

The Deloitte Consumer Tracker

Proceeding with caution

The latest Deloitte Consumer Tracker shows a fall in consumer confidence, suggesting that UK consumers have yet to see the full benefit of the recent rise in earnings. Our confidence index fell by one point in the second quarter of 2015, driven by falls in three of the six components. Sentiment on disposable income, which has seen by far the greatest improvement in the last four years, edged lower in the second quarter, the first decline in 18 months. Recent strong gains in the official measure of earnings growth – year-on-year growth accelerating from 1.6% to 2.6% since the start of the year – have yet to feed through to consumer sentiment. A deep and protracted recession seems to have left its mark, with sustained good news needed to shift cautious consumers fully out of their defensive mode.

London saw the steepest decline in overall confidence – down six points. Consumers living in London and the South East are now displaying the lowest level of confidence of any of the major regions. Confidence declined across all of our key measures. Our analysis of the media during our fieldwork period shows that stories on the slowdown in the London property market and concerns over the affordability of housing in the capital featured prominently, and this may have weighed on consumer confidence in the capital. Meanwhile, confidence in the North rose for the second quarter and is now nine points higher than when our survey began.

The Tracker also shows that fewer consumers were paying off a mortgage in the first quarter of 2015 than at any time since the survey started in Q3 2011, while more are paying rent. Our data indicates that confidence among home owners is consistently higher than among non-home owners. It may be that a progressive decline in owner occupation, now running at the lowest level in 30 years, is dampening overall levels of consumer confidence. The rapid decline in inflation in the last year, driven by falling prices for essentials such as petrol, transport, utilities and food, has eased the pressure on consumers. Our data shows that spending across a range of essentials slowed in the last three months, freeing up consumers to spend more on discretionary items. The biggest decline was spending on groceries, driven by increased promotional activity and mounting competition between the big four grocers and the discounters. Growth in discretionary spending remains focused on the leisure sector, with spending on going out, eating out and going on holiday continuing to rise in the second quarter of 2015.

In Q2 2015, the gap between defensive and expansionary spending behaviours increased as the number of consumers displaying defensive behaviour fell while those in a more expansionary mode rose. This suggests positive momentum in the consumer market. Moreover, a second quarter-on-quarter increase in the proportion of consumers buying more expensive items is further evidence that we are approaching a point where the strength of the economy finally translates into a similar increase in confidence.

Key indicators

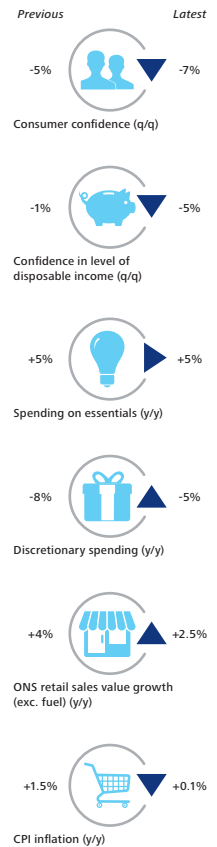


Chart 1. Deloitte consumer confidence

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



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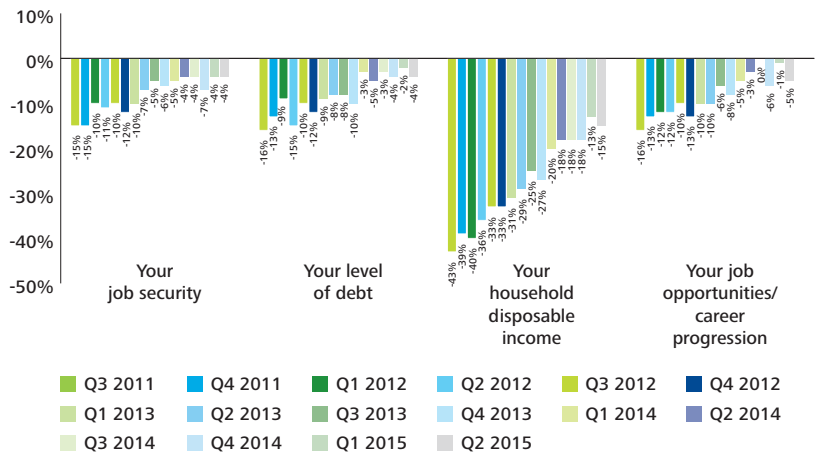
Consumer confidence

Consumers reluctant to shift out of defensive mode

Our confidence index fell by one point in the second quarter of 2015, driven by falls in three of the six components. The largest decline was in confidence on job opportunities and career progression.

