

The Deloitte Consumer Tracker

Confidence continues to improve

The latest Deloitte Consumer Tracker shows that consumer confidence continues to improve and is moving closer to positive territory.

Overall confidence is now four points higher than a year ago and is at its highest level since the Tracker began. While consumers in London and the South East are the most confident, confidence in the North has increased significantly this quarter, suggesting that the recovery is gathering pace across the country.

However, consumers are less confident about their level of debt this quarter, a sign that consumers may be responding to the prospect of higher interest rates.

With inflationary pressures continuing to ease, especially in categories such as utilities and food, consumers are spending more in discretionary categories. The category that has seen the biggest net spending increase this quarter is clothing and footwear. Stiffer competition and the strengthening of sterling have helped to reduce prices and are supporting sales growth by volume.

Low inflation, or in some cases deflation, mean that consumers are getting more for their money. As a result, consumers are edging away from the defensive spending behaviours they adopted during the recessionary years.

Fewer consumers are cutting back by buying less and controlling impulse buying. At the same time the number of consumers buying more items is increasing.

Strong employment growth is supporting consumer spending. The Tracker shows that not only is there a significant increase in the number of consumers starting a new job, there are also fewer people reporting a reduction or loss of income.

In Q3 2014, consumers are planning to spend more on electrical items, eating out and short breaks. They are also planning to reduce spending on utilities.

While economists forecast a rise in real earnings over the next year, the Tracker indicates that consumers are less optimistic. Half of working UK adults do not expect their salaries to increase. Such concerns, together with the forecast of higher interest rates, may explain why consumers are planning to repay more debt and save more in the next quarter.

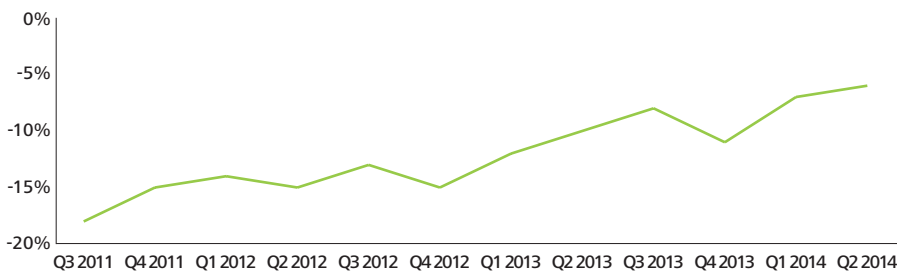
The key uncertainty for the consumer sector over the next year is whether gains in real incomes will be enough to offset the dampening effect of higher interest rates.

Key Indicators



Chart 1. Deloitte Consumer Confidence

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



Note: This measure is an average of the six measures of consumer confidence tracked by the Deloitte Consumer Tracker

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Consumer confidence

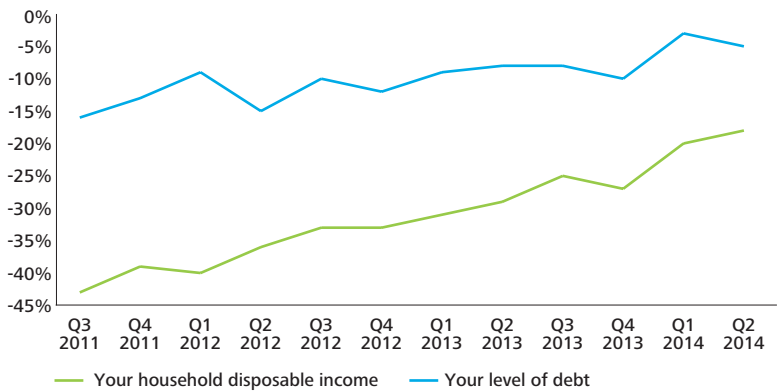
Confidence gathers pace across the UK

This quarter consumer confidence has improved across five of the six measures of sentiment tracked by this survey. Sentiment about disposable income saw the largest year-on-year increase, up 11 percentage points.

Consumers also appear to be more concerned about their level of debt, which fell by 2 points this quarter, a sign that consumers may be responding to the prospect of future rises in interest rates.

