The Deloitte Consumer Tracker
Ripe for the picking?
About this research
The Deloitte Consumer Tracker is based on a consumer survey carried out by independent market research agency, YouGov, on our behalf. This survey was conducted online with a nationally representative sample of over 3,000 UK adults aged 18+ between 28 June and 3 July 2013.

A note on the methodology
Some of the figures in this research show the results in the form of a net balance. This means that in a survey of 100 respondents, assume that 30 reported they are spending more, 50 reported no change and 20 reported they are spending less. The net balance is calculated by subtracting the number that reported they spent less from the number that reported they spent more, i.e. \(30 - 20 = 10\). This means 10 per cent of consumers reported that they spent more rather than less.
Another step on the long road to recovery as consumer confidence remains on an upward trend.

Against a backdrop of a brightening UK economic outlook, the latest Deloitte Consumer Tracker shows that key measures of confidence are rising compared to the same period a year ago.

Pressures on consumers are continuing to ease. Rising employment, increased housing market activity and low inflation continue to provide the right conditions for a recovery in the UK consumer economy. Moreover, consumer sentiment about the level of their disposable income is at its highest since The Tracker was launched in 2011, albeit still negative.

In a sign of a polarised consumer economy emerging, Deloitte UK research shows that sentiment and confidence are stronger among the more affluent. Higher income earners are more likely to have benefited from an income rise, with 38 per cent saying they received a pay rise or a bonus compared to 12 per cent of the lowest income group. What is perhaps more significant is that higher income earners’ level of confidence in their disposable income has moved into positive territory for the first time since The Tracker began.

Consumers are also becoming less defensive. Fewer are trading down, bargain hunting or buying on sale compared to the same period a year ago.

The service sector is already benefiting from this shift in consumer behaviour. Leisure activity is picking up as consumers look for affordable treats. According to the research spending on restaurants and short breaks is increasing.

A further rise in confidence is expected in the next quarter as economic conditions continue to improve and consumers say they intend to increase their discretionary spending.
Consumer confidence

Confidence is up, but consumers remain cautious about their longer-term prospects.

- UK consumers continue to be less negative about their personal circumstances as Q2 2013 results show an improvement across all measures of confidence compared to Q2 2012.

- Higher income earners’ level of confidence in their disposable income has moved into positive territory for the first time since The Tracker began.

- Compared to a year ago, the level of confidence in disposable income has moved from minus 12 per cent to 2 per cent for the most affluent.

- Official confidence measures are also heading in the right direction with the GfK NOP confidence data showing a year-on-year rise from minus 29 to minus 21.

Figure 1. UK consumer sentiment
Net % of UK consumers who said that their level of confidence has improved during the last three months
Question: Thinking about the following aspects of your life...over the past three months would you say that your level of optimism/confidence in each area is better, the same or worse?

Figure 2. UK consumer confidence
Source: GfK NOP
Business confidence is equally encouraging. The Deloitte Chief Financial Officers Survey shows that their optimism has risen for the fourth consecutive quarter and now runs above its long-term average.

But the gradual rise in consumer confidence could be halted by consumers’ negative perceptions about the UK economy and their sentiment about their disposable income prospects for 2014.

While 23 per cent of consumers believe the UK economy is showing signs of recovery, 47 per cent do not foresee improvements in their level of disposable income in 2014.
Sources of finance

With no growth in their real income, consumers are paying off their unsecured debt more slowly.

- Year on year, personal circumstances affecting disposable income remain unchanged in Q2 2013, other than a marginal increase in the proportion of households receiving a pay rise or a bonus.

- However, higher income earners are more likely to have benefited from an income rise, with 30 per cent saying they received a pay rise or a bonus compared to 12 per cent of the lowest income group.

- Encouragingly, despite further public sector pay restraint and modest pay rises in the private sector, the negative differential between inflation and earnings has narrowed.

- While real income continues to fall, recent consensus forecasts indicate that real household disposable income will increase by 0.7 per cent in 2013 and 1.0 per cent in 2014.

- However, consumers remain cautious and are continuing to anticipate low income growth by increasing payments into savings accounts.

- The data indicates that consumers are paying off credit card balances more slowly.

- This coincides with evidence from the Bank of England pointing to a small increase in the value of unsecured net lending in the first quarter of 2013.
The UK’s economic outlook brightens as a series of indicators suggests the economy is recovering.

- Recent revisions to official data show that the UK narrowly avoided a double-dip recession at the beginning of 2012.
- The UK’s economic outlook brightens with broad-based rises in housing and consumer confidence.
- In addition, the International Monetary Fund said it expects the UK economy to grow by 0.9 per cent this year, up from the 0.6 per cent growth it projected in April.
- This upgrade follows a series of indicators that has suggested the economy is recovering, having grown by 0.3 per cent in the first three months of the year.

