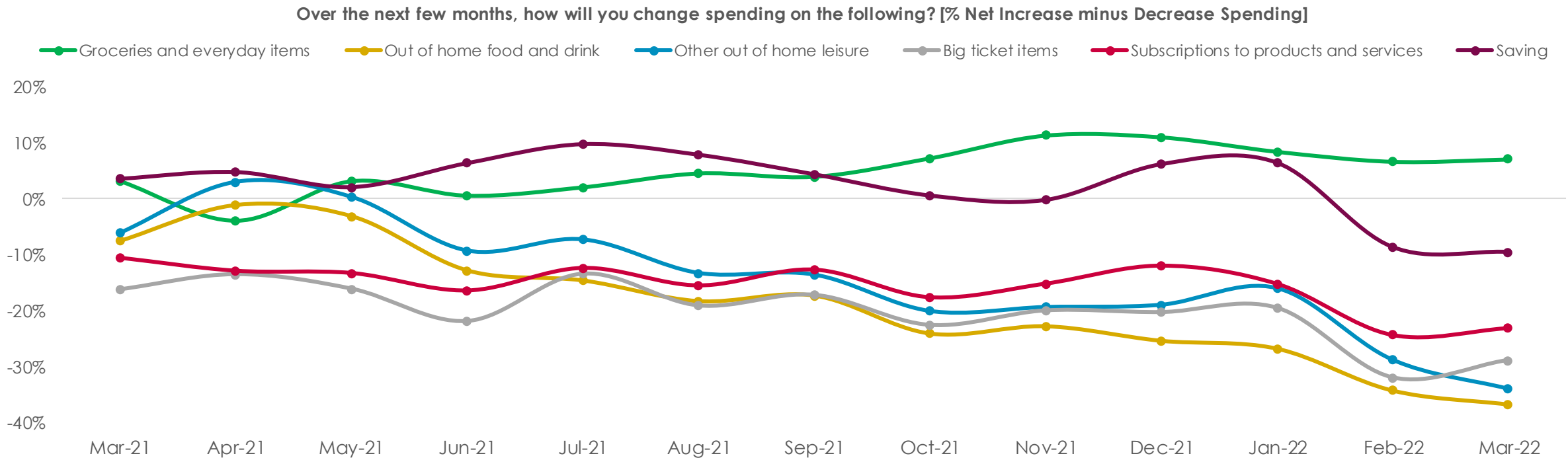
- The rapid growth of Hyper Pessimists in the past few months has seen the demographics of this segment evolve compared to just six months prior. Whilst in both August and September of last year, more than a third of Hyper Pessimists were under the age of 40, since the turn of the year this has fallen to just 27% on average.

- Entrenched pessimism appears to be becoming a trend that is increasingly part of the mindset of older generations, with only Gen Y and particularly Gen Z still having more cause for optimism



Hyper Optimists = Economy and own finances will improve
The Bubble = Economy will get worse, own finances improve or stay same
Left Behind = Economy will improve, own finances get worse or stay same
Settled = Economy stay the same, own finances stay the same
Hyper Pessimists = Economy will get worse or stay same, own finances get worse