Chart 2. UK consumer sentiment about personal situation

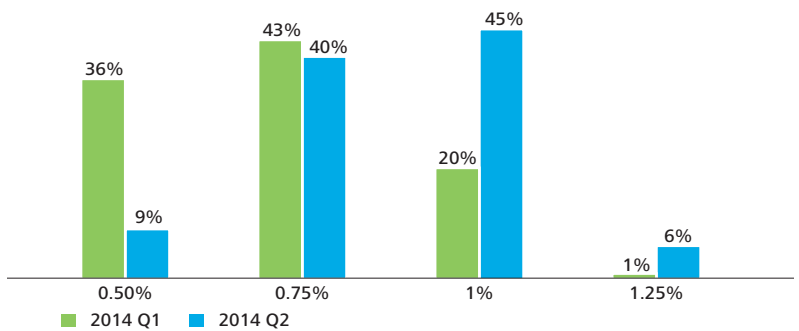
Net % of UK consumers who said that their level of confidence has improved over the past three months



This fits with the findings of the latest Deloitte UK survey of Chief Financial Officers which shows that CFOs have taken on board the recent announcement by the Bank of England that interest rates could rise earlier than expected. On average they expect the base rate to rise to 0.9% in a year's time.

Chart 3. Bank rate expectations

% of CFOs who expect the Bank of England's base rate to be at the following levels in a year's time



Source: Deloitte CFO Survey Q2 2014

Meanwhile, consumer confidence in the North has seen a significant improvement from -11 in Q1 2014 to -6 this quarter, suggesting that the recovery is still gathering pace across the country.

Chart 4. Deloitte Consumer Confidence by region

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



Consumer confidence

Falling unemployment boosts confidence

Improving confidence in the North is mainly driven by more consumers feeling positive about their disposable income. Sentiment around job opportunities in the North has also improved by 4 points compared to the same period last year.

The most recent data from the Lloyds Bank England and Wales Regional Purchasing Managers' Index suggests that business activity in the Northern regions picked up significantly in May.

In addition, recent results from Q1 2014 North East Chamber of Commerce's Quarterly Economic Survey show a steady increase in business intentions to recruit staff and increase investment.

The strong UK labour market continues to support the overall consumer recovery. The UK unemployment rate fell to 6.6% in April from 7.8% a year earlier.

Moreover, private sector hiring has been strong and improved significantly in Q1 2014.

The Tracker also shows that more consumers have started a job and fewer are reporting a loss or reduction of income this quarter compared to the same period a year ago.

Chart 5. Consumer sentiment about household disposable income in the North (including Scotland and Northern Ireland)
Net % of consumers in the North who said that their level of confidence has improved over the past three months

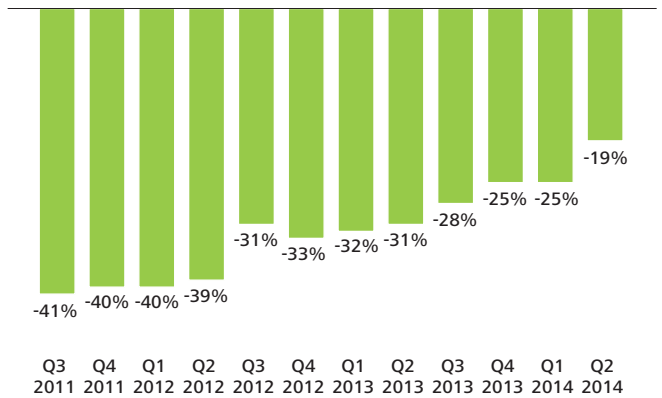
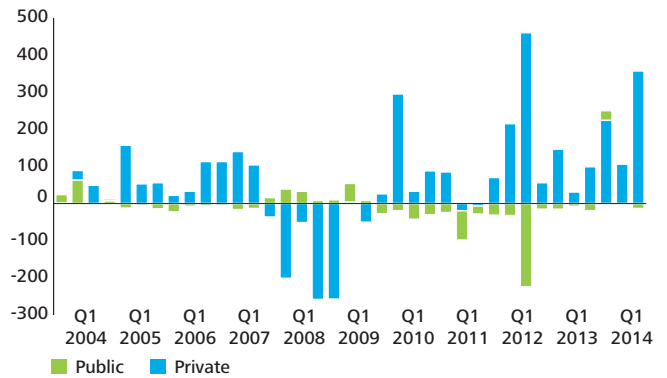
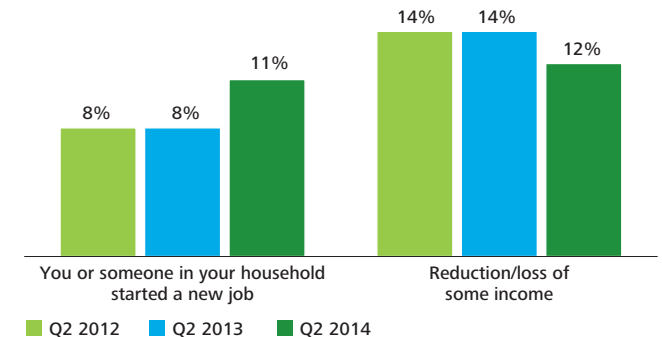


