

The Deloitte Consumer Tracker

Confidence hits three-year high

The latest Deloitte Consumer Tracker shows that consumer confidence rose for the third quarter in succession in Q3 2014, reaching a three-year high and taking another step closer to positive territory.

The headline measure of confidence is now three points higher than a year ago, and 13 points higher than when the survey began in Q3 2011.

There were year-on-year increases across five of our six measures of confidence.

Consumers' confidence regarding their disposable income rose by seven points, while confidence in their levels of debt climbed by five points and confidence in job progression increased by six points from a year ago. In addition a decline in the number of consumers reporting a reduction or loss of income is a further sign of an improving labour market.

Confidence continues to rise, even in the absence of income growth. Lower oil prices, falling consumer price inflation and a strong pound have all helped ease the pressure on consumers' disposable incomes. While average earnings growth remains below the rate of inflation, the gap has narrowed.

Deflation in the food market, driven by increasing competition and lower commodity prices, has allowed consumers to cut back their spending on essentials. This has created more scope for spending in discretionary areas such as holidays, eating out and furniture. In fact, net spending on holidays in the last three months moved into positive territory for the first time since the survey began.

Looking ahead to 2015, consumers appear in positive mood as they expect the value of their properties to continue to rise and their levels of debt to be lower.

Consumers also expect competition in the grocery market to continue, with fewer anticipating price rises in the supermarket or their spending on food and drink to increase.

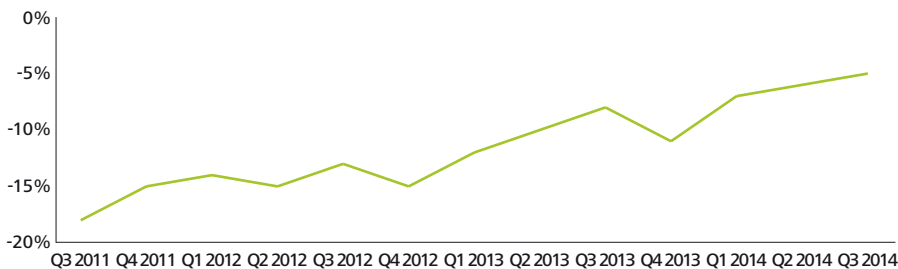
While our tracker portrays a more upbeat consumer two concerns remain: the prospect of higher interest rates as well as higher taxes.

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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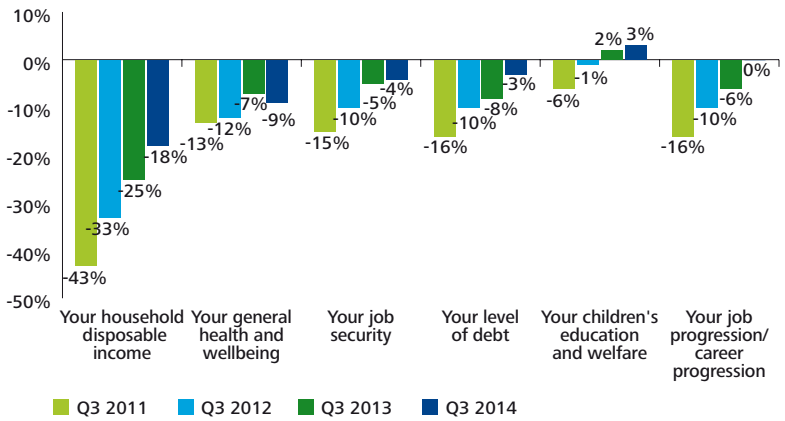
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Consumer confidence

Confidence climbs higher

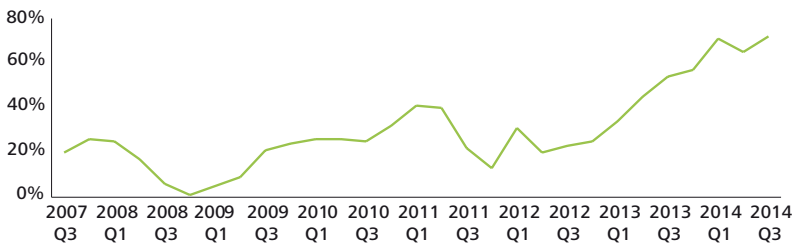
Year-on-year increases across five of our six measures of confidence helped drive Deloitte's headline rate to a record high. Sentiment about disposable income saw the largest year-on-year increase, up seven percentage points. Consumers also appear more confident about their career progression, which rose by five points this quarter and job security, up one point. They were also more confident about their levels of debt with sentiment climbing five points higher.