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



Sentiment on disposable income, which has seen by far the greatest improvement in the last four years, edged lower in the second quarter, the first decline in 18 months. However, the long-term trend remains up with confidence three points higher than in Q2 2014.

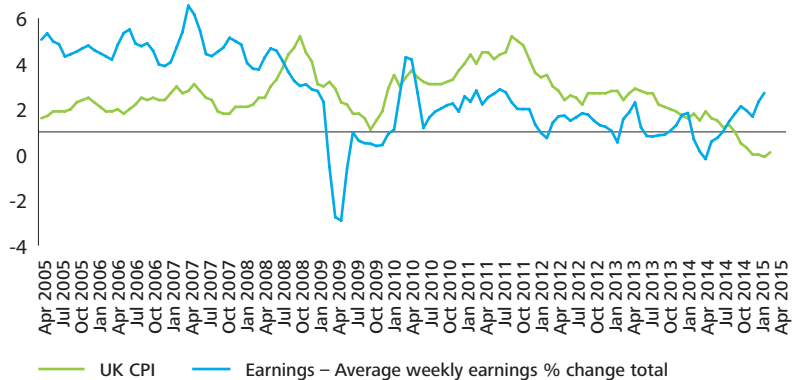
Chart 3. Consumer sentiment about household disposable income

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



Recent strong gains in the official measure of earnings growth – year-on-year growth accelerating from 1.6% to 2.6% since the start of the year – have yet to feed through to consumer sentiment. A deep and protracted recession seems to have left its mark, with sustained good news needed to shift cautious consumers fully out of their defensive mode.

Chart 4. % growth in average weekly earnings and UK national inflation (CPI)



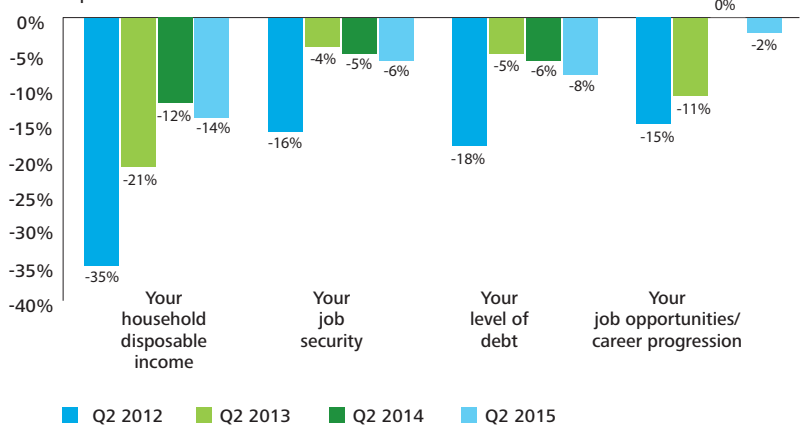
Source: Office for National Statistics (ONS)

Consumer confidence

London sees steepest decline in confidence

London saw the steepest decline in overall confidence – down six points. Consumers living in London and the South East are now displaying the lowest level of confidence of any of the major regions. Confidence declined across all of our key measures.