Chart 6. UK private and public sector job growth (thousands)



Source: ONS

Chart 7. Changes in personal household circumstances over the past three months
Net % of UK consumers

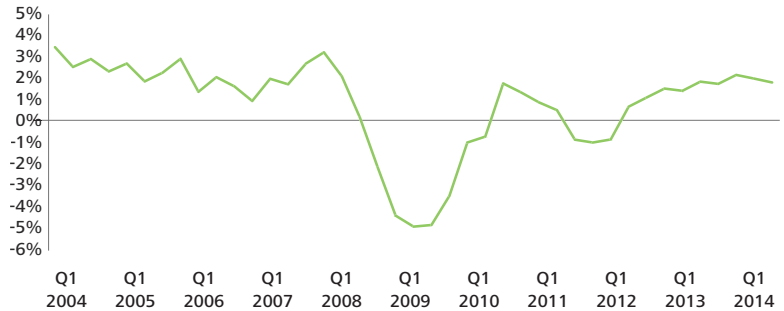


Consumer spending

Discretionary spending on the rise

Overall consumer demand continues to be strong, with a year-on-year rise of 2.1% in real household spending in Q1 2014. This is despite a slight drop quarter-on-quarter.

Chart 8. Consumer expenditure, constant prices, seasonally adjusted – % change y-o-y

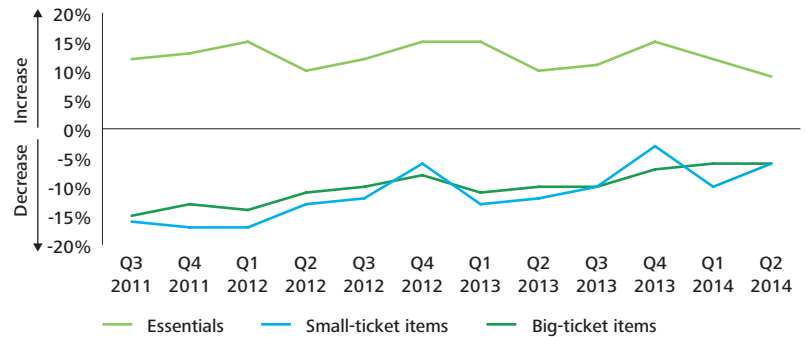


Source: ONS

Net spending on discretionary categories has increased this quarter and net spending on small-ticket items risen by 6 points since Q2 2013.

With inflationary pressures easing, spending on essentials has continued to trend downwards for the second quarter in a row.

