

The Deloitte Consumer Tracker
A taste of spring to come



The Deloitte Consumer Tracker

Q1 2013

Key findings:

- Sentiment on disposable income is stronger than at any time since Q3 2011.
- UK household conditions remain stable in the first quarter of 2013.
- The consensus is for the recovery to gain traction as 2013 progresses.
- Despite a slight improvement compared to Q1 2012, spending remains subdued.
- Looking ahead consumers remain concerned about rising utility prices.

2013 got off to an encouraging start with consumer confidence in disposable income improving for the fifth consecutive quarter.

The first quarter of 2013 has confirmed that the necessary conditions to reinvigorate consumer optimism are starting to emerge. In 2012 there were tentative signs of improvement: inflation fell which in turn helped to fuel a slight increase in discretionary spending. However, consumers remained cautious and continued to deleverage and save in anticipation of rising food and utility prices.

The latest Deloitte Consumer Tracker shows that in Q1 2013 confidence regarding disposable income is at its highest since the Tracker began in Q3 2011. There is less pressure on consumers' ability to spend as market uncertainty subsides and key macroeconomic indicators such as housing prices and retail sales start pointing in the right direction.

Moreover, consumers have healthier balance sheets, having worked hard to pay down some of their debt since the beginning of the economic slowdown. They are also reluctant to take on more debt, making the uptrend in consumer expenditure since the first quarter of 2012 even more significant. Recent Bank of England figures show that secured lending has fallen over the last four years, and although this reflects a drop in the number of housing transactions, it is also a sign that consumers are changing their attitude to debt.

The consumer environment is also starting to improve. Although real earnings growth remains weak, and below inflation at just 0.3 per cent in 2012, it is better than the 1.7 per cent average annual contraction since 2008.

The question remains whether low debt interest and expectations of improving credit availability will be sufficient to give consumers enough confidence to continue to increase their spending in 2013. However with inflation forecast to rise in the next few months confidence could remain fragile.

Consumer confidence

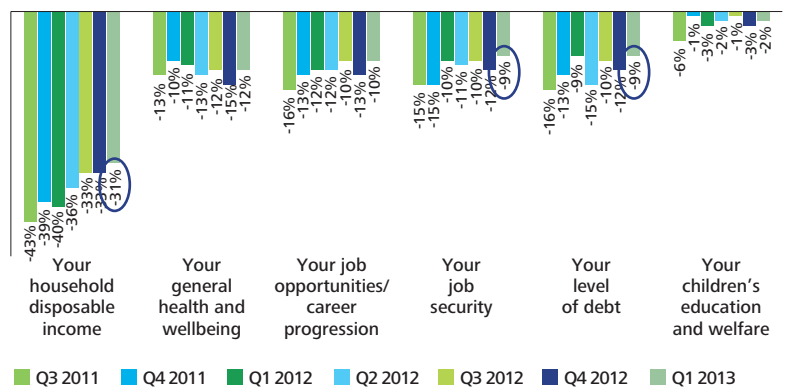
Sentiment on disposable income is stronger than at any time since Q3 2011.

- While household disposable income remains the main area of concern for consumers, it has continued to improve since the launch of the Deloitte Consumer Tracker in Q3 2011, showing a nine percentage point improvement compared to a year ago (from -40 per cent to -31 per cent).
- Sentiment improved on all measures compared to the previous quarter.
- Sentiment surrounding job security improved by three percentage points this quarter, the fastest rate since Q1 2012. Similarly debt levels at -9 per cent have nearly halved since the Tracker began in 2011.

Figure 1. UK consumer sentiment

Net % of UK consumers who said that their level of confidence has improved 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?



- Consumer confidence stabilised in Q1 2013 and is five points higher than at the same time last year, according to the GfK NOP consumer confidence index.

Figure 2. Consumer confidence index



Source: GfK NOP

- After falling steadily in 2012, consumer price inflation has edged up over the last three months reaching 2.8 per cent in February and remaining at that rate in March. The Bank of England expects that in the second half of this year inflation could rise above 3 per cent due to increasing energy prices and higher import costs.

