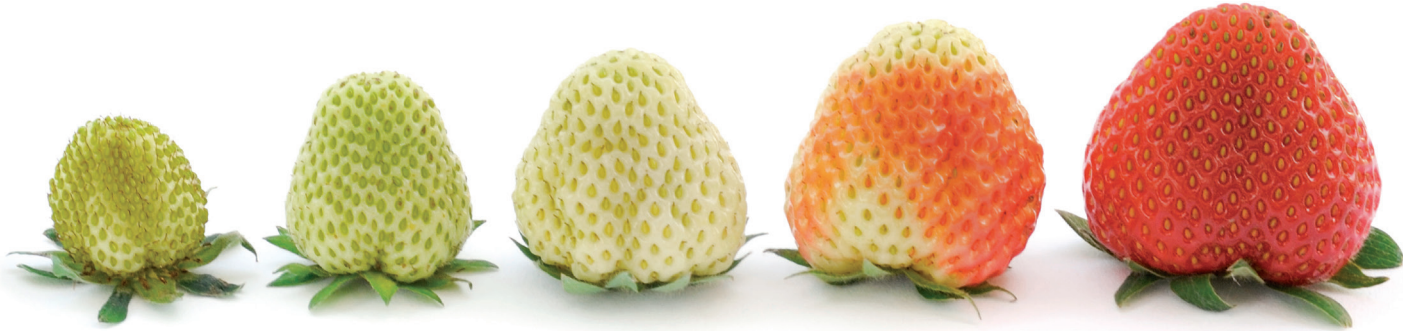


The Deloitte Consumer Tracker  
Ripe for the picking?





# The Deloitte Consumer Tracker

## Q2 2013

### Key findings:

- Confidence is up, but consumers remain cautious about their longer-term prospects.
- The UK's economic outlook brightens, as a series of indicators suggests the economy is recovering.
- 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 becoming less defensive in a growing sign of austerity fatigue.
- The service sector is benefiting from the shift in consumer behaviour with spending on restaurants and short breaks increasing.
- Consumers intend to increase their discretionary spending in Q3 2013.

### 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

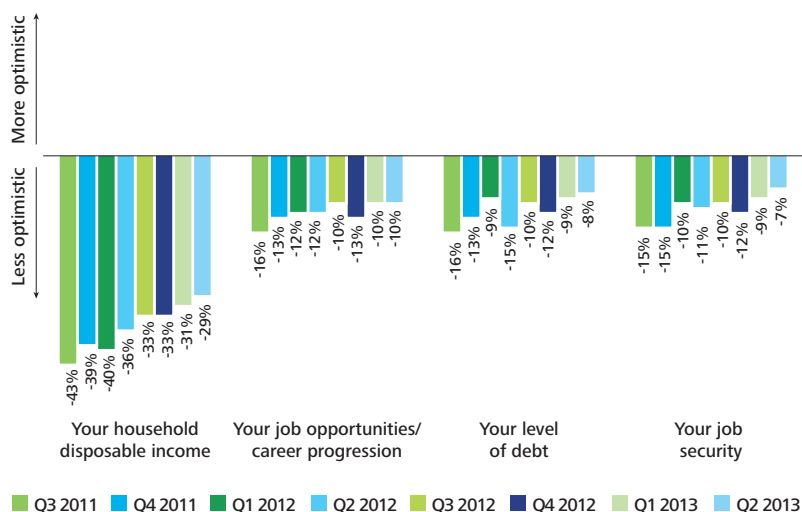
## Confidence is up, but consumers remain cautious about their longer-term prospects.

- 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.

**Figure 1. UK consumer sentiment**

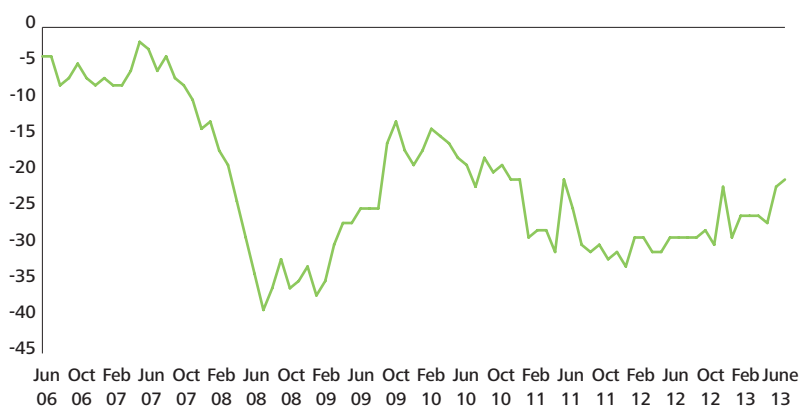
Net % of UK consumers who said that their level of confidence has improved during the last three months

**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?



- 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 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.