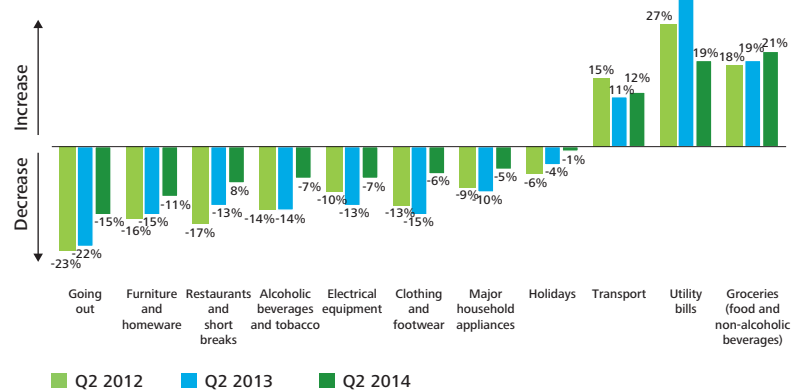
Chart 9. Category spending over the past three months
Net % of UK consumers spending more by category



In discretionary categories, net spending on clothing and footwear improved the most this quarter, from -15% to -6%. Expenditure on big-ticket items such as household appliances and electrical equipment also increased, in a sign that the strong housing market is boosting home categories.

Spending on utilities slowed significantly year-on-year, possibly due to lower fuel costs and more opportunities for consumers to reduce energy bills by switching suppliers.

Chart 10. Category spending over the past three months
Net % of UK consumers spending more by category over the past three months



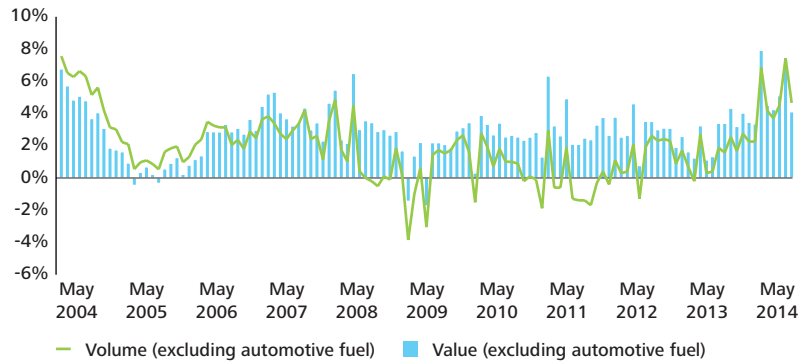
Consumer spending

The right conditions for growth

Retail sales volumes are up by 4.7% compared to a year ago.

Increasing price competition in the retail and grocery sectors and the strengthening of sterling have kept prices low which has helped to drive growth in sales volumes.

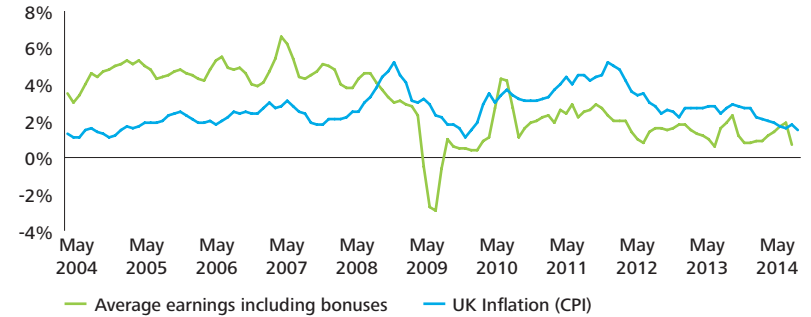
Chart 11. UK retail sales, volume and value (excluding fuel) seasonally adjusted – annual % change



Source: ONS

Low inflation has also helped consumer spending given that wage growth has been weak.

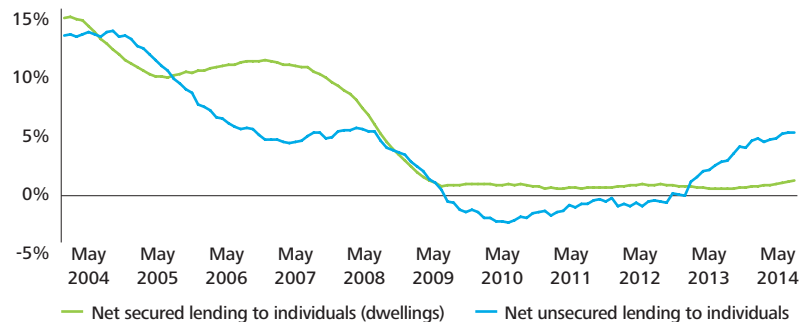
Chart 12. Average earnings growth and UK national inflation



Source: ONS

In addition consumers have taken on more unsecured debt to support their spending. This could explain why consumers are feeling less confident about their level of debt.