Figure 3. UK annual CPI inflation (%)



Source: Office for National Statistics

Household disposable income

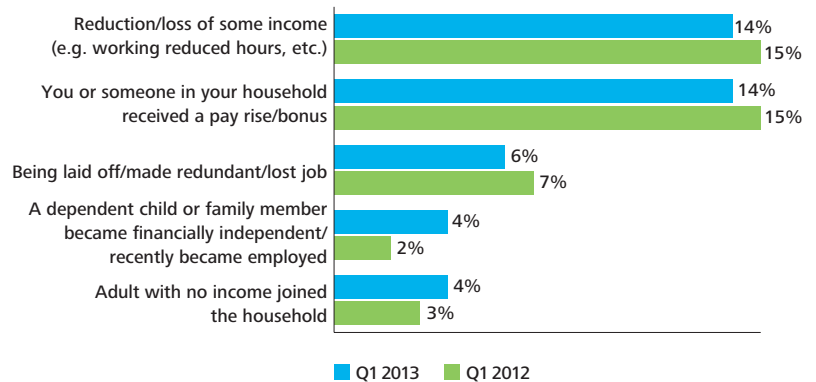
UK household conditions remain stable in the first quarter of 2013.

- While 14 per cent of UK households saw a reduction in income in the first quarter of 2013, the same proportion of households received a pay rise or bonus.
- People who received a pay rise or a bonus were twice as likely to be high income earners. In contrast those who saw a reduction of income were more likely to be from less affluent income groups.
- This polarisation is reflected in the good performances reported by retailers at each end of the retail market.

Figure 4. Changes in personal household circumstances in the past three months

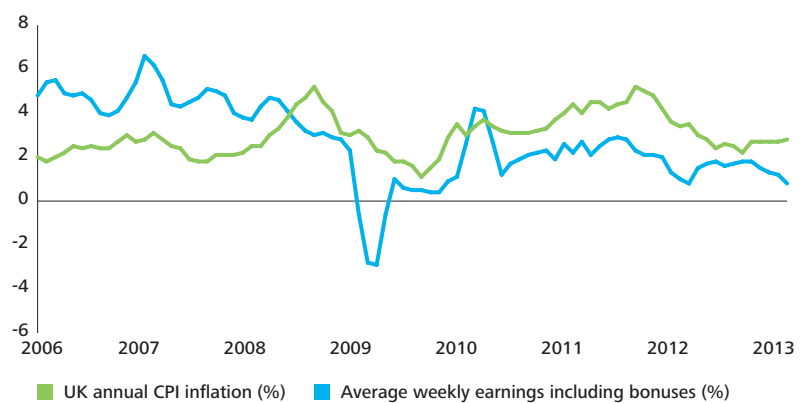
% of UK consumers

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



- Real earnings growth remained weak and below inflation, at just 0.3 per cent in 2012. However it is better than the average 1.7 per cent annual contraction since 2008.

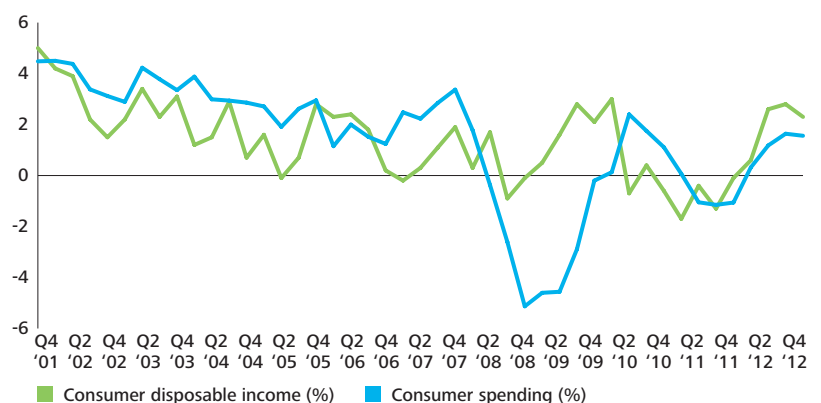
Figure 5. Average earnings growth and UK national inflation (%)



Source: ONS

- In the final quarter of last year real spending was buoyed by rising prices in energy, food and drink, and clothing.
- Overall real consumer spending has grown in each of the past five quarters by a total of around 2 per cent.

