The latest Deloitte Consumer Tracker shows a fall in consumer confidence in the first quarter of 2017, a sign of the rising cost pressures emerging in the consumer economy. Despite a quarter-on-quarter drop of one percentage point in overall consumer confidence in Q1 at -7 it remains in line with the three-year average.

This softening in overall consumer confidence is driven by a quarterly drop across four of the six measures which make up the confidence index. Confidence in disposable income in particular fell by three percentage points this quarter to reach its lowest level in over two years.

Since the EU referendum, consumer spending has been holding up well, but with inflation rising and nominal wage growth starting to slow, consumers are beginning to feel a squeeze on their disposable income. Food prices in March were up for the second consecutive month, while transport costs increased by 4.7%. Overall, the rate of inflation stood at 2.3%, above the Bank of England’s 2% target, for the first time since 2013.

There are already some signs that these pressures are contributing to a slowdown in spending growth. While spending on essentials remained unchanged this quarter, discretionary spending fell by four points (0 to -4) compared to Q4 2016.

Confidence softens

When considering how confidence fared among the different demographic groups, it is the lower socioeconomic groups that saw the most significant drop in overall confidence. The C2 socioeconomic group in particular has been disproportionately affected by inflationary pressures. They reported an 11 percentage point drop in their level of disposable income compared to Q4 2016 (-8 to -19).

With less disposable income consumers will have to consider whether to trade down, buy less or borrow more. The latter may not be that feasible as consumers have already been tapping into their savings. The latest data on the household savings ratio for Q4 2016 shows it is at its lowest level in over 50 years. However, with interest rates remaining low, debt is relatively cheap to manage.

Our survey shows that consumers remain broadly confident, and record levels of employment should ensure a modest slowdown in consumer spending rather than a collapse during 2017. However, it is clear that consumer businesses can only absorb so much of the cost pressures caused by rising inflation: if inflation continues on its current trajectory, it is inevitable that consumers will see a sharp rise in prices.

Key indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Previous</th>
<th>Latest</th>
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</thead>
<tbody>
<tr>
<td>Overall consumer confidence (q/q)*</td>
<td>-6%</td>
<td>-7%</td>
</tr>
<tr>
<td>Confidence in level of disposable income (q/q)*</td>
<td>-14%</td>
<td>-17%</td>
</tr>
<tr>
<td>Essentials spending (q/q)*</td>
<td>+12%</td>
<td>+12%</td>
</tr>
<tr>
<td>Discretionary spending (q/q)*</td>
<td>0%</td>
<td>-4%</td>
</tr>
<tr>
<td>ONS retail sales value growth Feb-17 (y/y)</td>
<td>+1.7%</td>
<td>+4.7%</td>
</tr>
<tr>
<td>CPI inflation Mar-17 (y/y)</td>
<td>+0.5%</td>
<td>+2.3%</td>
</tr>
</tbody>
</table>

* Net balances

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The Deloitte Consumer Tracker Q1 2017 | Confidence softens

Consumer confidence
Confidence falls

The latest Deloitte Consumer Tracker shows a fall in consumer confidence in the first quarter of 2017, a sign of rising cost pressures emerging in the consumer economy. Despite a quarter-on-quarter drop of one percentage point in overall consumer confidence in Q1, at -7 it remains in line with the three-year average.

This softening in overall consumer confidence is driven by a quarterly drop across four of the six measures which make up the confidence index. Confidence in disposable income in particular fell by three percentage points this quarter to reach its lowest level in over two years.

Since the EU referendum, consumer spending has been holding up well, but with inflation rising and nominal wage growth starting to slow, consumers are beginning to feel a squeeze on their disposable income.

Chart 1. Deloitte consumer confidence
Net % of UK consumers who said their level of confidence has improved in the past three months

Chart 2. Consumer sentiment about personal situation
Net % of UK consumers who said their level of confidence has improved in the past three months

Chart 3. Consumer confidence about level of disposable income
Net % of UK consumers who said their level of confidence has improved in the past three months
Consumer confidence
Inflationary pressures hit the lower socioeconomic groups’ confidence

When considering how confidence fared among the different demographic groups, it is the lower socioeconomic groups that saw the most significant drop in overall confidence.

The C2 socioeconomic group in particular has been disproportionately affected by inflationary pressures. They reported an 11 percentage point drop in their level of disposable income compared to Q4 2016 (-8 to -19).

Another contributing factor to the drop in consumer confidence is that sentiment about debt level has deteriorated over the last quarter among the two lower socioeconomic groups (C2DE).

Chart 4. Consumer confidence by socioeconomic group
Net % of UK consumers who said their level of confidence has improved over the past three months

Chart 5. Consumer confidence about level of disposable income by socioeconomic group
Net % of UK consumers who said their level of confidence has improved over the past three months

Chart 6. Confidence in level of debt by socioeconomic group
Net % of UK consumers who said their level of confidence has improved over the past three months
There are some signs of a slowdown in spending on a quarterly basis. After a significant jump in essential spending in Q4 2016, spending on essentials was unchanged this quarter. Meanwhile discretionary spending returned to negative territory falling by four points (0 to -4) this quarter compared to Q4 2016.

With less disposable income consumers will have to consider whether to trade down, buy less or borrow more. Already GfK’s monthly Consumer Confidence Index shows that British consumers are moving away from making major purchases, with the Index five points lower than in March last year.

Despite a seasonal dip consumer spending on retail and leisure remains in line with the recent trend. A sign that if consumers carry on spending, fears of a slowdown following the triggering of Article 50 might be unfounded.
Consumer spending
Keep calm and carry on spending

Year-on-year there was significant spending growth in all the essential categories including transport, grocery and utilities. Spending in discretionary categories also continued to grow compared to a year ago, including in categories such as clothing, going out or electrical equipment.

Food prices in March were up for the second consecutive month, while transport costs increased by 4.7%. Overall inflation stood at 2.3%, above the Bank of England’s 2% target, for the first time since 2013.

Despite inflationary pressures mounting, retailers received a respite from two months of falling retail sales in February. Retail sales volumes were up by 4.1% while value was up by 5.2% compared to a year ago. However, the underlying three-month numbers – considered a better guide to the underlying trend than the monthly figure alone – show lower sales than in the quarter ending in November.
Consumer finance
Inflation might start to bite soon

There are growing signs that the spike in inflation will soon start to bite. Inflation and wage growth are now running at the same 2.3% rate, and given that inflation is expected to be above 3% later this year, real incomes are set to fall.

Consumers have also been tapping into their savings. The latest data on the household savings ratio for Q4 2016 shows it at its lowest level in over 50 years. However, with interest rates remaining low, debt is relatively cheap to manage.

Unsecured consumer credit, which includes credit cards, car loans and second mortgages, grew by 10.5% in the year to February. Growing credit card debt drove the increase, with the year-on-year growth rate in credit card spending jumping to 9.3%, offsetting a slight decline in other loans.
Outlook

Modest slowdown in consumer spending expected

Looking ahead, consumers are continuing to focus on spending. According to our survey, they expect to spend more on both essentials and discretionary goods in the next three months.

Consumers remain broadly confident, and record levels of employment should ensure a modest slowdown in consumer spending rather than a collapse during 2017.

However, it is clear that consumer businesses can only absorb so much of the cost pressures caused by rising inflation as selling prices are likely to increase at a much slower rate than input costs. If inflation continues on its current trajectory, it is inevitable that consumers will see a sharp rise in prices.
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 17 March 2017 and 20 March 2017.

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% of consumers reported that they spent more rather than less.