

The Deloitte Consumer Tracker

A spring in their step?

The latest Deloitte Consumer Tracker shows that the level of confidence about household disposable income is at its highest in over three years and is getting closer to positive territory. Supported by a recovery in spending power and further falls in unemployment, consumers' finances are starting to normalise. Such an improvement points to an acceleration in consumer activity and suggests that 2015 may well be the best year for consumer expenditure since 2005. However, a cloud remains on the horizon: nearly half of consumers are concerned that the forthcoming UK General Election will have an impact on their financial situation.

In Q1 2015 consumers' confidence in their household level of disposable income rose by seven points compared to a year ago and is now 30 points higher than when the survey began in Q3 2011. This improvement in sentiment about level of disposable income was at least twice as high as the improvement observed in all the other measures of confidence over the last three years.

An improvement in disposable income has been the main driver of the recovery in our consumer confidence index. In the first quarter of this year, confidence was three points higher than in the previous quarter and two points higher compared to the same period a year ago.

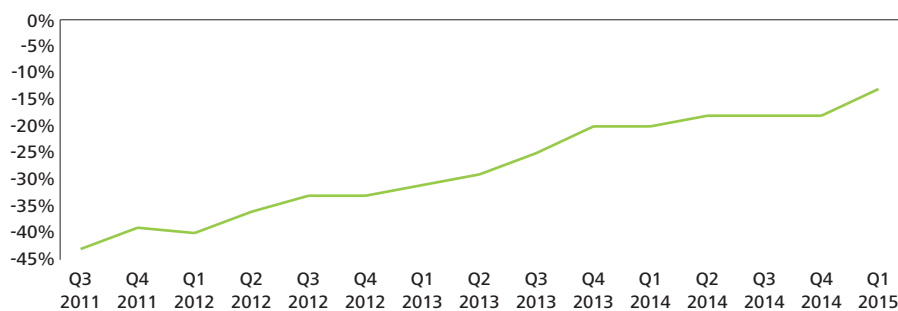
In another sign of the strength of real income growth the Tracker shows that more consumers were able to increase their savings this quarter. Moreover, Bank of England data suggests that the growth in unsecured lending has levelled off in Q1 2015 indicating rising incomes might have lessened the need for some consumers to resort to borrowing.

The Tracker also shows that rising incomes, combined with falling prices for essentials, including food, energy and petrol, have supported growth in discretionary spending. However the growth in discretionary categories is mainly in services such as leisure and travel suggesting that the retail sector is a little more subdued than the wider macroeconomic environment.

Looking ahead, consumers' improved financial positions should continue to support sustainable rises in spending this year. According to the Tracker, consumers are also planning to continue to pay more into their savings. Furthermore, with low interest rates, household debt interest payments as a share of income are also expected to remain low.

The foundations for a consumer recovery, led by falling unemployment and rising incomes, have been laid. However, consumers are still concerned about the upcoming General Election and the impact it will have on their finances.

Chart 1. Consumer sentiment about household disposable income
Net % of UK consumers who said their level of confidence has improved over the past three months



Key indicators

<i>Previous</i>		<i>Latest</i>
-8%	▲	-5%
Overall consumer confidence (q/q)*		
-18%		-13%
Confidence in level of disposable income (q/q)*		
+12%		+5%
Spending on essentials (y/y)*		
-10%		-9%
Discretionary spending (y/y)*		
+4%		+2.9%
ONS retail sales value growth (exc. fuel) Feb-15 (y/y)		
+1.7%		0%
CPI inflation Feb-15 (y/y)		

* Net balances

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Consumer confidence

Higher disposable income drives confidence up

In Q1 2015 consumers' confidence in their household level of disposable income rose by seven points compared to a year ago, and is now 30 points higher than when the survey began in Q3 2011.

This improvement in sentiment about level of disposable income was at least twice as high as the improvement observed in all the other measures of confidence over the last three years.

An improvement in disposable income has been the main driver of the recovery in our consumer confidence index.

In the first quarter of this year, overall confidence was three points higher than in the previous quarter and two points higher compared to the same period a year ago.

The March GfK consumer barometer provides further evidence of consumers' improving confidence in their personal financial situation. The measure reached its highest level since the financial crisis.