Figure 6. Consumer expenditure and disposable income growth (%)



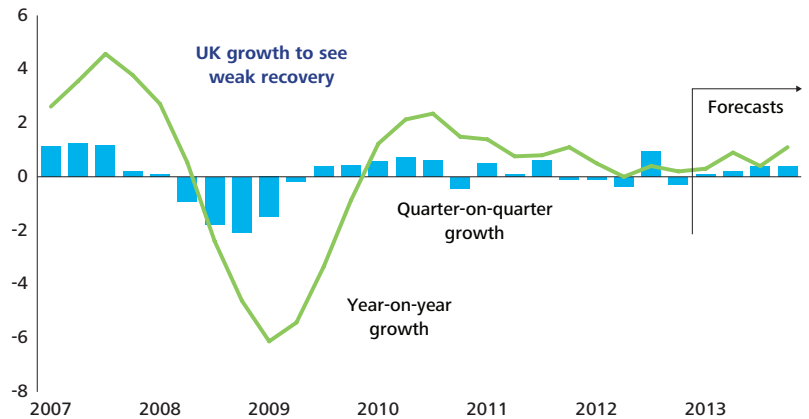
Source: ONS

Economic outlook

The consensus is for the recovery to gain traction as 2013 progresses.

- There is still a risk that the economy could enter a triple dip recession, but the consensus is for the recovery to gain traction as 2013 progresses.

Figure 7. GDP growth (%)

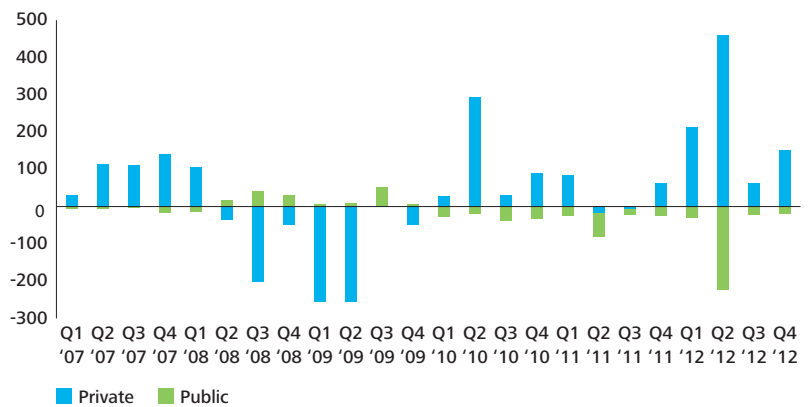


Source: ONS, consensus forecasts from The Economist and Deloitte calculations

- Recent official figures indicated that the labour market's recovery stalled for the first time in 16 months as employment fell.

Figure 8. UK private and public sector job growth (thousands)

Number of jobs added/lost each quarter, private sector vs public sector

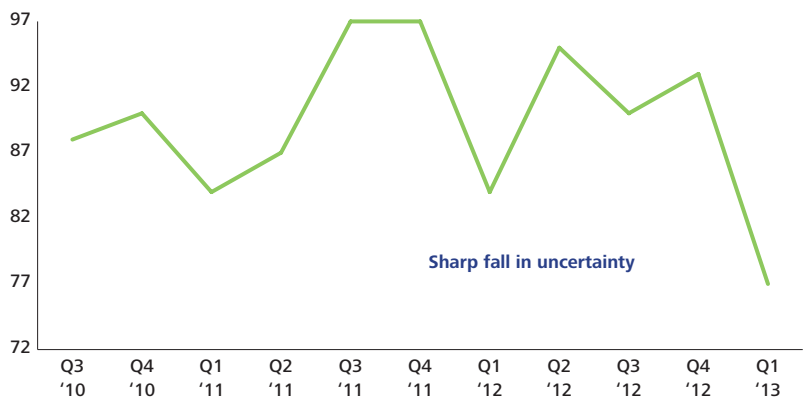


Source: ONS

- Encouragingly, the latest Deloitte CFO Survey shows a strikingly broad-based rise in confidence as British businesses look set to benefit from a less risky, and improving, global economic backdrop.