Spending Expectations

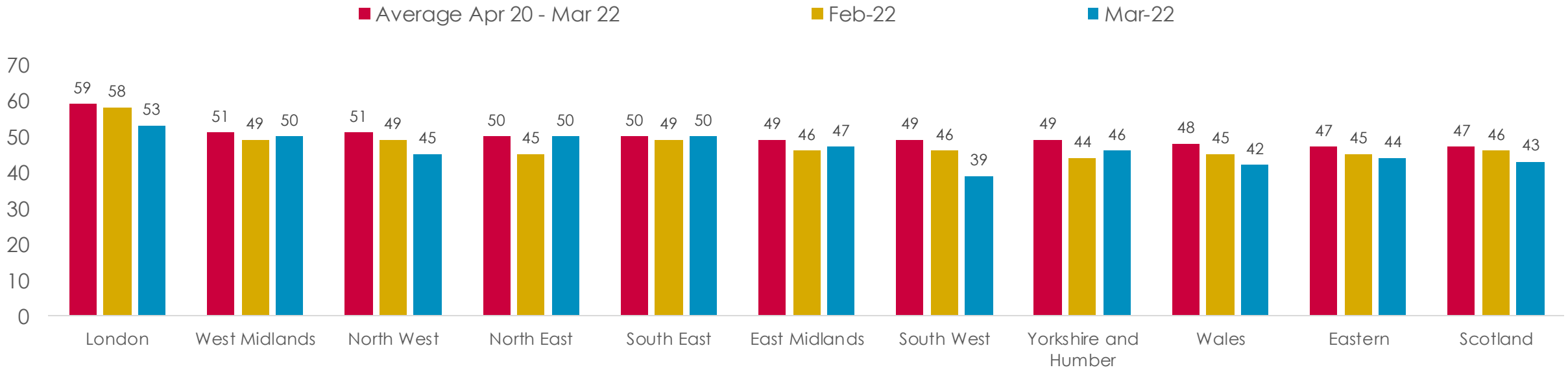


- With household confidence and overall optimism falling further, spending expectations provide additional evidence that sentiment is declining at a concerning rate. Net expectations, both for out of home food and drink (-34% to -37%) and other out of home leisure (-29% to -34%) have fallen further, whilst expectations for big ticket items and subscription services remain strongly negative.
- Of additional concern, last month's 16% decline in expected saving (7% to -9%) appears to have been more than an anomaly, actually falling by a further 1% this month down to -10%. Everyday costs are now increasing to such an extent that consumers are being forced to cutback on both expected leisure spending as well as the amount they were hoping to save.
- It is not only future spending expectations that have been damaged by the cost of living crisis, with recent trends in spending also of considerable concern to businesses. The proportion who say they have reduced spending on out of home leisure, big ticket items and subscription services is this month at least 4% higher than in September of last year.