Chart 2. UK consumer sentiment about personal situation

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

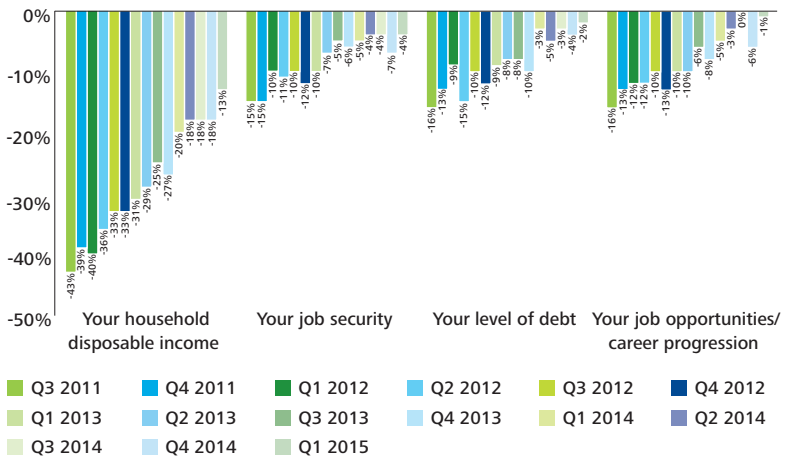
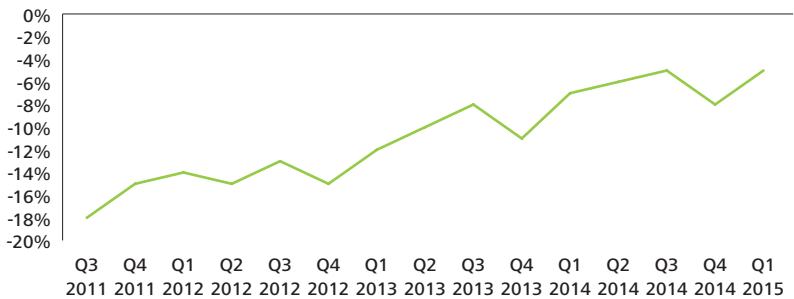


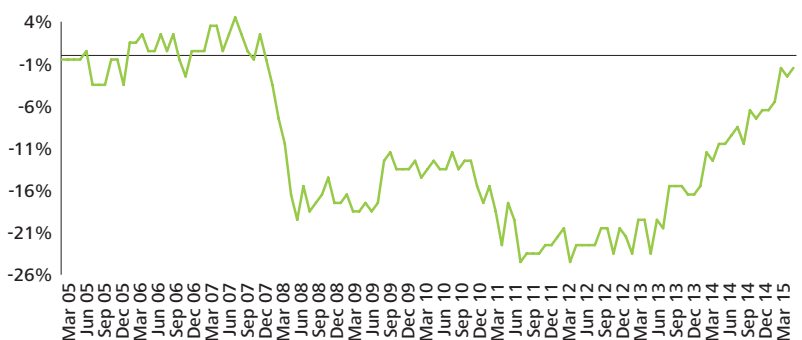
Chart 3. Deloitte Consumer Confidence

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

Chart 4. UK consumers perception of their personal financial situation over the last 12 months