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, year on year



This improving consumer outlook fits well with the findings of the latest Deloitte UK survey of Chief Financial Officers which shows that risk appetite among CFOs at UK corporates has reached a seven-year high. At the same time, CFOs' expectations for revenues and margins remain close to their four-year high.

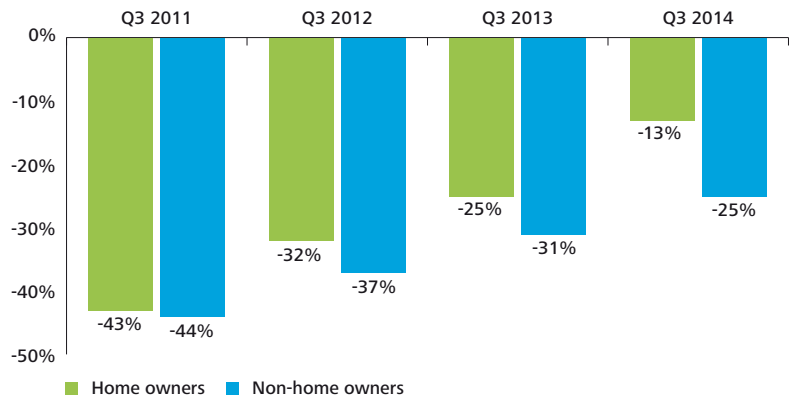
Chart 3. Risk appetite
% of CFOs who think this is a good time to take a greater risk onto their balance sheets



Source: Deloitte CFO Survey Q3 2014

The strong property market is also boosting consumer confidence on disposable income. Among home owners confidence has continued to rise at a faster rate than among non-home owners.

Chart 4. Deloitte Consumer Confidence on disposable income by home ownership
Net % of UK consumers who said that their level of confidence has improved over the past three months

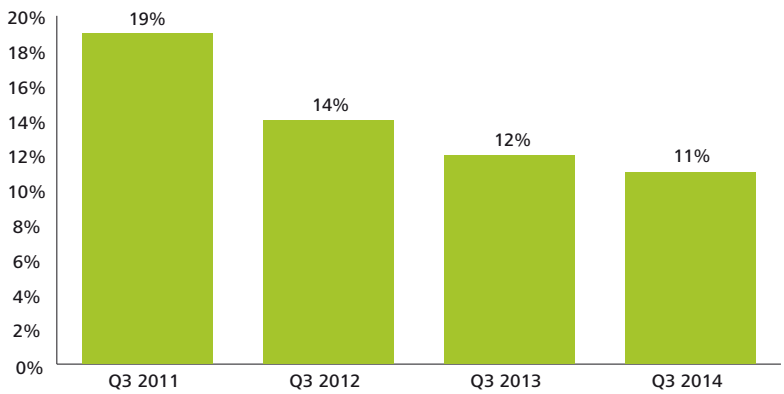


Consumer confidence

Strong job market boosts confidence

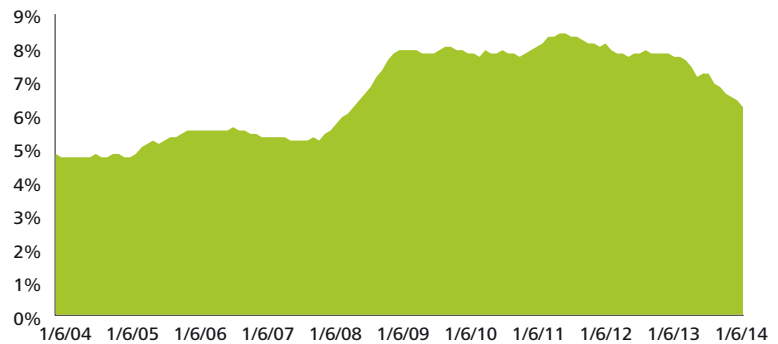
Fewer consumers suffered a reduction or loss of income in Q3 2014 than a year earlier, continuing the downward trend. This is another sign that there is less pressure in the labour market.