Chart 13. Consumer credit
Net unsecured and secured lending to individuals (% y-o-y)



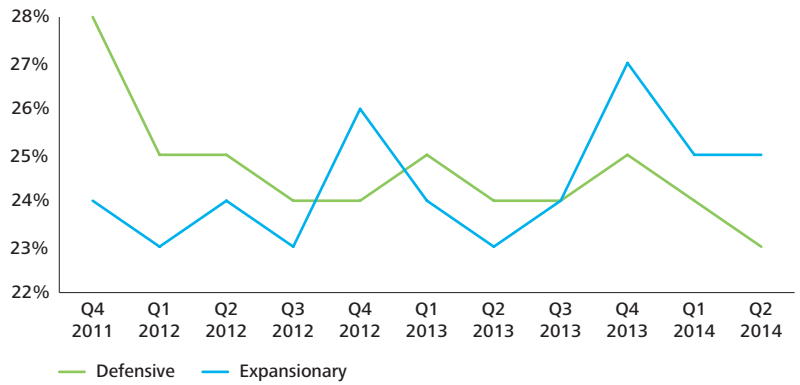
Source: Bank of England (BoE)

Consumer spending

Less defensive purchasing behaviours

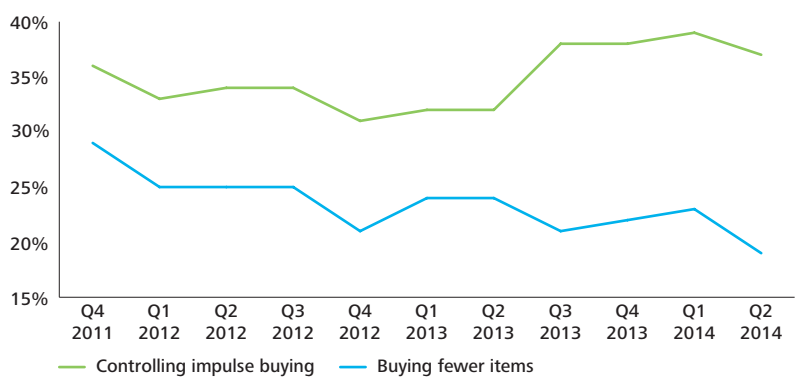
With inflation putting less pressure on disposable incomes, consumers continue to reduce their defensive behaviours and more are adopting expansionary behaviours including spending more.

Chart 14. Defensive and expansionary behaviours
% UK consumers spending less/more



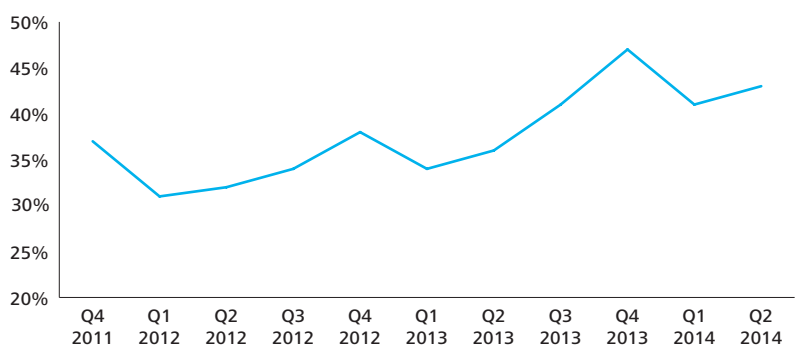
Fewer consumers are buying less and controlling impulse purchases.

Chart 15. Defensive behaviours – Controlling impulse buying and buying fewer items
% of UK consumers spending less



Meanwhile, the proportion of consumers saying they have spent more because they are buying more items has increased from 36% in Q2 2013 to 43% in Q2 2014.