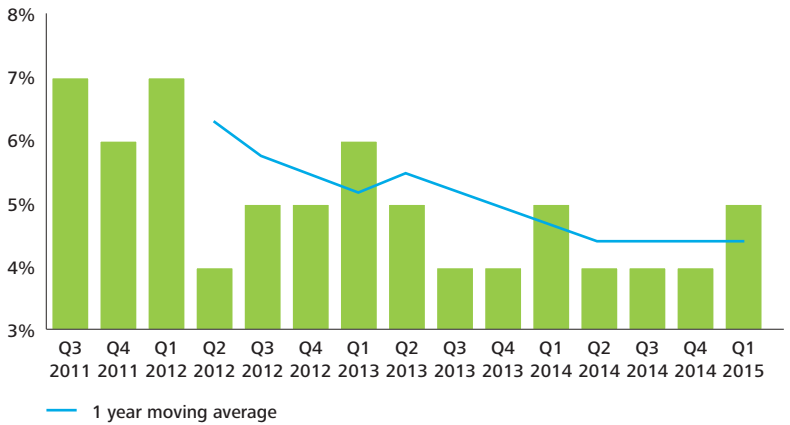
Source: GfK

Consumer confidence

The foundations of a recovery have been laid

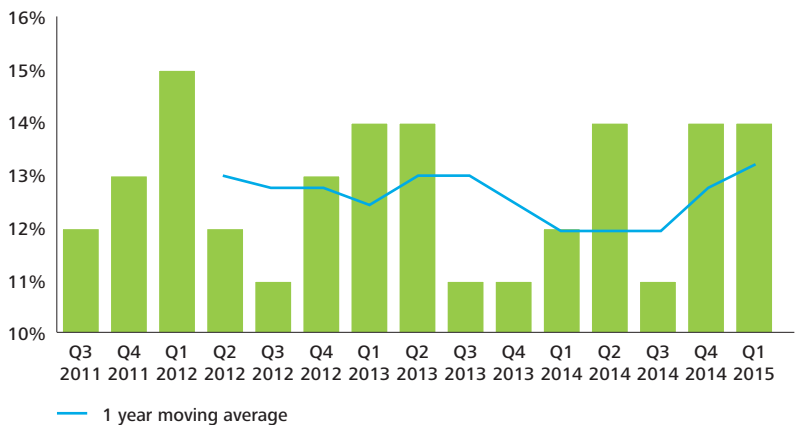
With the labour market still performing well, the Tracker shows the net balance of people saying they have been made redundant or have lost their job has been on a downward trend since the survey began in Q3 2011.

Chart 5. Changes in personal circumstances over the past three months
Net % of UK consumers who said that they have been laid off, made redundant or lost their job



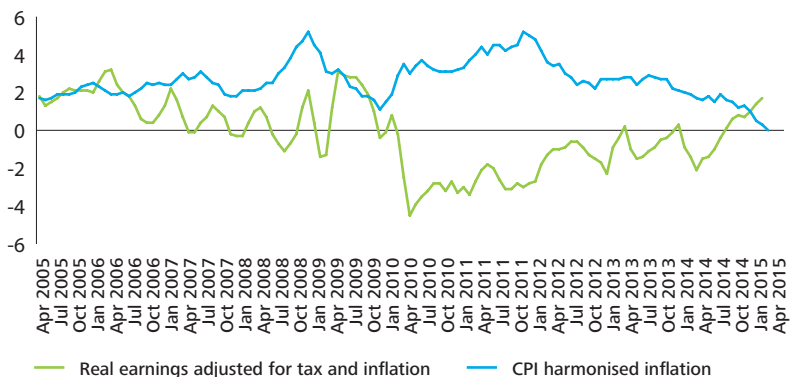
Wages are also continuing to improve. The survey shows that the net balance of people having received a pay rise or a bonus has been growing since Q3 2014.

Chart 6. Changes in personal circumstances over the past three months
Net % of UK consumers who said that they or someone in their household received a pay rise or a bonus



The recent return to real earnings growth for the first time in several years suggests that 2015 may well be the best year for consumer expenditure since 2005.

Chart 7. % growth in real earnings and UK national inflation (CPI)



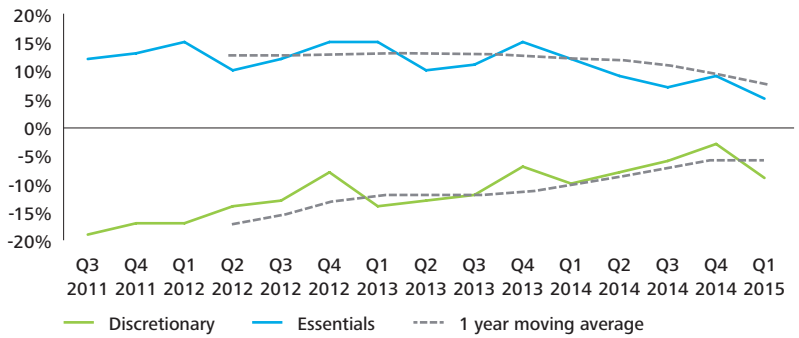
Source: Office for National Statistics (ONS)