Chart 5. Changes in household circumstances
Net % of UK consumers that said they had experienced a reduction/loss of income



The latest official data from the Office for National Statistics confirms this view, with UK unemployment at its lowest level since November 2008 in June 2014, as the job market continues to strengthen.

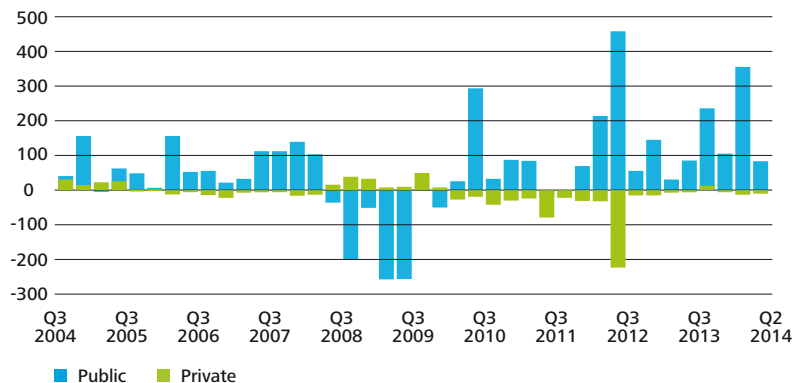
Chart 6. Unemployment rate
UK LFS: Unemployment rate, all, aged 16 & over SADJ



Source: ONS

Moreover, growth in private sector hiring continues to more than offset declines in public sector employment.

Chart 7. UK private and public sector job growth (thousands)
Number of jobs added/lost each quarter, private sector vs public sector



Source: Thompson Reuters Datastream

Consumer spending

Consumer demand remains robust

Demand remains robust, with consumer spending up by 2.1 per cent in the first quarter of 2014. While the average annual rate of growth remains below the average for the decade preceding 2007, absolute levels of consumer spending are now back to the 2007 levels at £1.02trillion.

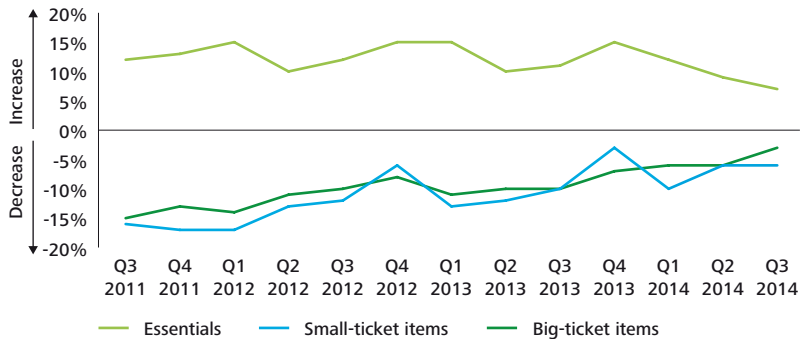
Chart 8. Consumer expenditure, constant prices, seasonally adjusted – % change y-on-y



Source: ONS

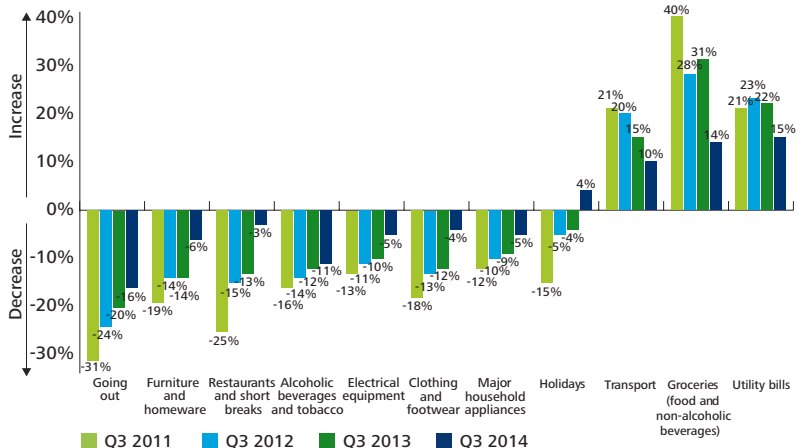
Consumer spending on essential items continues to decline this quarter, allowing consumers to switch more of their spending to discretionary categories. Spending on big ticket items such as major household appliances and furniture continues to rise, benefiting from the strength of the housing market and rising consumer confidence.