Chart 16. Expansionary behaviours – Buying more items
% of UK consumers spending more

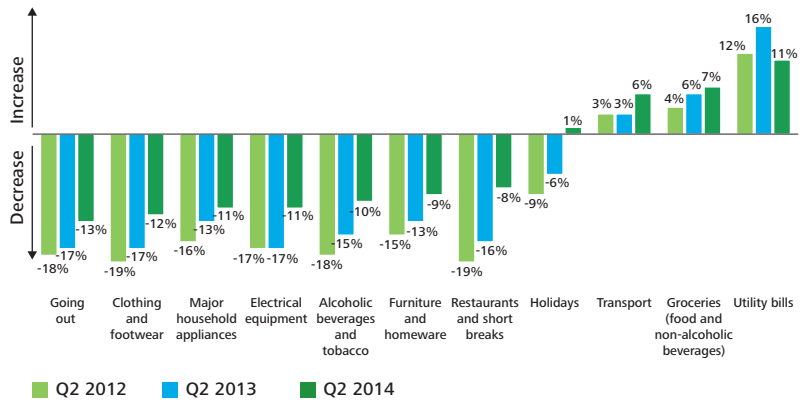


Outlook

Consumers less optimistic about rising earnings

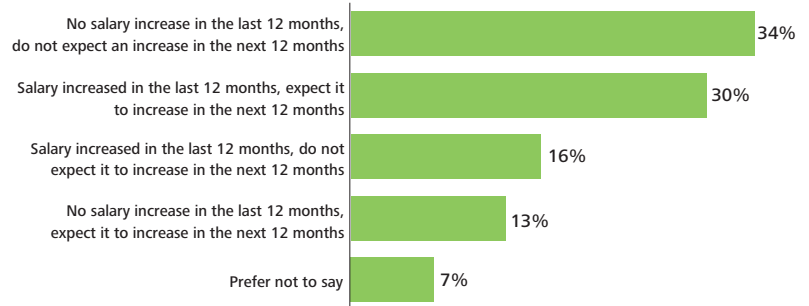
In Q3 2014 consumers plan to spend more in discretionary categories, especially on electrical items, eating out and short breaks. They also expect to continue spending less on utilities.

Chart 17. Category spending over the next three months
Net % of UK consumers spending more by category



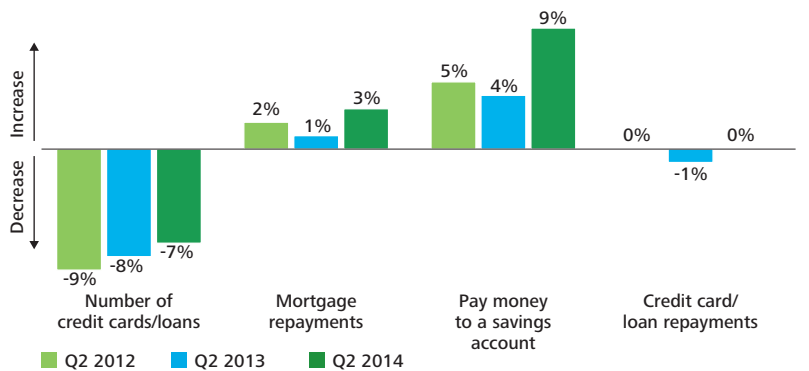
While consensus forecasts indicate that incomes will increase in the next 12 months, consumers are not so optimistic. The data shows that 47% of adults receiving a salary have not had an increase in the last 12 months. Moreover, while 43% expect a salary increase in the next 12 months, 50% do not.

Chart 18. UK consumers experiences of salary increases in the last 12 months and expectations about future rises
% of UK adults receiving a salary



Against the backdrop of weak earnings growth and the possibility of higher interest rates, more consumers are planning to save and reduce their debt levels, compared to a year ago.

Chart 19. UK consumer attitudes to financial obligations in the next three months
Net % of UK consumers



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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 20 and 22 June 2014.

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.

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