Region

The Optimism Index by Region

Scale 0-100. A score of 50 or more indicates higher levels of optimism



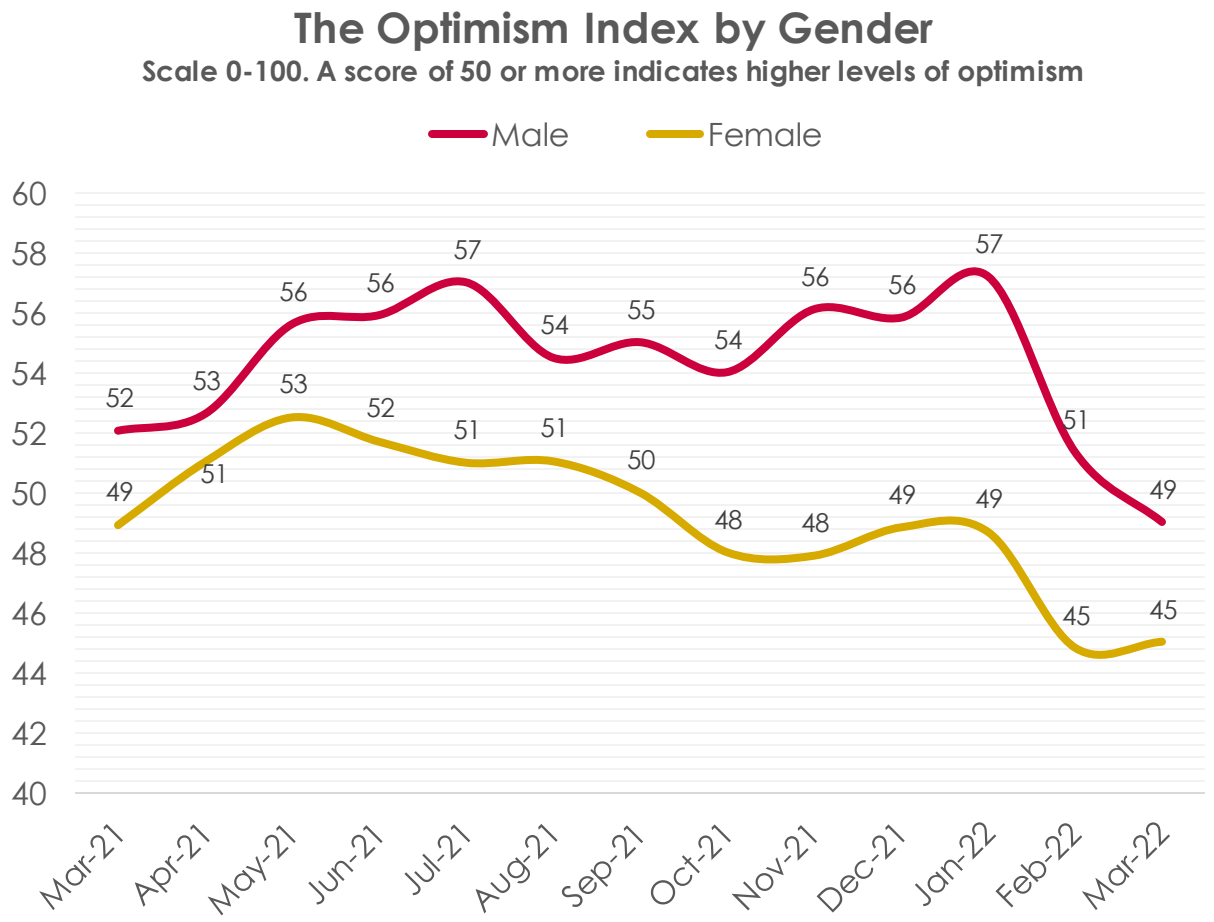
- Whilst topline findings paint a concerning picture for sentiment, some regional trends are less negative than others. The degree of fragmentation that had begun to emerge between London and the rest of the UK has declined further, with those in London experiencing a five point decline (58 to 53) whilst the average for all other regions remained at the same score of 46.
- Despite the average for all non-London regions stagnating, it is worth highlighting that those in the South West experienced a score of just 39 – a seven point fall being the sharpest of any region this month. Those in this region are likely still feeling the effects of Storm Eunice, whose impacts were forecast to be most severe for those living in the South West of England.
- Even with the significant fall in sentiment amongst those in London over the past two months, there is still much more progress to be made regarding regional fragmentation amidst discussions of 'levelling up' the UK economy. Those in the South West, for example, are this month 14% less likely than those in London to feel a high degree of choice and control over their lives (39% to 25%).

Gender

- This month sees the gap in sentiment between men and women decrease by two points, with men seeing a two point decline from 51 to 49 whilst women see a score of 45 for the second consecutive month.

- The two point decline down from 51 marks the first occurrence of a score below 50 for men since October 2020, as well as the smallest gap in sentiment between men and women seen since last summer. Seeing twice the decline that women have in the past two months (8 to 4), men have been the primary drivers behind the topline decline during this period.

- Such a sharp decline in sentiment amongst men since the turn of the year has been paralleled by similar trends regarding confidence in the UK economy. Since January, the proportion of men expecting the economy to improve has almost halved (42% to 24%), compared to just a 5% decline amongst women during the same period (18% to 13%).



