

The Deloitte Consumer Tracker

Signs of distress

The latest Deloitte Consumer Tracker shows consumer confidence has fallen for the third quarter in a row with a three percentage point drop in confidence in the second quarter of 2017. This represents the biggest decline in over two years.

The decline in the headline rate of consumer confidence is driven by a quarterly drop across five of the six measures which make up the confidence index. In particular, consumer confidence in disposable income and level of debt fell by seven percentage points and four percentage points respectively this quarter to reach their lowest level in over three years.

In a sign that all is not gloom, sentiment about job opportunities and career progression, and views on job security are both higher than they were a year ago following the Brexit vote, and this despite a quarterly fall. Indeed the unemployment rate at 4.6% is the lowest since 1975.

However, a squeeze in living standards is definitely starting to dent consumers' spirits with inflation hitting its highest level in four years and wages dropping in real terms for the first time in three years. Inflation rose to 2.9% in June, the highest since June 2013. Average in-store prices increased by 2.8% in May, the fastest growth since March 2012. This suggests that retailers are having to pass on some of the higher input costs to consumers.

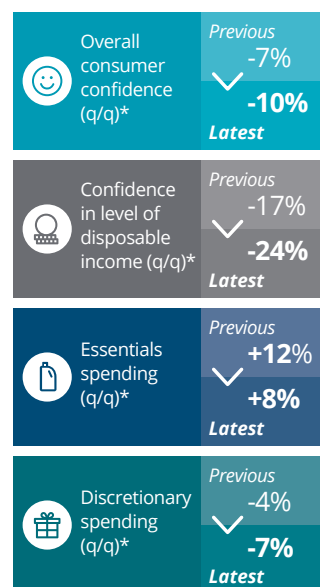
These pressures on households are impacting their spending across both essential and discretionary categories this quarter.

Spending on essentials was down 4 points (12% to 8%) this quarter, while discretionary spending fell by 3 points (-4% to -7%) compared to Q1 2017. Spending on experiences such as eating out and the cinema also fell for the second consecutive quarter, a sign that the recent upward trend in leisure spending has also been hit.

With more pressure on disposable incomes consumers have started to reduce their expansionary behaviours which were on the rise over the last two years supported by low inflation and the availability of cheap debt. The latter has become a cause for concern for the Bank of England, as consumer credit increased by 10.3% in the 12 months to April, far outpacing growth in household incomes. A possible rise in interest rates, designed primarily to help strengthen the pound and diminish inflation, would also raise the cost of credit and could further slow spending growth.

Despite the outlook for growth being influenced by the wider prospect of the UK leaving the EU, the question remains whether record levels of employment and cheap borrowing will be sufficient to ensure consumer spending slows rather than collapses before the end of 2017.

Key indicators



* Net balances

Authors

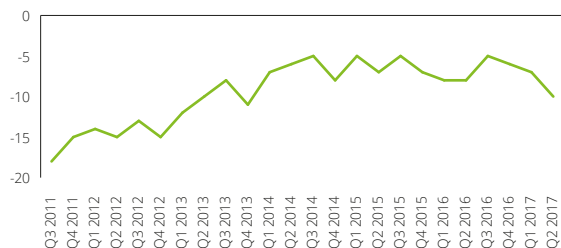
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Four-chart summary of key survey messages

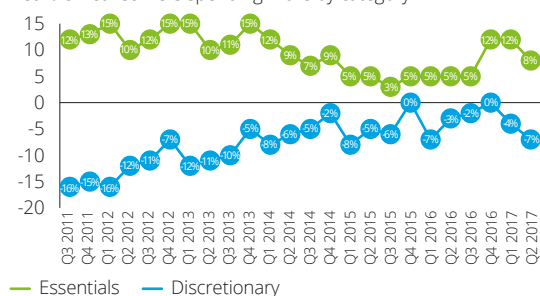
Deloitte consumer confidence index

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



Category spending over the last three months

Net % UK consumers spending more by category



Unemployment rate

% change year on year

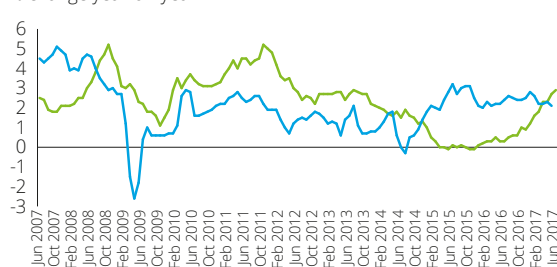


UK LFS: unemployment rate, all, aged 16 and over, seasonally adjusted

Source: Thomson Reuters DataStream

% Growth in average wages vs CPI Inflation

% change year-on-year



Average earnings including bonuses

CPI Harmonisation Inflation

Source: Thomson Reuters DataStream

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 16 June and 18 June 2017. For more information on the methodology and access to additional charts, please visit www.deloitte.co.uk/consumert tracker.



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