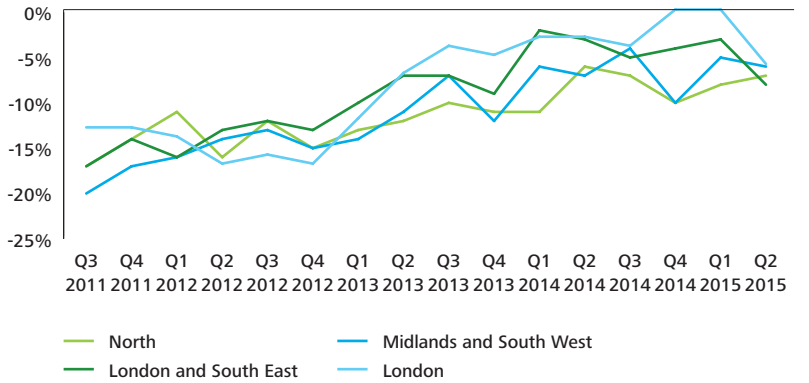
Chart 5. Changes in personal circumstances over the past three months
Net % of UK consumers living in London who said their level of confidence has improved over the past three months



Meanwhile, confidence in the North rose for the second quarter and is only one percentage point lower than in London.

Chart 6. Deloitte consumer confidence

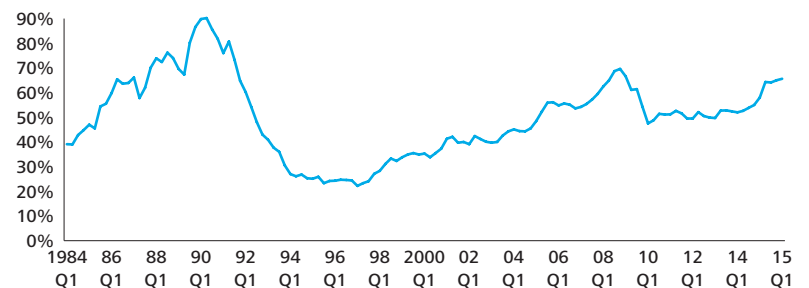
Net % of UK consumers who said that their level of confidence has improved over the past three months



Our analysis of the media during our fieldwork period shows that stories on the slowdown in the London property market and concerns over the affordability of housing in the capital featured prominently, and this may have weighed on confidence in the capital. Data from Nationwide confirms this view as mortgage payments as a percentage of take-home pay continue to rise in London.

Chart 7. First time buyer affordability measure

Mortgage payments as % of take home pay in London



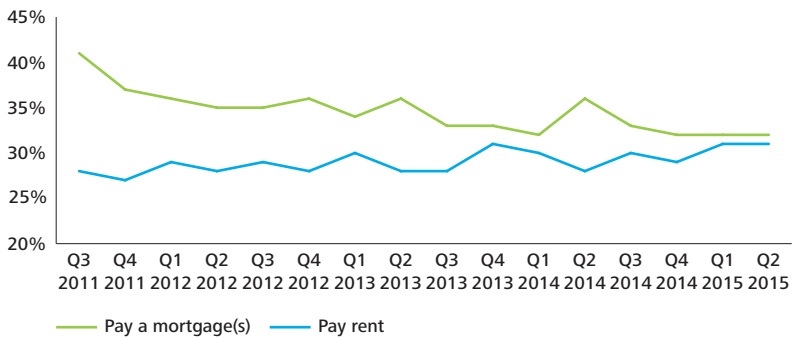
Source: Nationwide Building Society

Consumer spending

Fewer consumers paying off a mortgage

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. Spending on mortgages and rental costs
% of UK consumers paying a mortgage or paying rent



Since the start of the recession housing equity withdrawal has been in negative territory as consumers have focused on paying down mortgage debt. In the first quarter of 2015 the amount consumers spent on paying off their mortgages increased.

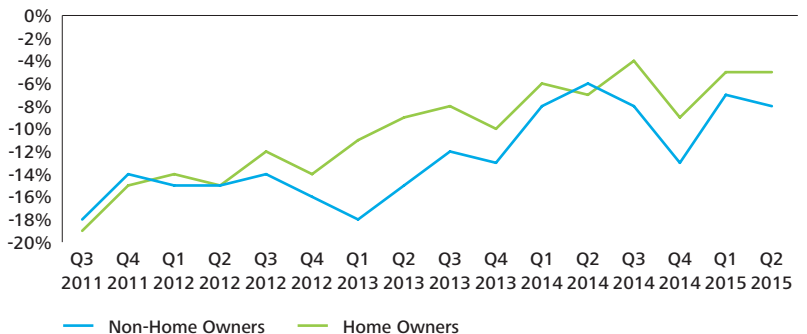
Chart 9. Housing equity withdrawal
% change year-on-year



Source: Bank of England

Our data shows that confidence among home owners is consistently higher than among non-home owners. It may be that a progressive decline in owner occupation, now running at the lowest level in 30 years, is dampening overall levels of consumer confidence.