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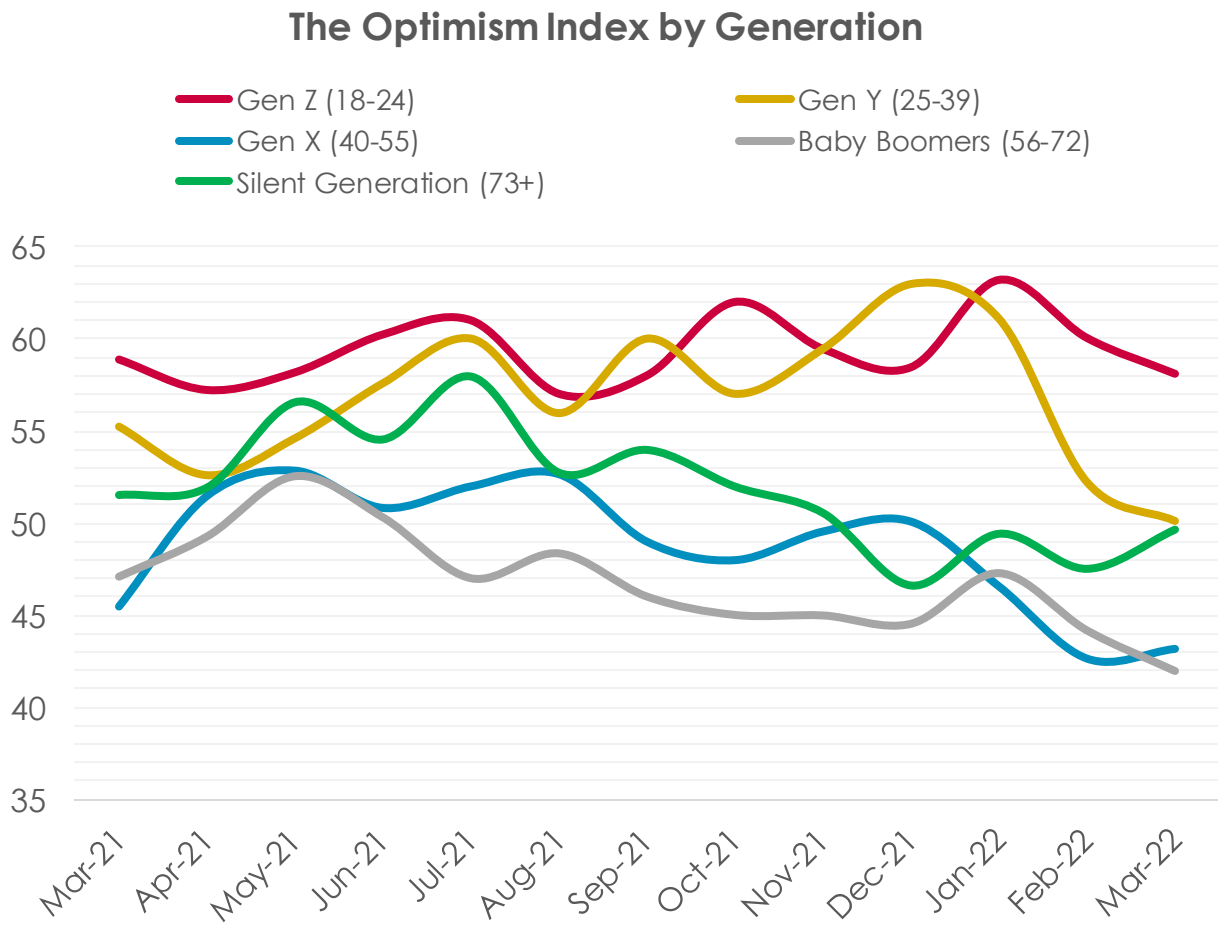
Generation

- This month sees sentiment decline amongst the majority of cohorts, with the notable exception of the Silent Generation – seeing a two point rise up from 48 to 50 and slightly dampening the degree of fragmentation by age as a result.

- Despite this, Gen Z this month still see a score 15 points higher than both Gen X and Baby Boomers. With worsening household finances becoming an increasing influence on sentiment amongst UK consumers, it is little surprise that Gen Z are the only cohort that are still adopting a more optimistic outlook given their potential lack of financial responsibilities compared to older age groups.

- Further analysis indicates that the current discrepancy in sentiment across generations has more than just financial influences, however. This month, just 60% of Gen Z and Gen Y feel that the world is currently a more dangerous place than it used to be – compared to 82% of over 40s.