Consumer spending

Falling prices support discretionary spending growth

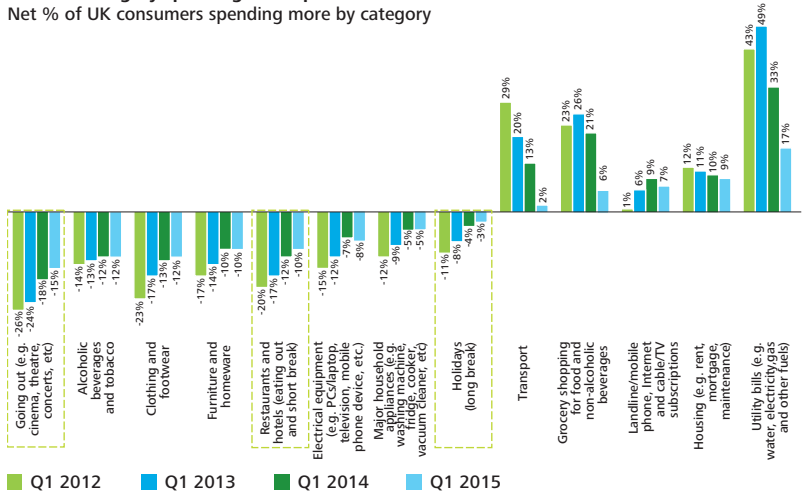
The Tracker shows that rising incomes combined with falling prices for essentials, including food, energy and petrol, have supported the growth in discretionary spending.

Chart 8. Category spending in the past three months
Net % of UK consumers spending more by category



However, demand in discretionary categories is mainly in services such as leisure and travel, suggesting that the retail sector is a little more subdued than the wider macroeconomic environment.

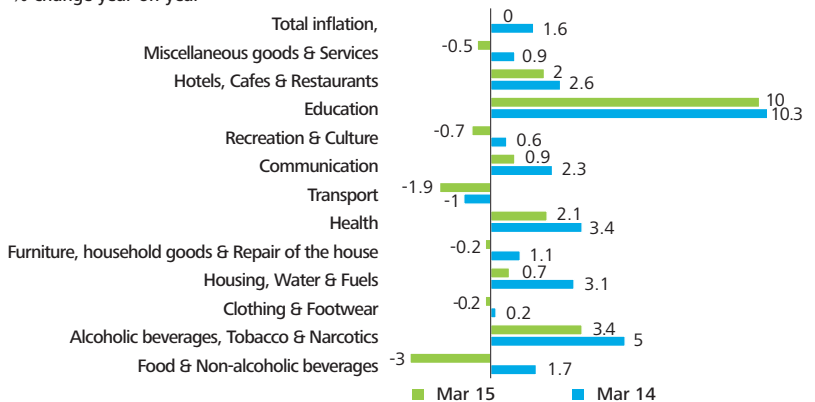
Chart 9. Category spending in the past three months
Net % of UK consumers spending more by category



Consumer prices remained unchanged in March. Many commentators are talking about 'good disinflation' partly because of the favourable impact it is having on consumer budgets.

Inflation will remain low in the second half of 2015 and is likely to drift in and out of positive territory as the effects of falling oil prices are removed and lower utility prices start to show up.

Chart 10. Inflation (CPI)
% change year-on-year



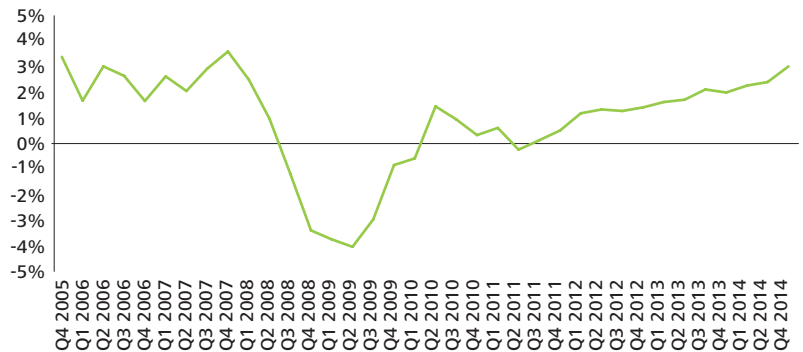
Source: ONS

Consumer spending

Spending increases but mainly in services

Official data from the ONS showed a modest rise of 0.6% in consumer expenditure in Q4 2014, but this still left the annual growth rate at 3% in 2014, its strongest since before the financial crisis.