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



Net spending across a range of discretionary categories increased this quarter on a year-on-year basis. The restaurant and short breaks category saw the highest rate of growth, up ten percentage points, followed by furniture and homewares, holidays and clothing and footwear, all up eight points year on year.

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



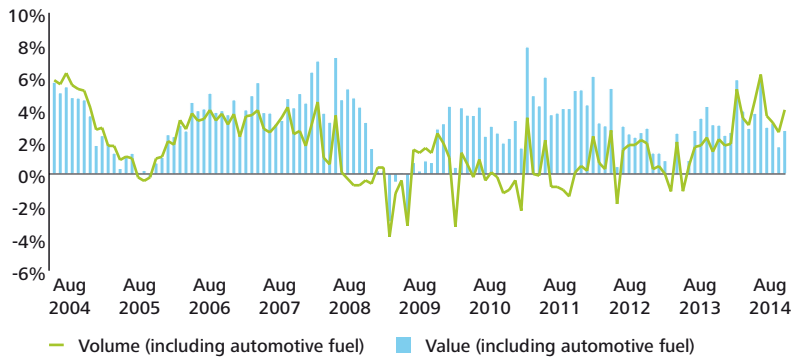
In fact net spending on holidays moved into positive territory for the first time since the survey began in Q3 2011, a sign of the strength of the travel market during the first three quarters of 2014.

Consumer spending

Confidence rises in the absence of wage growth

Robust consumer demand and improving consumer confidence are both supporting growth in the retail sector. Specialist retailers in discretionary categories such as clothing and footwear continue to outperform food retailers, moreover, our data shows that growth in spending on essentials has started to decline.

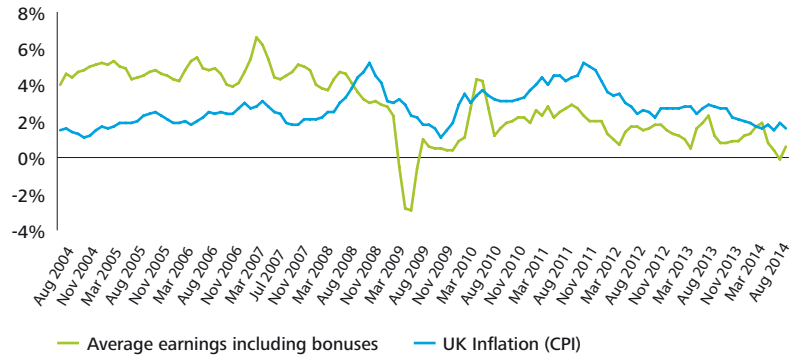
Chart 11. UK retail sales, volume and value (including fuel) seasonally adjusted – annual % change



Source: ONS

Growth in average earnings continues to track below inflation. However, the latest data (July 2014) showed that the gap has narrowed, as the rate of inflation declined to its lowest level since October 2009.

Chart 12. Average earnings growth and UK national inflation

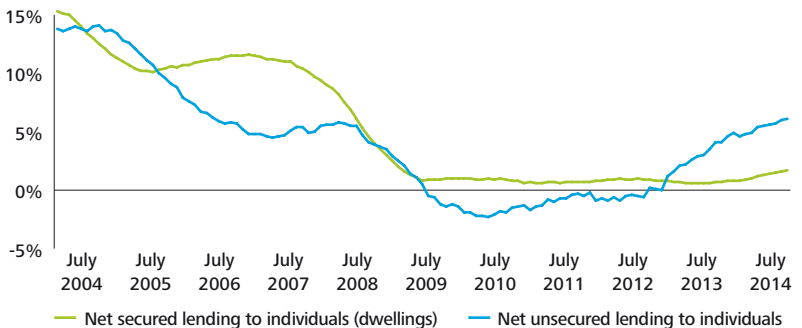


Source: ONS

An increase in unsecured lending has helped boost the consumer sector in the absence of real wage growth, but other factors such as declining inflation, lower oil prices and a generally strong pound have also helped mitigate the situation.