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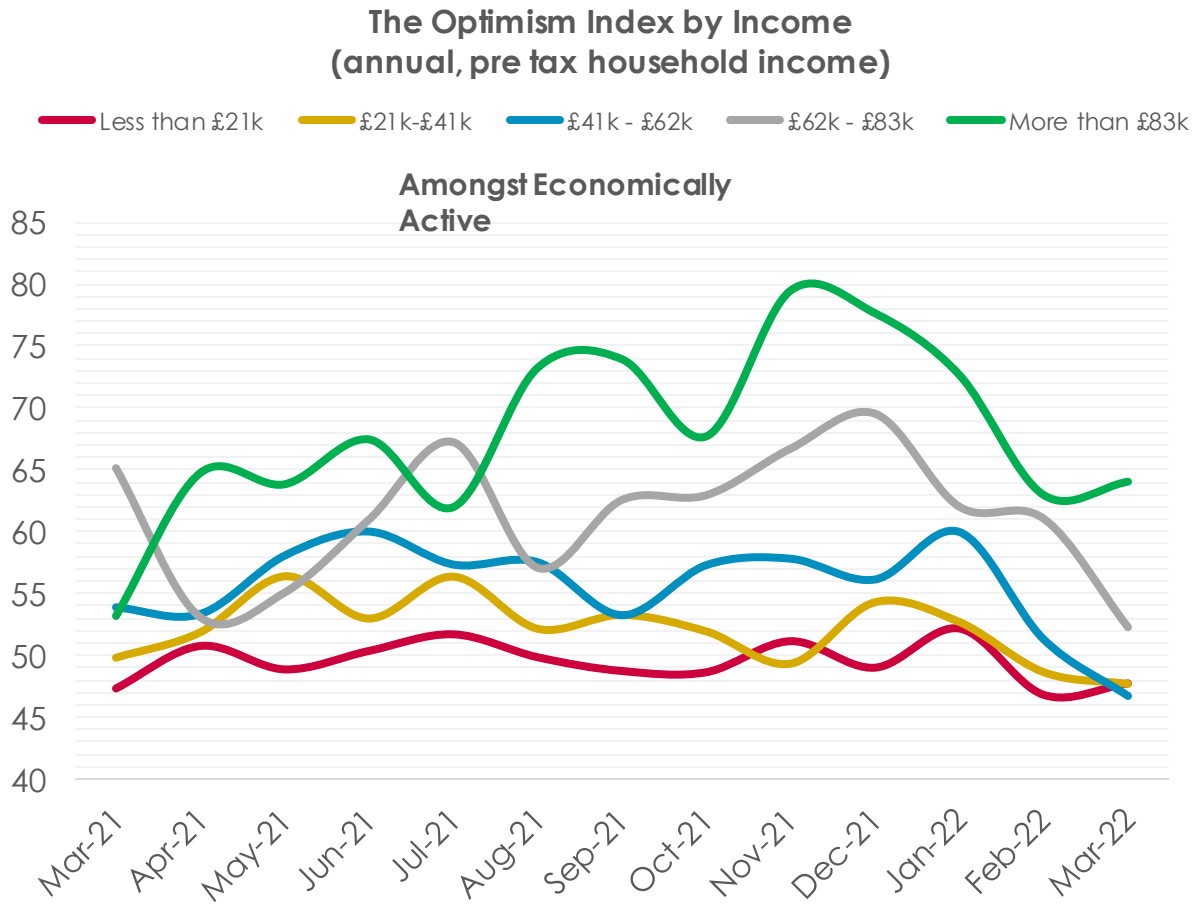
Income

- This month sees the extent of fragmentation across income dampen slightly, despite a one point increase amongst those in the highest income households (63 to 64).

- The main source of the decline in fragmentation is a sharp fall in sentiment amongst those in households earning £62k to £83k per year (61 to 52), with this being the first time this group has seen a score below 60 since last summer. With just 15 points between the highest and lowest earners this month, this highlights a 14 point decline in this gap compared to December last year (29 to 15).