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

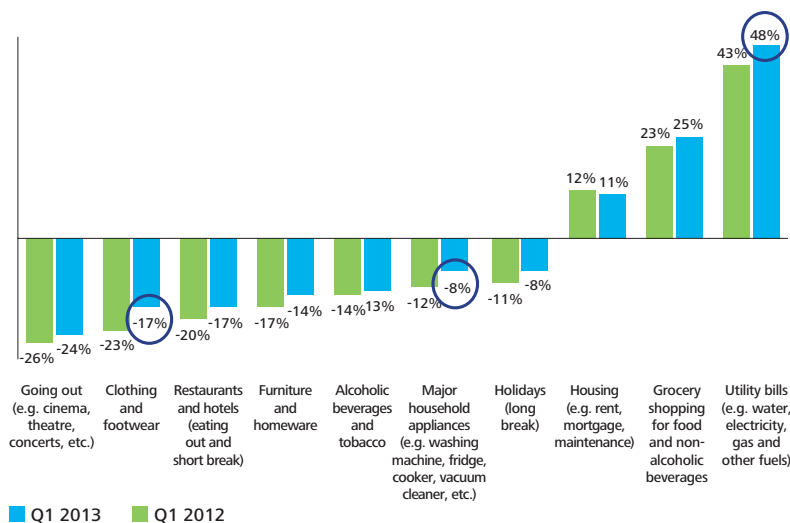
Despite a slight improvement compared to Q1 2012, spending remains subdued.

- Consumers spent more on utilities in Q1 2013 as a result of increased energy prices, while spending in discretionary categories continued to ease compared to a year ago.
- Although clothing and footwear are showing an improved performance year on year, there was a deterioration in Q1 2013 following the coldest March on record.
- Spending on main household appliances increased in Q1 2013, a sign that consumers are starting to consider buying bigger ticket items.

Figure 10. Category spending in the past three months

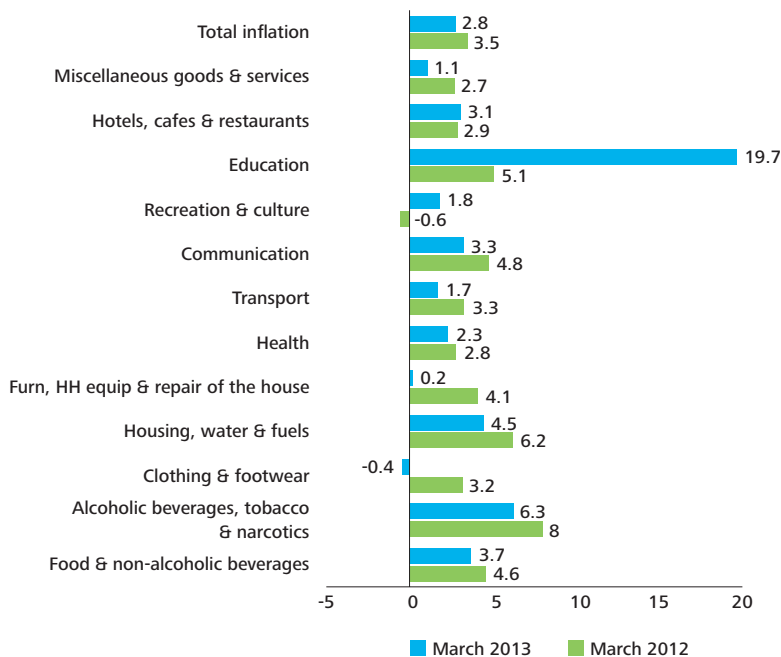
Net % of UK consumers spending more by category over the past three months

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?