**Figure 3. Business confidence**

Net % of CFOs who are more optimistic about financial prospects for their company now than three months ago



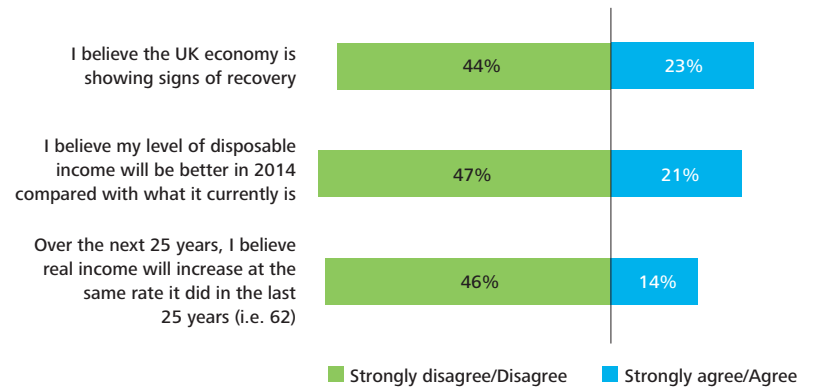
Source: Deloitte CFO Survey Q2 2013

- 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.

**Figure 4. Consumer sentiment on the UK economy, disposable income prospects in 2014 and real income growth expectations**

% of UK consumers

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



# Sources of finance

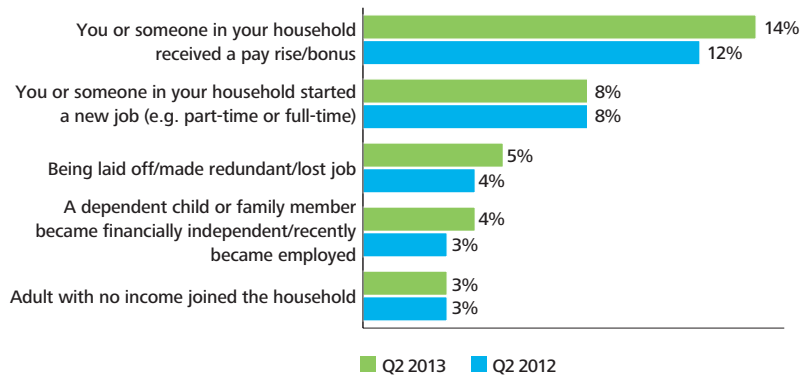
## With no growth in their real income, consumers are paying off their unsecured debt more slowly.

- 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.

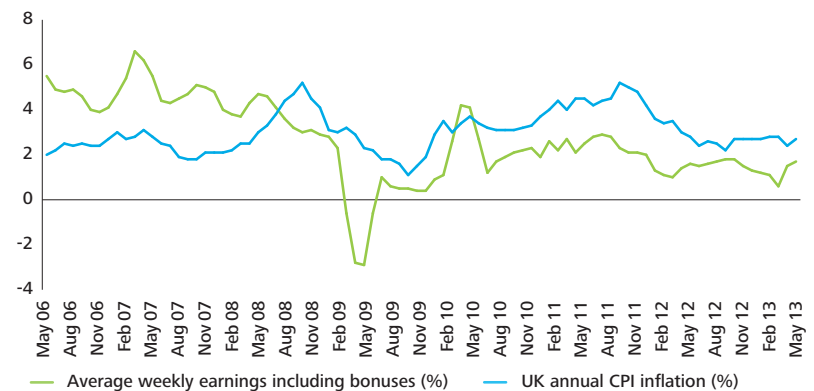
**Figure 5. Changes in personal household circumstances in the past three months**

% of UK consumers

**Question:** Thinking about your household circumstances in the past three months, which of the following apply to you or someone in your household?