- With the lowest three income groups seeing almost identical scores this month, it highlights the extent to which experiences have become more consistent as the cost of living crisis has worsened. In a similar vein, since the turn of the year, the proportion of the highest two income groups who expect their own finances to improve has fallen from 46% to just 27%, compared to just an 8% decline amongst the total sample during this period.



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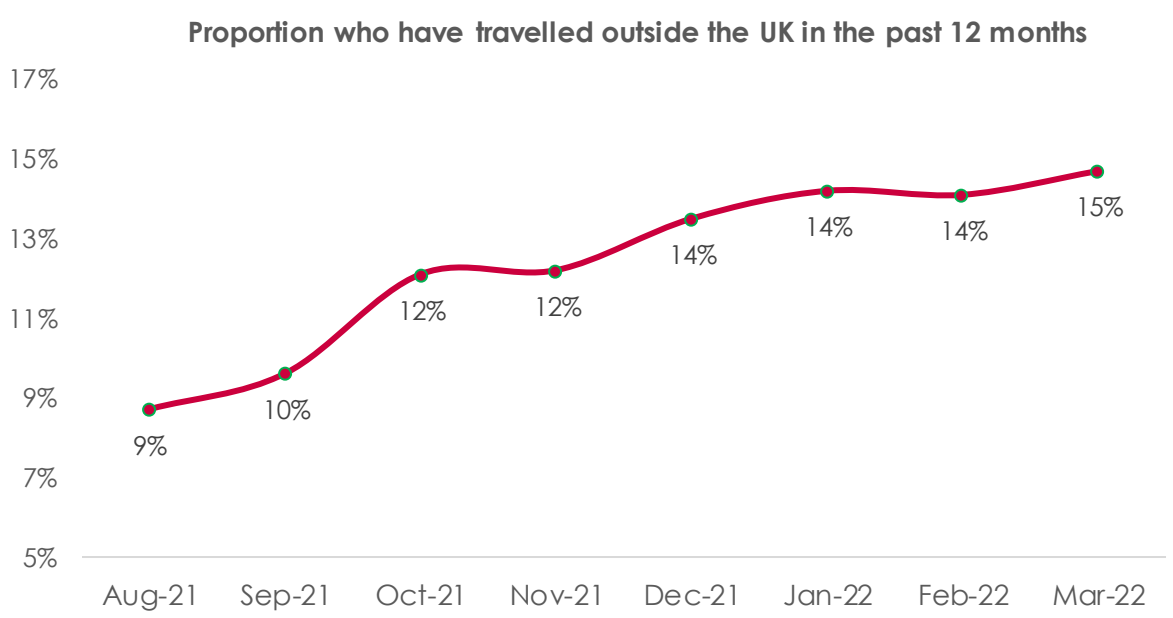
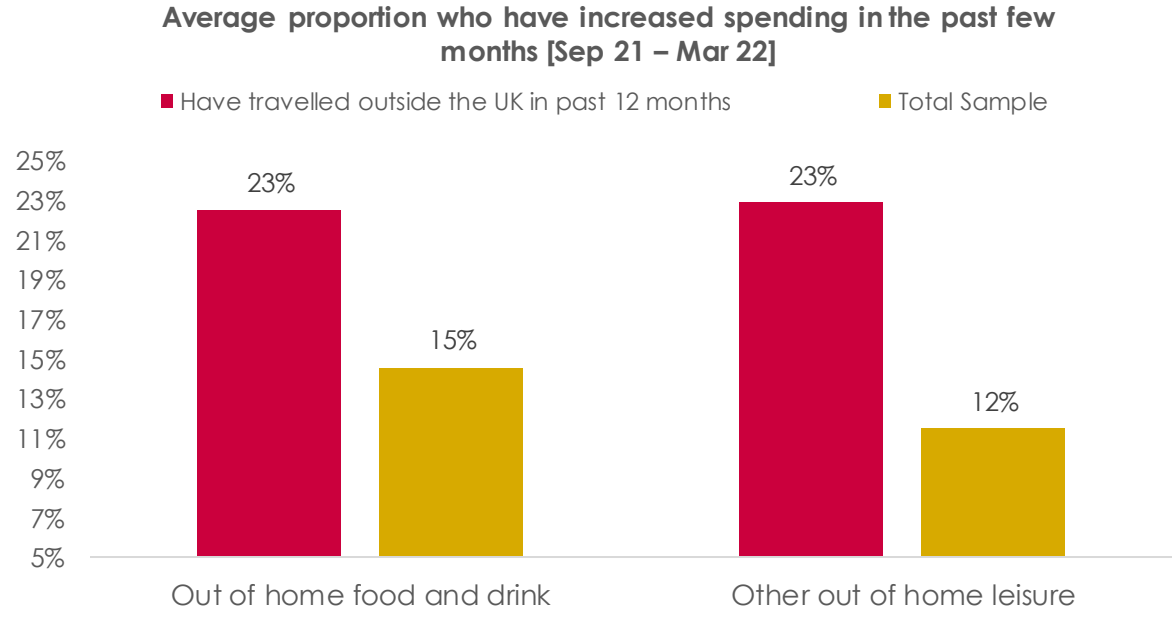
More positive leisure spending habits beginning to re-emerge for some