- After four consecutive months at 2.7 per cent, despite food inflation easing, higher energy prices and the inclusion of student fees pushed inflation to 2.8 per cent in February. Inflation remained stable in March at 2.8 per cent.
- According to consensus forecasts, inflation is likely to rise above 3 per cent in the second half of 2013 and fluctuate around this level into 2014.

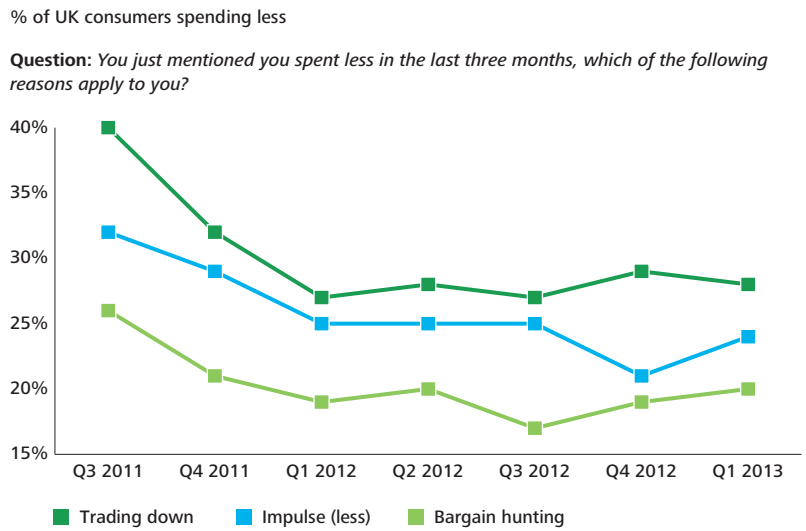
Figure 11. UK CPI categories



Source: ONS

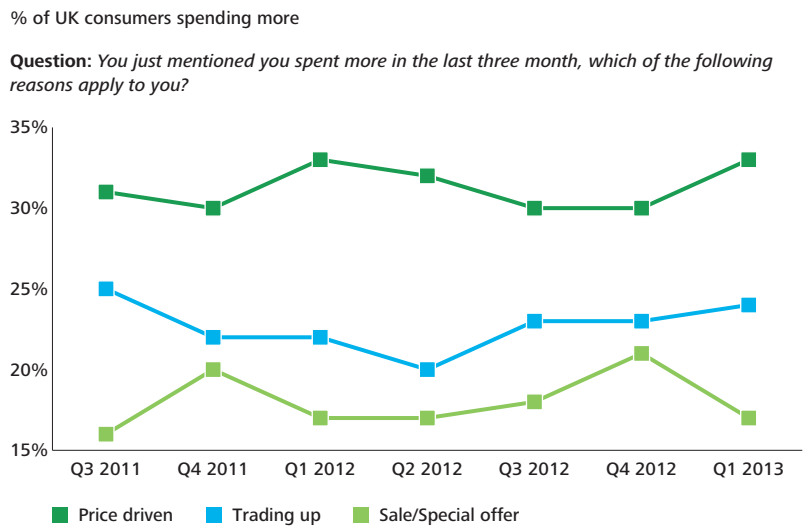
- Consumers are becoming more discerning, and defensive spending strategies saw a slight increase in the first quarter.