**Figure 6. Average earnings growth and UK national inflation**

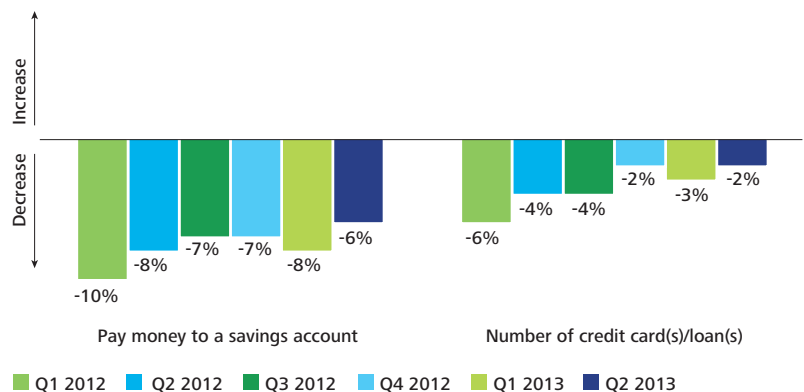


Source: Office for National Statistics (ONS)

**Figure 7. UK consumer attitudes to financial obligations in the last three months**

Net % of UK consumers

**Question:** Thinking about the financial obligations of your household over the last three months, what if anything, did you do differently compared to four to six months ago; increase, do the same or reduce?

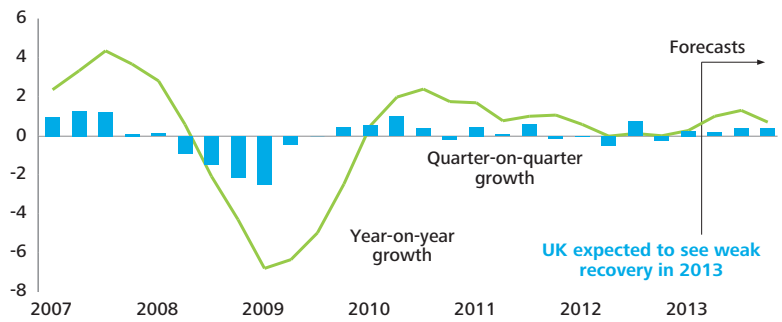


# Economic outlook

## 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.

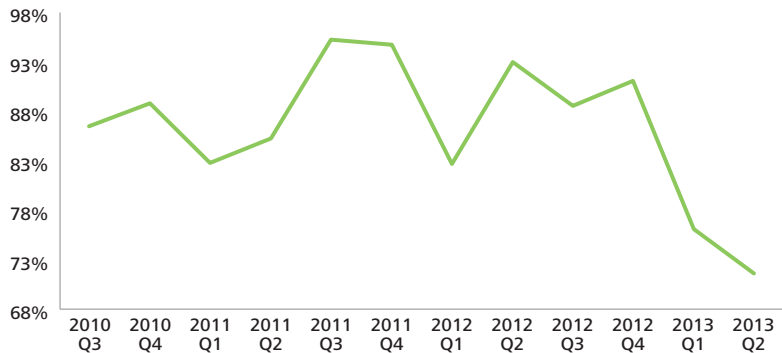
**Figure 8. GDP growth: Actual and forecast (%)**



Source: ONS, consensus forecasts from *The Economist* and Deloitte calculations

**Figure 9. UK CFOs uncertainty**

% of CFOs who rate the level of external financial and economic uncertainty facing their business as above normal, high or very high