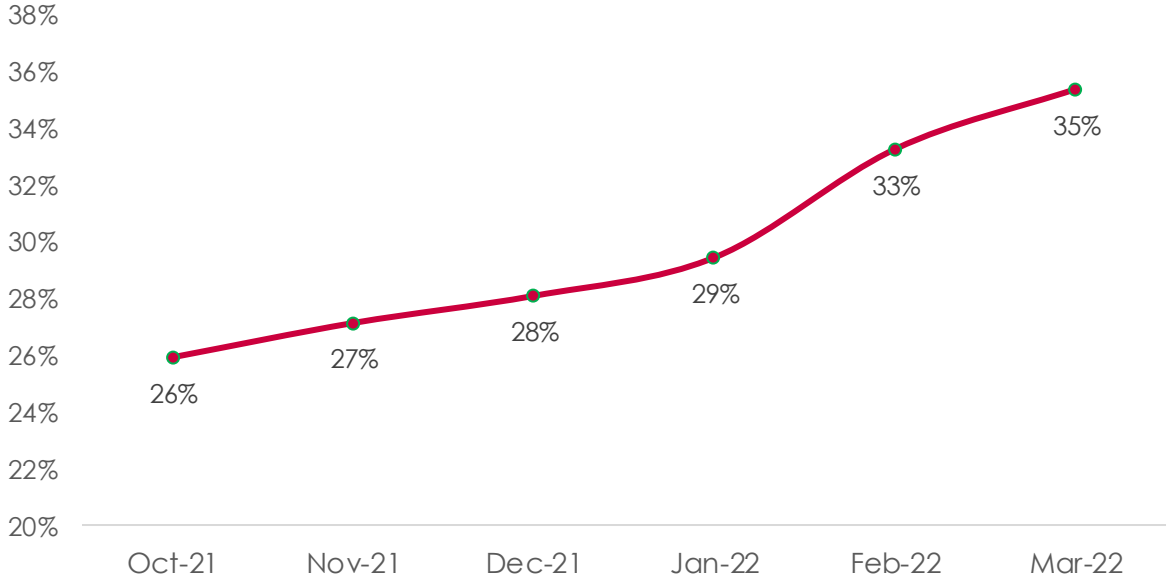




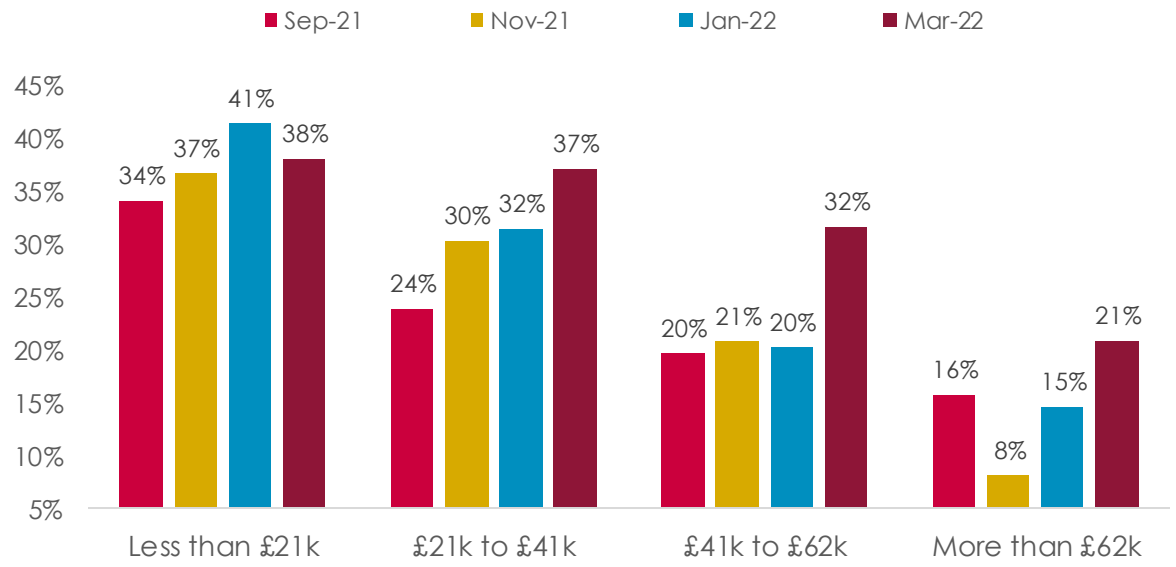
- Despite the continued decline in net spending expectations for leisure at a topline level, more positive signs are beginning to emerge under the surface. As concerns over the health risks of the pandemic have dampened, the past six months have seen the proportion of those who have travelled abroad increase by more than 50% compared to the levels seen last summer (9% to 15%).
- Additionally, those that have travelled abroad in the past year have consistently adopted more bullish leisure spending habits over recent months. Compared to the total sample, this group have been 8% more likely to increase spending on out of home food and drink and 11% more likely to increase spend on other out of home leisure.
- Whilst the cost of living crisis is seriously dampening leisure demand for the majority, it is worth noting that there remain small pockets of consumers who are either financially protected or otherwise able to prioritise leisure. Businesses should identify and target these groups, as we would anticipate this proportion to decline rather than increase in the coming months.

Worsening household finances growing more prominent for higher earners

Proportion whose household financial situation has worsened over the past 12 months [Two Month Average]



Proportion whose household financial situation has worsened over the past 12 months



- With confidence in the economy reaching record lows in the past two months, it is little surprise that the proportion who feel their own finances have worsened in recent months has also increased significantly – up from 26% in October to 35% this month.
- Whilst one might expect this growth to have predominantly occurred amongst lower income households, the reality is in fact the opposite. Compared to November last year, we observe just a 1% increase amongst those earning less than £21k, whilst we see an increase of more than 10% amongst both those earning £41k to £62k (21% to 32%) and those earning more than £62k (8% to 21%).
- That is not to say that household finances amongst the lowest income households are no longer most likely to have worsened, but rather that higher earning households are beginning to experience the issues that lower earners have already felt for several months – particularly in relation to the rapidly rising cost of fuel and energy.

TRAJECTORY

Each month Trajectory survey 1500 adults in the UK on a range of issues including consumer confidence, personal choice and control, social trust, opportunities in technology, optimism and their place in the world.

This data is analysed and produces The Optimism Index. The data presented here is a snapshot of the full data, which can be used for bespoke analyses on request – including time-series analysis (from 2011 onwards) and global comparisons.

Enquiries: info@trajectorypartnership.com

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