Chart 13. Consumer credit

Net unsecured and secured lending to individuals (% y-o-y)



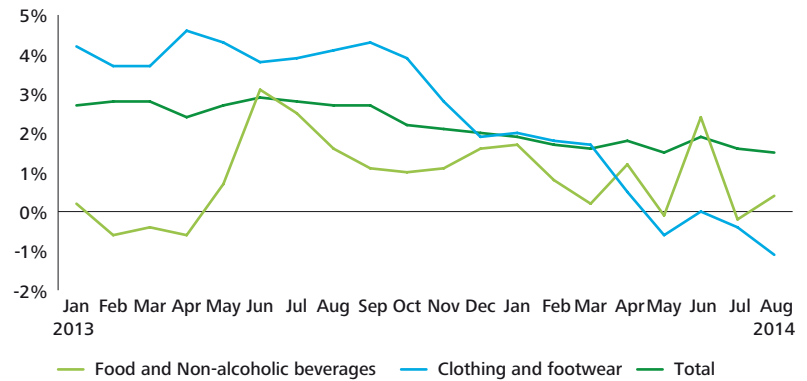
Source: Bank of England (BoE)

Consumer spending

Factors supporting growth

A declining inflation rate has helped ease pressure on consumers' finances. In the food sector, the rate has moved into negative territory as falling commodity prices and competition in the retail market have contributed to price deflation for food and non-alcoholic beverages.

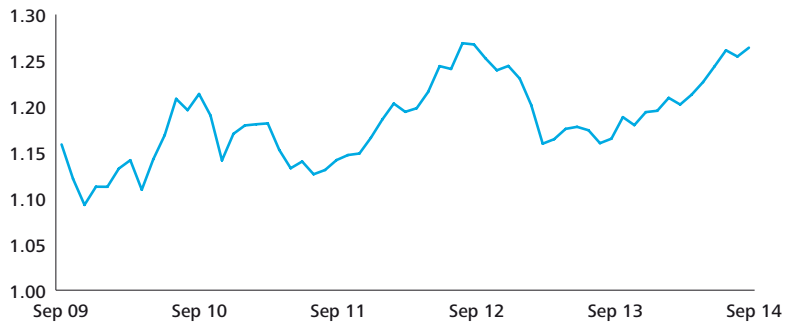
Chart 14. Inflation (CPI) for major retail categories
Monthly change in year-on-year prices



Source: ONS

A strong pound has also supported consumer spending by exerting downward pressure on the price of imported goods.

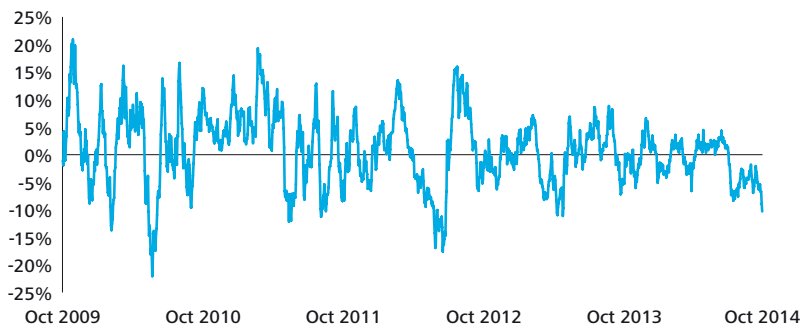
Chart 15. UK pound versus euro



Source: Thomson Datastream

During 2014, a drop in the price of oil, and therefore fuel prices, has also made it easier for consumers to switch some of their spending away from essentials and towards more discretionary items.