Source: Deloitte CFO Survey

# Spending behaviour in the last quarter

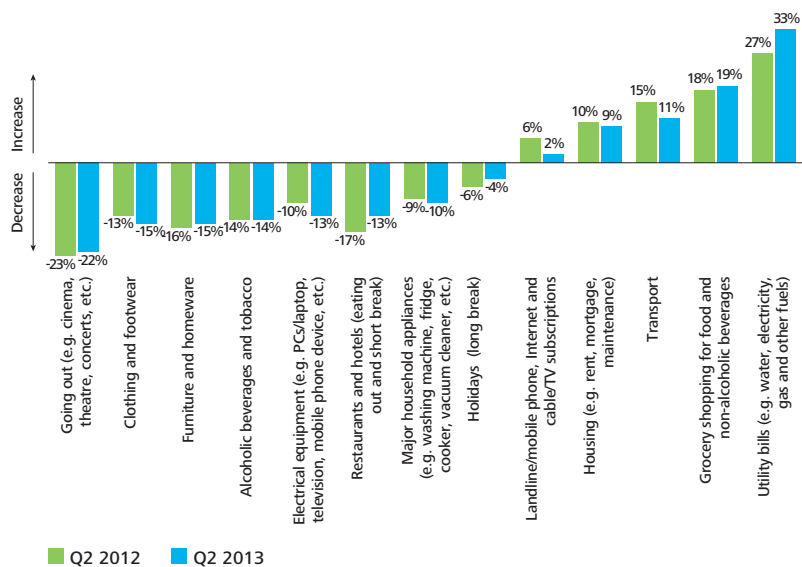
## Consumers are becoming less defensive in a growing sign of austerity fatigue.

- 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.

**Figure 10. Category spending in the past three months**

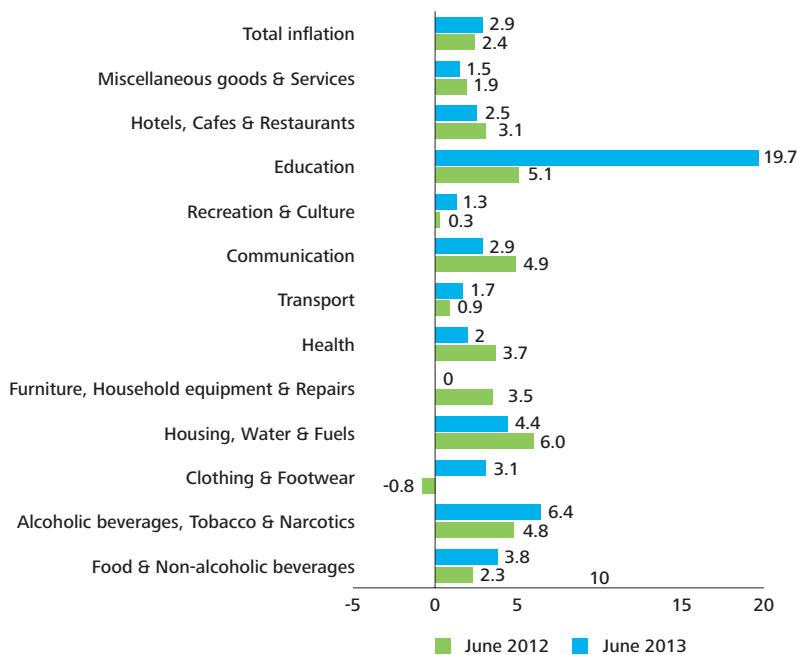
Net % of UK consumers spending more by category over the past three months

**Question:** Thinking about all the expenses in your household, for each of the following, would you say you have spent more, less or the same in the past three months?



- 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.

**Figure 11. Consumer Price Index**



Source: ONS

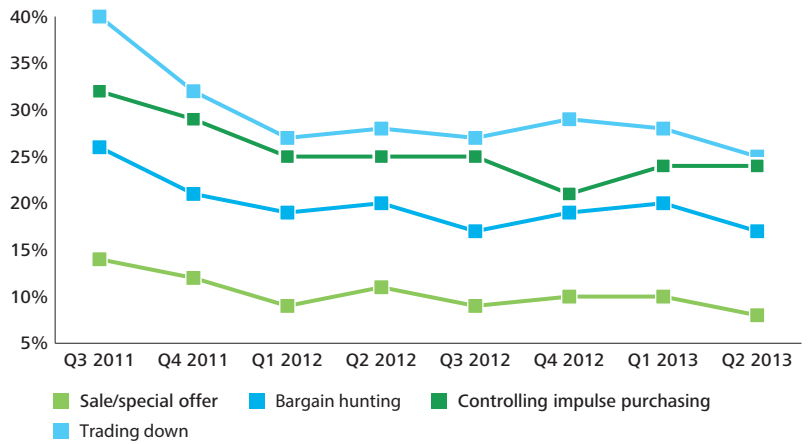


- Consumers are becoming less defensive in a growing sign of austerity fatigue. There are fewer consumers trading down, bargain hunting or buying on sale in the second quarter of 2013 compared to Q2 2012.