Chart 10. Deloitte Consumer Confidence
Net % of UK home owners and non-home owners who said that their level of confidence has improved over the past three months

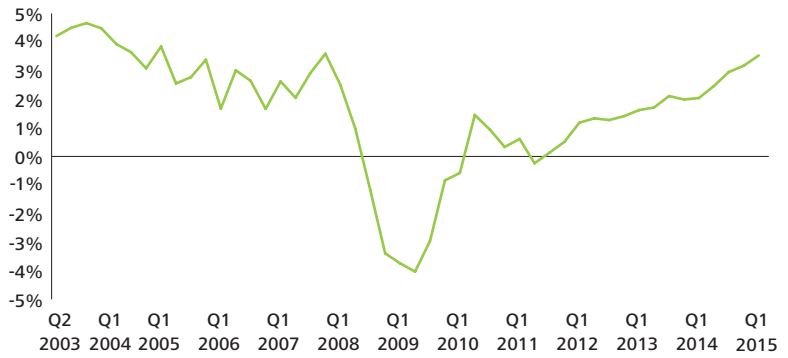


Consumer spending

Deflation easing pressure on consumers

Growth in consumer spending for Q1 2015 was revised up to 3.4% in July 2015.

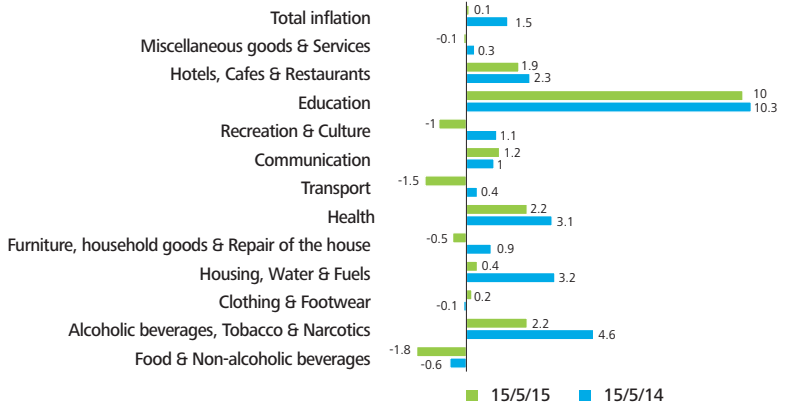
Chart 11. Consumer expenditure, constant prices, seasonally adjusted
% change year-on-year



Source: ONS

The rapid decline in inflation seen in the last year, driven by falling prices for essentials such as petrol, transport, utilities and food, has eased the pressure on consumers.

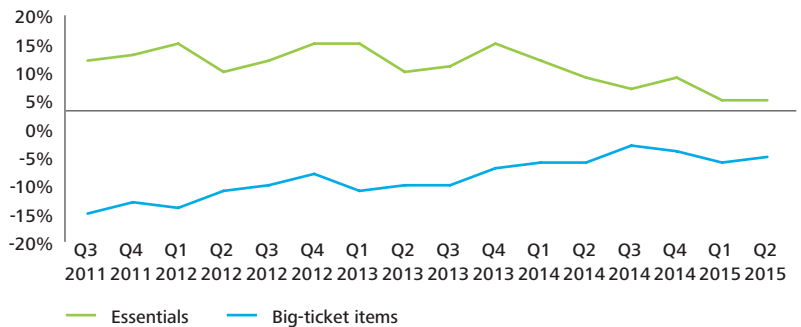
Chart 12. Inflation (CPI)
% change year-on-year



Source: ONS

Our data shows that spending across a range of essentials including transport, utilities and groceries slowed in the last three months, freeing up consumers to spend more on discretionary items. The biggest decline was spending on groceries, driven by increased promotional activity and mounting competition between the big four grocers and the discounters.