Chart 16. Prices for Brent Crude, Monthly % change in price per barrel
% change monthly



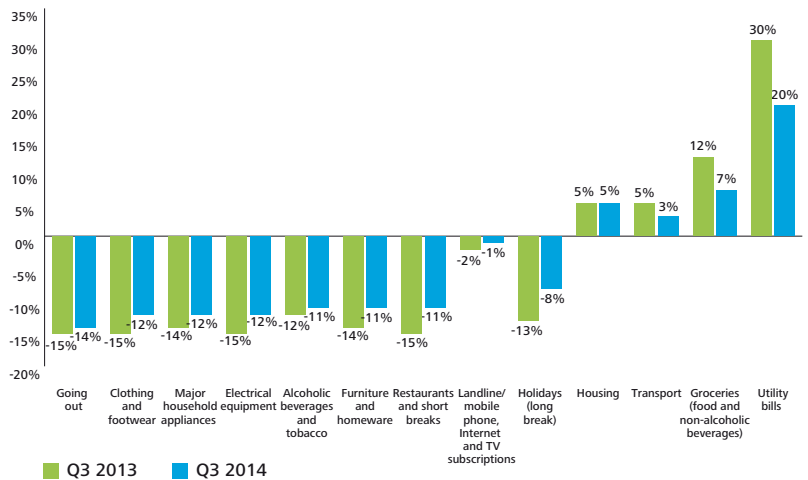
Source: Thomson Datastream

Outlook

Consumers optimistic on prospects for 2015

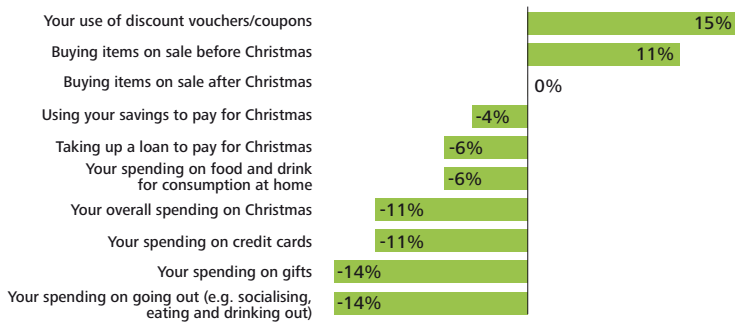
In Q4 2014 consumers plan to spend more on discretionary categories than a year ago. Consumers also plan to spend less on essentials such as transport, utility bills and grocery shopping.

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



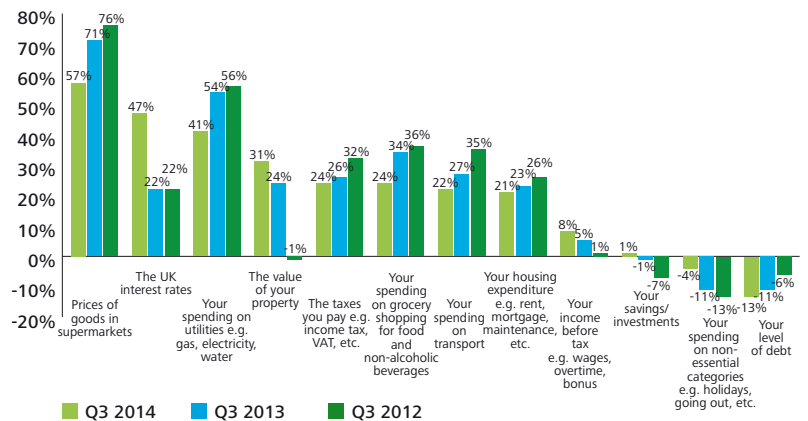
As we enter the final quarter of the year, consumers appear to be planning cautiously for Christmas. The use of vouchers is expected to increase while consumers also expect to buy more items during pre-Christmas sales.

Chart 18. Plans for spending and shopping over Christmas 2014
Thinking now ahead to Christmas and the festive seasons 2014, how do you expect your household spending and shopping habits to be different compared to a year ago?



Looking ahead to 2015, consumers are in optimistic mood as they anticipate that their debt levels will fall while the value of their properties will rise. Fewer consumers expect to spend more on food or grocery prices to rise. However, two areas of concern remain: the prospect of higher interest rates as well as higher taxes.

Chart 19. UK consumers' expectations for 2015
Now thinking about 2015... What, if anything, do you think will change compared to 2014? Net % of UK consumers expecting an increase



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For current and past copies of the Deloitte Consumer Tracker please visit: www.deloitte.co.uk/consumertracker

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 19 and 21 September 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 participants, 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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