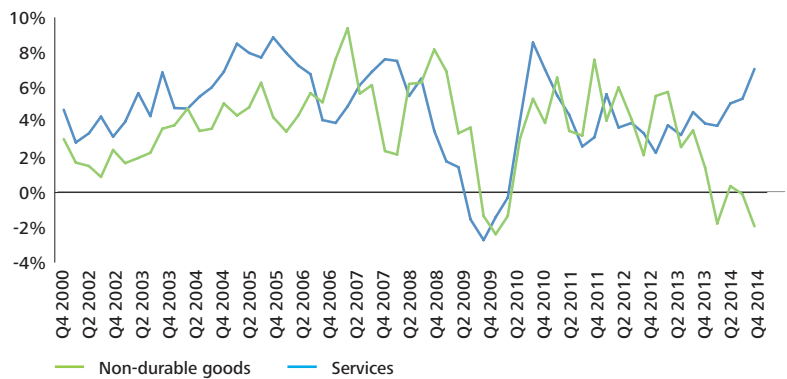
Chart 11. Consumer expenditure, constant prices, seasonally adjusted
% change year-on-year



Source: ONS

The breakdown of consumer expenditure showed that the growth in spending on services, such as holidays and travel, has outpaced growth in spending on non-durable goods such as food, utilities and transport.

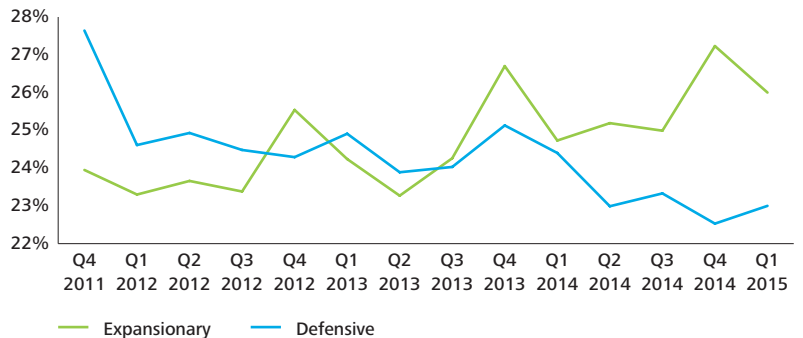
Chart 12. Final consumption expenditure by UK household
% change year-on-year



Source: ONS

The Deloitte Consumer Tracker shows that the gap between defensive and expansionary strategies remains high despite their trajectories slowing.

Chart 13. Expansionary and defensive behaviours
% UK consumers spending more or less

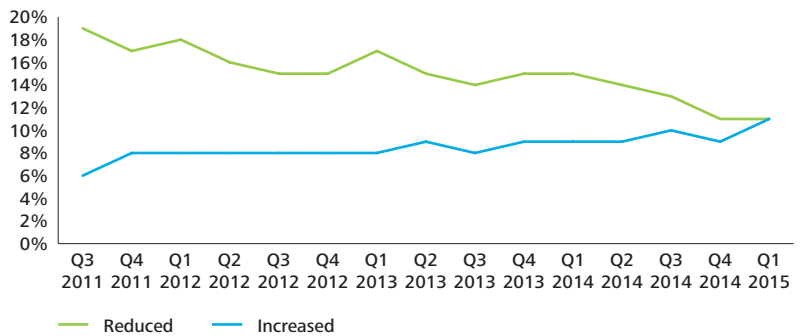


Consumer finance

More consumers are saving

In another sign of the strength of real income growth, the Tracker shows that more consumers were able to increase their savings this quarter.

Chart 14. UK consumers attitude to savings
% of UK consumers paying money into a savings account



Indeed, the headline savings ratio edged up from 5.8% to 5.9%.

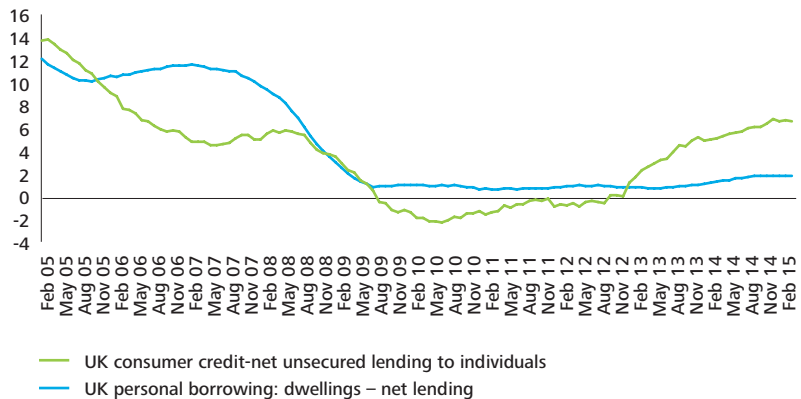
Chart 15. UK household savings ratio



Source: ONS

Moreover, Bank of England data suggests that the growth in unsecured lending has levelled off this quarter indicating rising incomes might have lessened the need for some consumers to resort to borrowing.