**Figure 12. Reasons consumers spent less in the last three months**

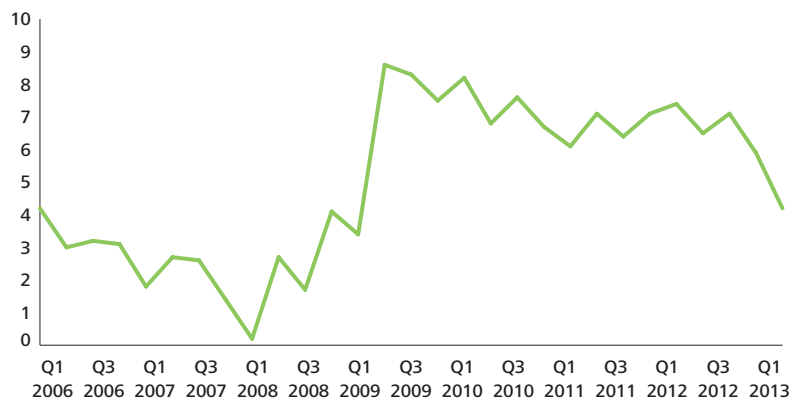
% of UK consumers spending less

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



- 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.

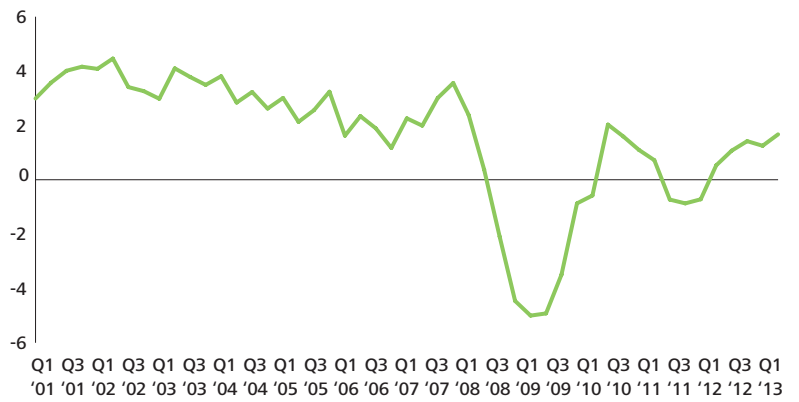
**Figure 13. Saving ratio (%)**



Source: ONS

- In Q1 2013 household expenditure was up for the fourth consecutive quarter.