Chart 13. Category spending in the past three months
Net % UK consumers spending more by category

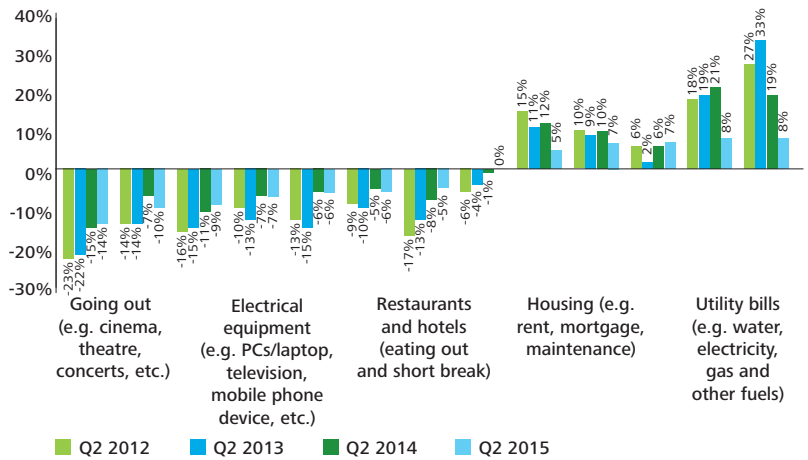


Consumer finance

Saving declines while borrowing increases

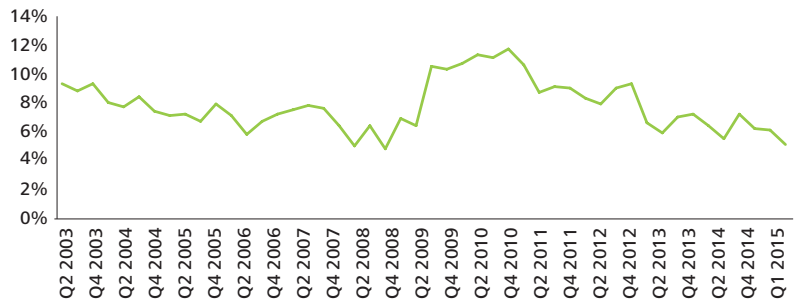
Growth in discretionary spending remains focused on the leisure sector, with spending on going out, eating out and going on holiday continuing to rise in the second quarter of 2015.

Chart 14. Category spending in the past three months
Net % of UK consumers spending more by category



The savings ratio was also subject to revision in July 2015, and now shows a decline in Q1 2015. This is a clear indicator that consumers have been saving less, as they have prioritised paying down debt.

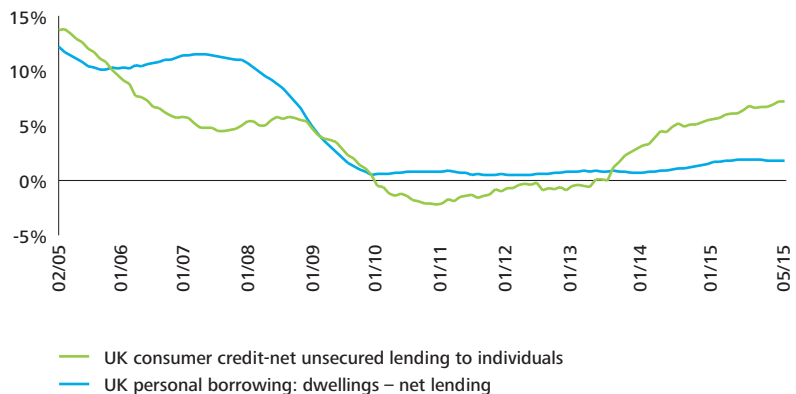
Chart 15. UK household savings ratio



Source: ONS

Not only have consumers been saving less, they have also been borrowing more. The rate of growth in unsecured lending continued through the first half of 2015. Increased borrowing, along with lower inflation and growth in real wages, has helped support spending in Q2 2015.