Chart 16. Consumer credit
Net secured and unsecured lending to individuals (% change year-on-year)



Source: Thomson Reuters Datastream

Outlook

Consumer recovery getting stronger

With inflation expected to remain low, and real earnings improving, consumers are planning to increase their spending in the discretionary category in Q2 2015.

The improving financial position of consumers should also support sustainable rises in overall spending in 2015.

Compared to the same period a year ago, the net balances of people expecting an increase in the price of food, utilities and transport have come down significantly.

Consumers also plan to continue to pay more into their savings.

In a sign that consumers anticipate their debt interest payments as a share of income to remain low, fewer consumers expect interest rates to rise compared to the same period a year ago.

The foundations for a consumer recovery, led by falling unemployment and rising incomes, have been laid.

However, nearly half of consumers are still concerned about the upcoming General Election and the impact it will have on their finances.

This is also a higher proportion than those worried about the impact of low pay rises and public spending cuts.

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

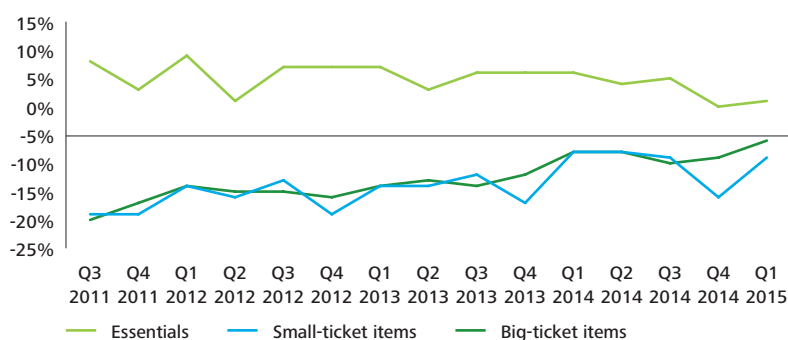
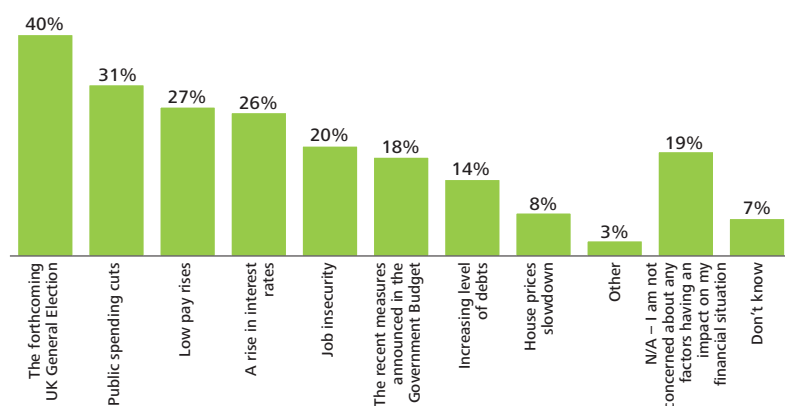


Chart 18. UK consumer expectations over the next 12 months

Now thinking about 2015... What, if anything, do you think will change compared to 2014? Please indicate whether each of the following areas are likely to increase, decrease or remain the same	Q1 2014	Q1 2015	Difference since Q1 2014
	% net balance (increase minus decrease)		
Prices of goods in supermarkets	63%	38%	-25 points
The value of your property	30%	29%	-1 points
Your spending on utilities e.g. gas, electricity, water	43%	23%	-20 points
Your housing expenditure e.g. rent, mortgage, maintenance, etc.	22%	19%	-3 points
The UK interest rates	29%	18%	-11 points
Your spending on grocery shopping for food and non-alcoholic beverages	29%	15%	-14 points
Your spending on transport	23%	13%	-10 points
Your savings/investments	2%	10%	+8 points
Your income before tax e.g. wages, overtime, bonus	9%	9%	+0 points
The taxes you pay e.g. income tax, VAT, etc.	13%	9%	-4 points
Your spending on non-essential categories e.g. holidays, going out, etc.	-7%	-2%	+5 points
Your level of debt	-12%	-15%	-3 points

Chart 19. External factors UK consumers are concerned will have an impact on their financial situation in the next six months
% 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 March 2015.

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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