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



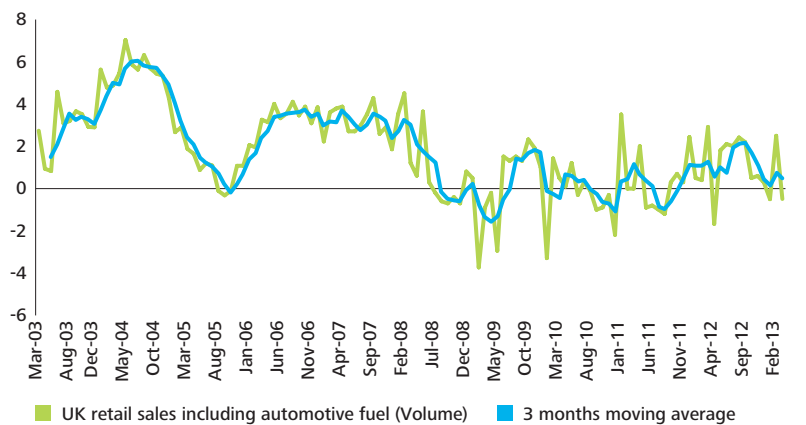
- Growth in expansionary behaviours is being attributed to higher prices.

Figure 13. Reasons consumers spent more in the past three months



- There was a notable improvement in retail sales in February, but poor weather so far this spring and fears of rising inflation may yet dampen sales towards mid-year.

Figure 14. Retail sales annual volume growth (%)



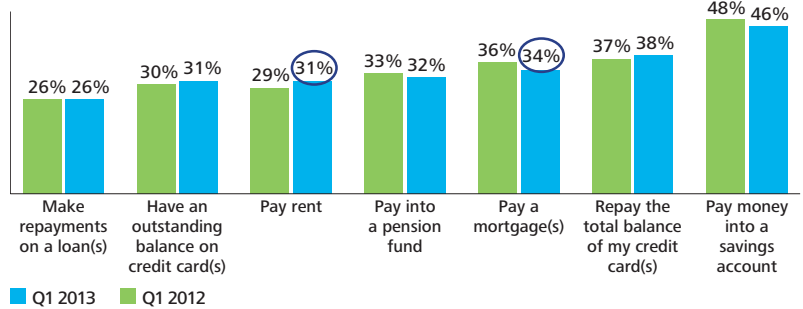
Source: ONS

- Fewer consumers claim to be paying a mortgage compared to a year ago. This is in line with a recent Bank of England report showing a fall in secured lending, reflecting a drop in the number of housing transactions.
- As a result more people are renting compared with a year ago.

Figure 15. UK consumer monthly financial obligations

% UK consumers

Question: Thinking about your household financial outgoings every month, which of the following apply to you?

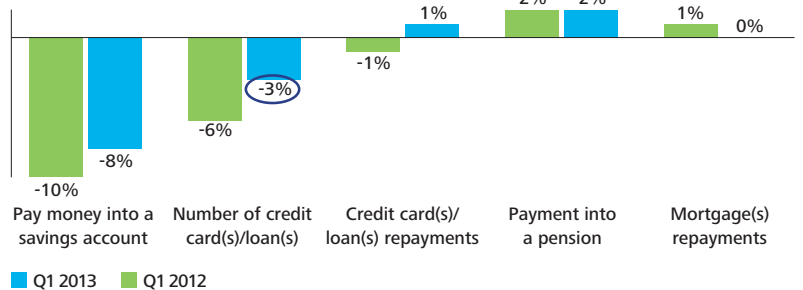


- Consumers continue to rebuild their finances with payments into savings accounts increasing.
- At the same time demand for credit cards rose compared to a year ago.

Figure 16. UK consumer attitudes to financial obligations in the last three months

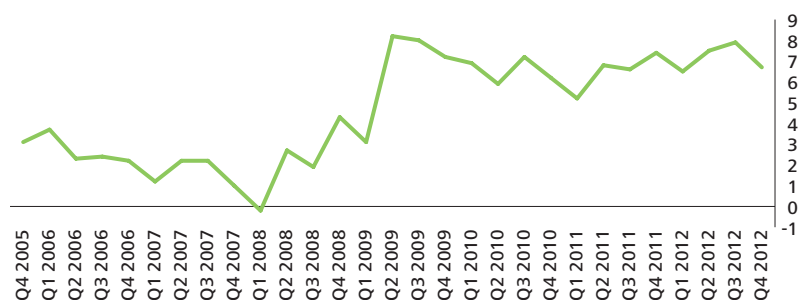
Net % of UK consumers

Question: Now 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, reduce or do the same?