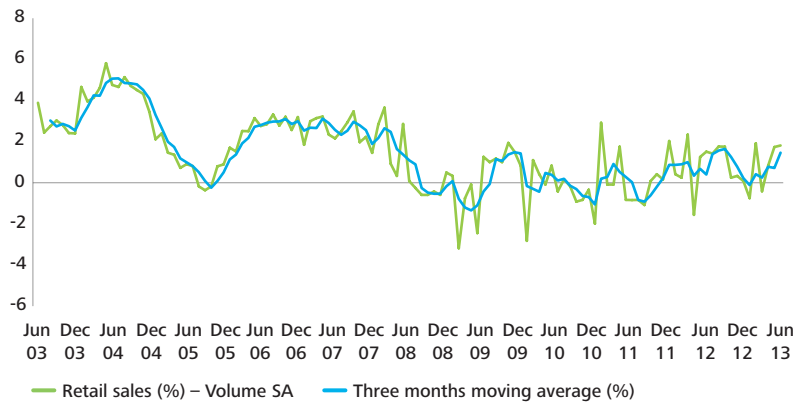
**Figure 14. Consumer spending**



Source: ONS

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

**Figure 15. UK retail sales**



Source: ONS

# Consumer spending outlook

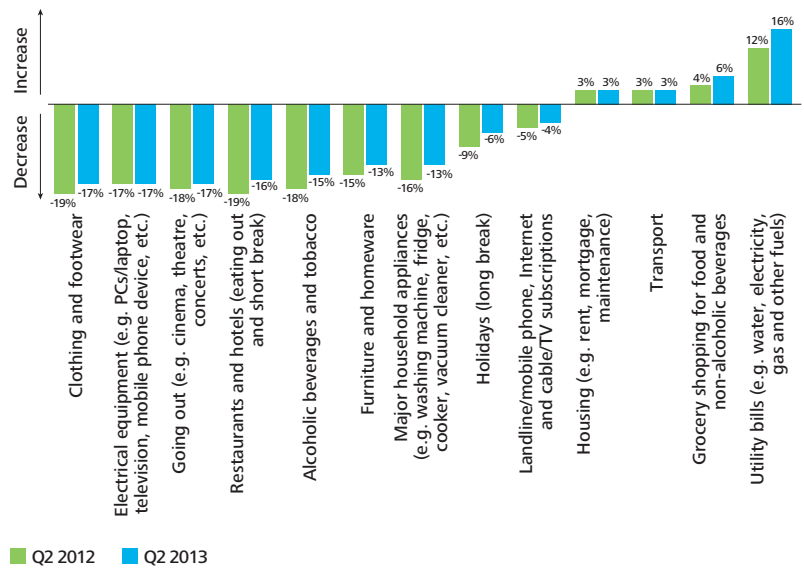
## Consumers intend to increase their discretionary spending in Q3 2013.

- 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.

**Figure 16. Category spending in the next three months**

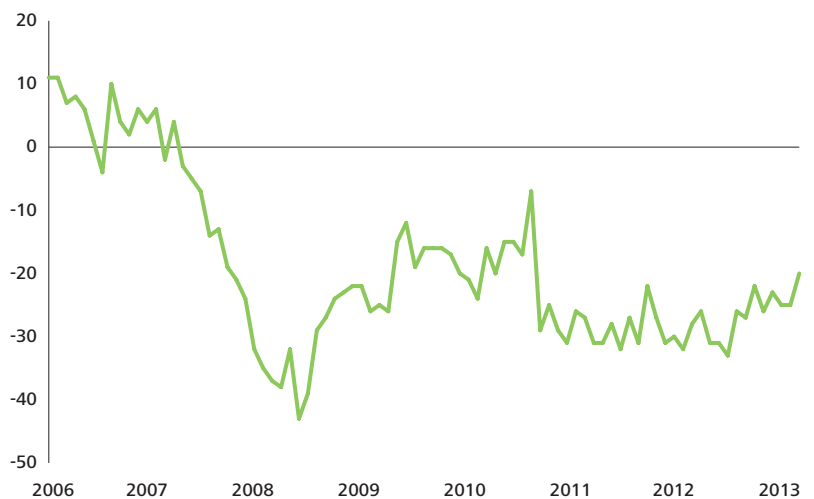
Net % of UK consumers spending more by category over the next three months

**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?



- 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 17. Major purchases intentions**



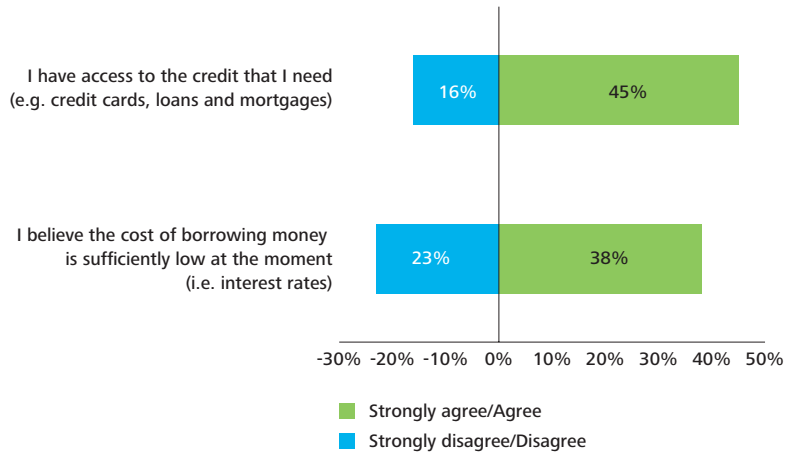
Source: GfK NOP

- 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**

% of UK consumers

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



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