- The Deloitte CFO Survey shows that their perceptions of economic uncertainty have fallen significantly since 2012. 73 per cent of CFOs believe their businesses face an above normal, high or very high level of external macroeconomic uncertainty, down from a peak of 97 per cent in late 2011.
- However, a decline in manufacturing output and an increase in the trade deficit during May demonstrate how fragile the recovery is.
Spending behaviour in the last quarter

Consumers are becoming less defensive in a growing sign of austerity fatigue.

• Despite the improvement in consumer confidence, overall spending is hesitant in the second quarter of 2013.

• While spending is down on transport, reflecting the slight reduction in fuel prices, spending on utilities is up.

• Spending on clothing and footwear is also down as the cold weather in March continued into April.

• But consumers have found an area where they could indulge: spending in restaurants and on short breaks improves from minus 17 per cent in Q2 2012 to minus 13 in the second quarter of 2013.

• Although UK consumer price inflation rose to 2.9 per cent in June, up from 2.7 per cent in May, inflation is expected to remain around 2.6 per cent in 2013.
• Consumers are becoming less defensive in a growing sign of austerity fatigue. There are fewer consumers trading down, bargain hunting or buying on sale in the second quarter of 2013 compared to Q2 2012.

![Figure 12. Reasons consumers spent less in the last three months](image)

**Question:** You just mentioned you spent less in the last three months, which of the following reasons apply to you?

- Sale/special offer
- Trading down
- Controlling impulse purchasing
- Bargain hunting

![Figure 13. Saving ratio (%)](image)

A sign that consumers are spending more is the recent data on the saving ratio (the difference between revenue and expenditure) which shows a decline from 7.4 per cent in Q1 2012 to 4.2 per cent in the same period of 2013.

Source: ONS
• In Q1 2013 household expenditure was up for the fourth consecutive quarter.

• UK retailers are also seeing strong sales growth, with both the volume of goods sold and total spending rising in June.
Consumer spending outlook

Consumers intend to increase their discretionary spending in Q3 2013.

- The number of consumers feeling upbeat is rising as our research indicates that spending in most discretionary categories is expected to increase over the next quarter.

- The household goods sector is likely to benefit from an improving property market. The GfK NOP major purchases measure increased five points in June to minus 20, eight points higher than this time last year.

Figure 16. Category spending in the next three months
Net % of UK consumers spending more by category over the next three months

**Question:** And now thinking about all the expenses in your household in the next three months, for each of the following, would you say you will spend more, less or the same compared to four to six months ago?

<table>
<thead>
<tr>
<th>Category</th>
<th>Q2 2013</th>
<th>Q2 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility bills (e.g. water, electricity, gas and other fuels)</td>
<td>-19%</td>
<td>-17%</td>
</tr>
<tr>
<td>Grocery shopping for food and non-alcoholic beverages</td>
<td>-15%</td>
<td>-16%</td>
</tr>
<tr>
<td>Transport</td>
<td>-9%</td>
<td>-5%</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>-5%</td>
<td>-3%</td>
</tr>
<tr>
<td>Electrical equipment (e.g. PCs/laptop, television, mobile phone device, etc.)</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Alcoholic beverages and tobacco</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Holidays (long break)</td>
<td>6%</td>
<td>12%</td>
</tr>
<tr>
<td>Major household appliances (e.g. washing machine, fridge, cooker, vacuum cleaner, etc.)</td>
<td>6%</td>
<td>16%</td>
</tr>
<tr>
<td>Furniture and homeware</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>Landline/mobile phone, Internet and cable/TV subscriptions</td>
<td>-17%</td>
<td>-17%</td>
</tr>
<tr>
<td>Housing (e.g. rent, mortgage, maintenance)</td>
<td>-17%</td>
<td>-17%</td>
</tr>
<tr>
<td>Restaurants and hotels eating out and short break</td>
<td>-18%</td>
<td>-18%</td>
</tr>
<tr>
<td>Alcohol and tobacco</td>
<td>-13%</td>
<td>-13%</td>
</tr>
<tr>
<td>Going out (e.g. cinema, theatre, concerts, etc.)</td>
<td>-6%</td>
<td>-4%</td>
</tr>
<tr>
<td>Non-alcoholic beverages</td>
<td>-4%</td>
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Figure 17. Major purchases intentions

Source: GfK NOP
A significant proportion of consumers are claiming to be satisfied with the financing environment, with 45 per cent indicating they have sufficient access to credit and 38 per cent saying current borrowing costs are affordable.

But consumer sentiment could change if market interest rates were to rise, potentially undermining the nascent recovery in the consumer economy.

Figure 18. Consumer sentiment on access to credit and cost of borrowing

Question: To what extent do you agree or disagree with each of the following statements?

- I believe the cost of borrowing money is sufficiently low at the moment (i.e. interest rates)
  - Strongly agree/Agree: 23%
  - Strongly disagree/Disagree: 38%

- I have access to the credit that I need (e.g. credit cards, loans and mortgages)
  - Strongly agree/Agree: 45%
  - Strongly disagree/Disagree: 16%