- The savings ratio was at 7.2 per cent in 2012, its highest since 1997.
- As consumers focus on improving their finances, they spend less as shown by subdued consumer spending levels. However, this is also encouraging as they will be in a better to position to spend once their confidence returns.

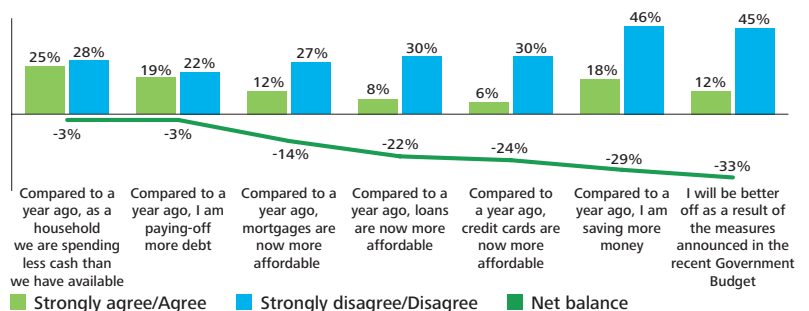
Figure 17. Savings ratio (%)



Source: ONS

- Our data reveals a polarised perception of credit conditions and attitudes to saving in the UK.

Figure 18. Consumer sentiment on access to credit and savings



Consumer spending outlook

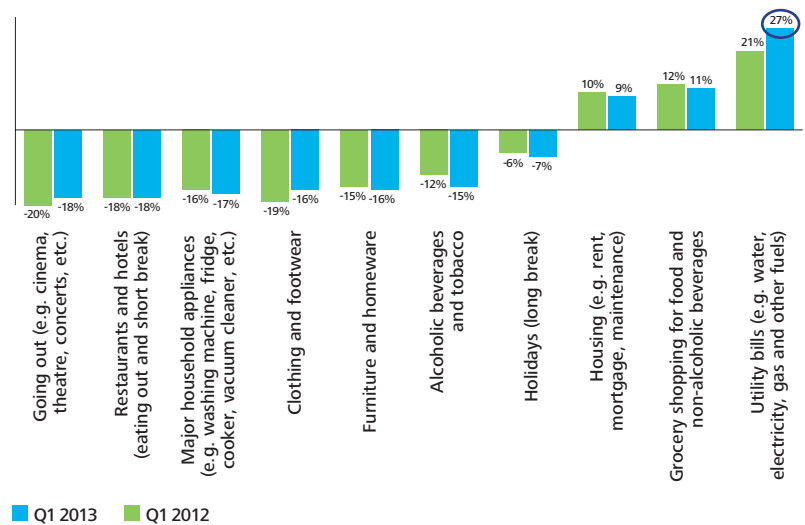
Looking ahead consumers remain concerned about rising utility prices.

- Consumers remain concerned by rising utility bills following an unseasonably cold start to the spring.
- As a result, consumers expect utility prices to continue to rise in Q2 2013.

Figure 19. 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?

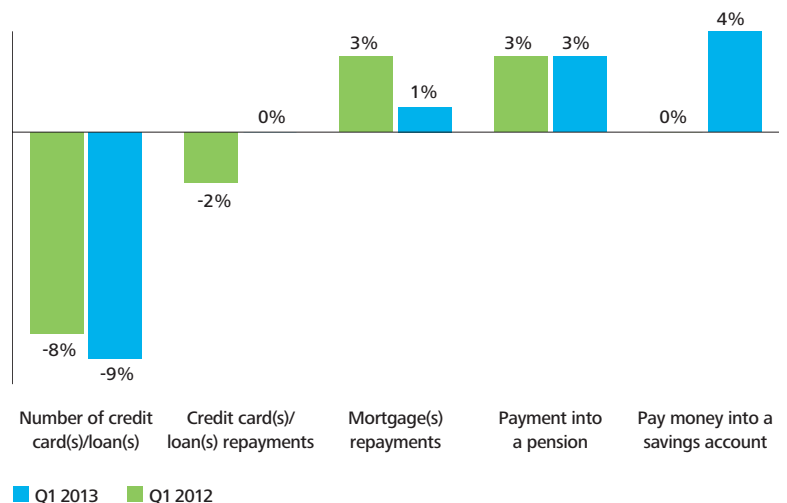


- Consumers intend to continue to cut their number of credit cards and loans, and save more, confirming the consistent trend of 2012.