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



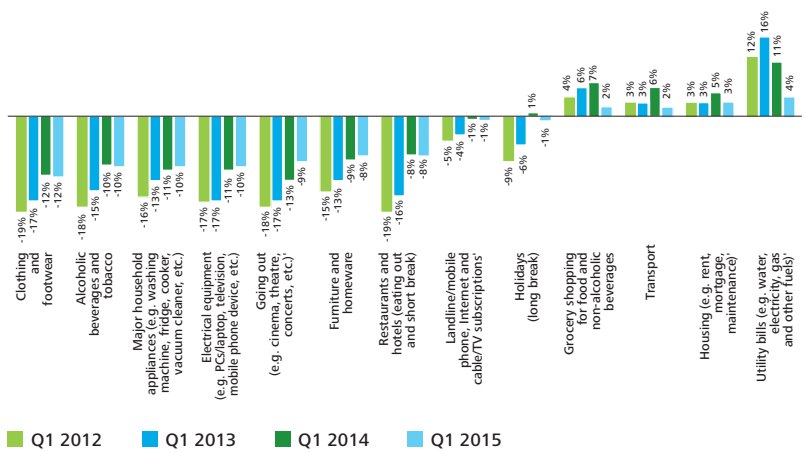
Source: Thomson Reuters Datastream

Outlook

Positive momentum in the consumer sector

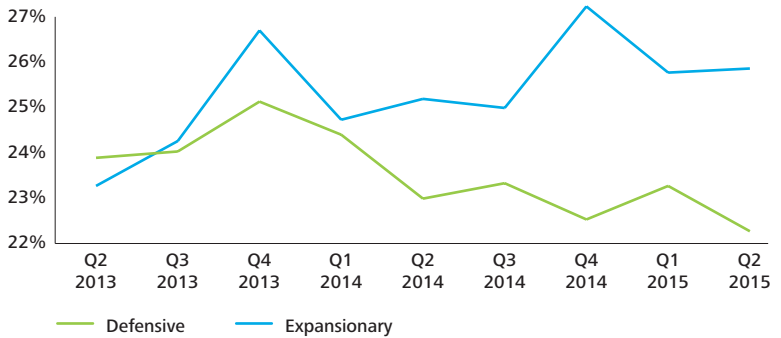
Consumers are planning to increase their spending on discretionary categories in the third quarter of 2015. This growth will be fuelled by low inflation and rising earnings.

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



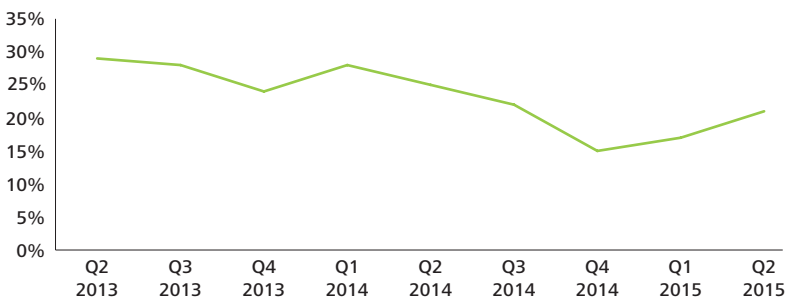
In Q2 2015, the gap between defensive and expansionary spending behaviours increased as the number of consumers displaying defensive behaviour fell while those in a more expansionary mode rose. This suggests positive momentum in the consumer market.

Chart 18. Expansionary and defensive behaviours
% UK consumers spending more or less



Moreover, a second quarter-on-quarter increase in the proportion of consumers buying more expensive items is further evidence that we are approaching a point where the strength of the economy finally translates into a similar increase in confidence.

Chart 19. Expansionary spending behaviour
% UK consumers spending more by buying more expensive items



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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 19 and 22 June 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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