Figure 20. UK consumer attitudes to financial obligations in the next three months

Net % of UK consumers

Question: Again, thinking about the financial obligations of your household, which of the following, if any, do you intend to do in the next three months; increase, reduce or do the same?

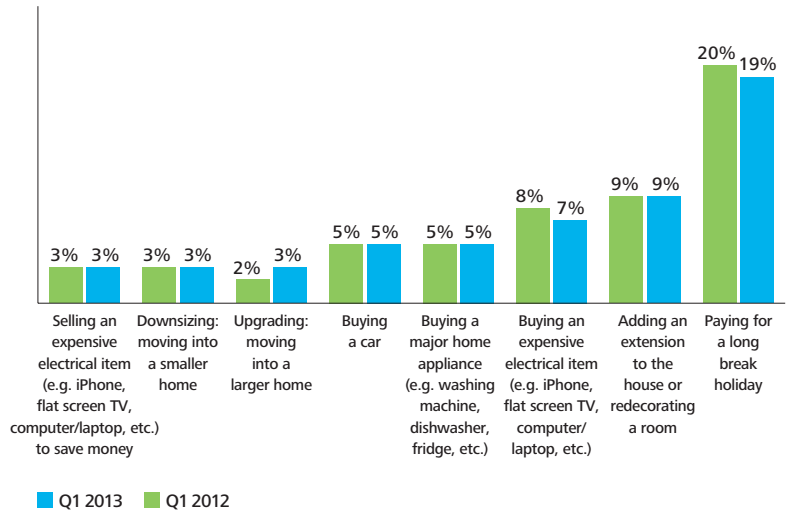


- Spending intentions on big ticket items remain stable compared to Q1 2012.

Figure 21. UK consumers planning major purchases in the next three months

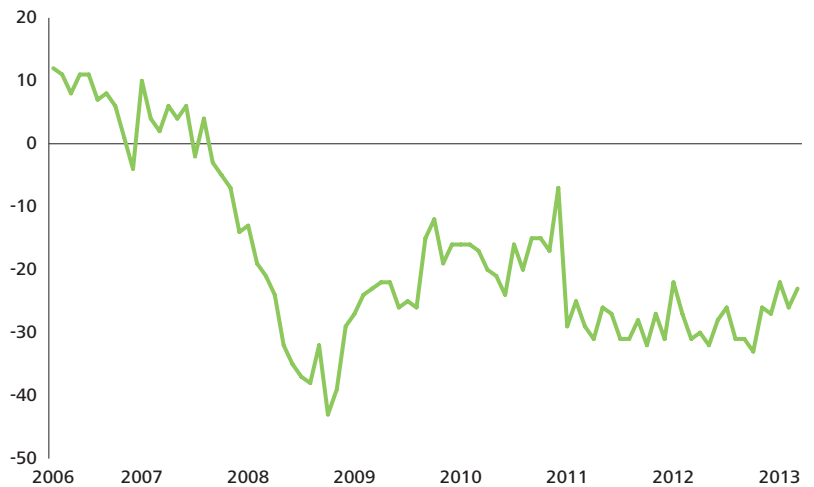
% of UK consumers

Question: Below is a list of statements that may apply to you/your household ... can you please indicate which of the proposed circumstances best applies to you/your household?



- One of the official measures of major purchases increased to -23, which is eight points higher than this time last year.

Figure 22. Major purchases intentions



Source: GfK

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Notes

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