

## The Deloitte Consumer Tracker UK consumers shrug off global turmoil

The latest Deloitte Consumer Tracker shows that UK consumers have shrugged off the turmoil in the global financial markets, with consumer confidence back to a record high in Q3 2015. Consumer confidence rose by two percentage points returning to a four-year high during the same period that saw the FTSE100 index fall by 700 points. All six measures of consumer confidence were up quarter-on-quarter, with the strongest gains seen in consumer confidence regarding their level of debt, job opportunities and career progression.

The regional breakdown shows a strong recovery in confidence among consumers living in London and the South East. This comes after a fall in the previous quarter, when concerns about the weakness of the London property market and the affordability of housing weighed on consumers' minds. Those living in the capital are now once again displaying the highest levels of confidence compared to the rest of the UK, with their sentiment on job security and debt level showing the greatest improvement.

Looking at the national picture, rising real wages have contributed to increasing confidence in job security. Our data shows there has been an increase in the proportion of consumers who have received a pay rise or bonus, while the number of consumers who have suffered a loss of income or lost their job remained static.

The value of spending across a range of essentials slowed in Q3 2015 as lower inflation in key categories including food, utilities and transport reduced pressure on consumer budgets. The most pronounced weakening in spending came in the grocery category where competition among the big four grocers and the discounters continues to drive prices down. The falling cost of many essentials has enabled consumers to spend more on discretionary items. The core leisure category continues to see good growth, with spending in areas such as eating out and going out increasing in the third quarter.

In Q3 2015, the gap between defensive and expansionary spending behaviours increased once again, as the proportion of consumers displaying defensive behaviour fell to its lowest level since our survey began. In particular, the proportion of consumers bargain-hunting declined and we also saw a drop in the number of consumers spending less through buying fewer items. At the same time the proportion of consumers buying more items due to sales or special offers increased, highlighting the role that promotional activity is playing in driving more expansive behaviour.


The outlook for Q4 2015 is positive for the leisure sector which is likely to benefit from continued gains in real earnings. The outlook for grocery retailing appears more challenging with consumers expecting to continue reducing their spending on groceries.

### Key Indicators

Overall consumer confidence (q/q)\*

Previous -7%  Latest -5%

Confidence in level of disposable income (q/q)\*

Previous -15%  Latest -13%

Essentials spending (y/y)\*

Previous +9%  Latest +3%

Discretionary spending (y/y)\*

Previous -5%  Latest -6%

ONS retail sales value growth Aug-15 (y/y)

Previous +4%  Latest +0.9%

CPI inflation Aug-15 (y/y)

Previous +1.5%  Latest 0%

\* Net balances

### Authors

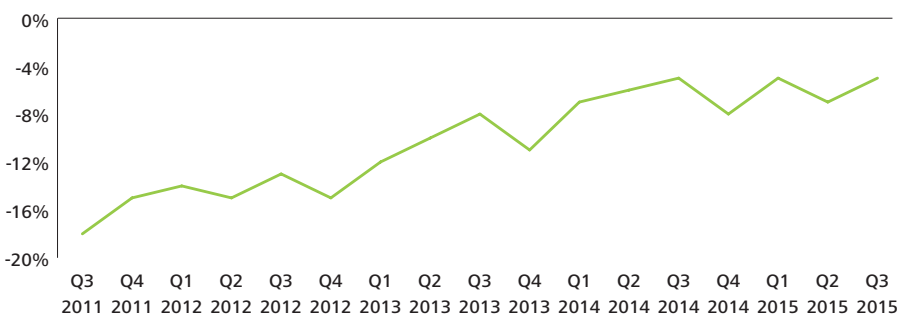
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**Chart 1. Deloitte Consumer Confidence**

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



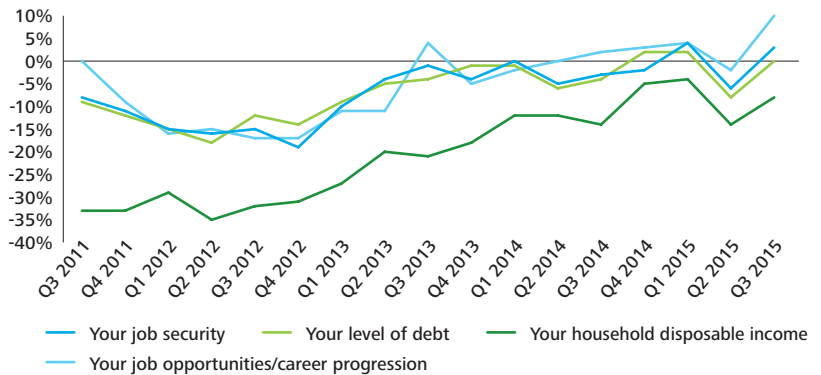


# Consumer confidence

## London sees strong recovery in confidence

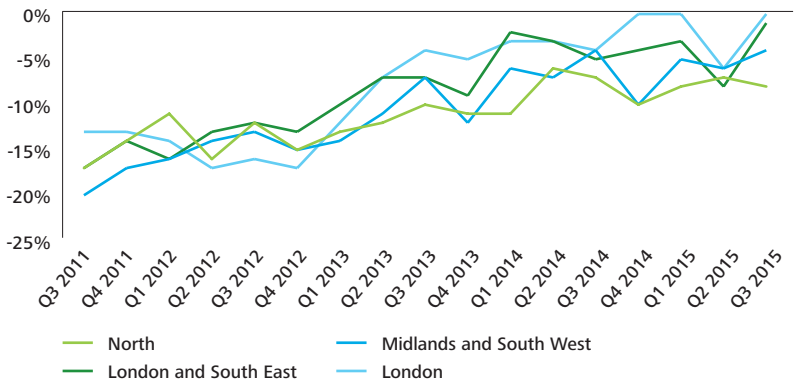
The regional breakdown shows a strong recovery in confidence among consumers living in London and the South East. This comes after a fall in the previous quarter, when concerns about the weakness of the London property market and the affordability of housing weighed on consumers' minds.

**Chart 5. London consumer sentiment about personal situation**  
Net % of UK consumers living in London who said their level of confidence has improved over the past three months



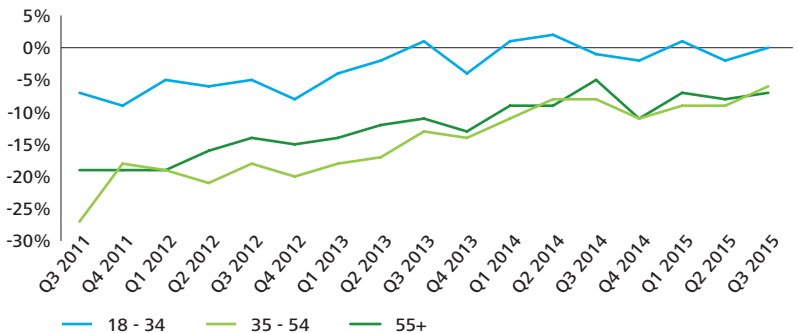
Those living in the capital are now once again displaying the highest levels of confidence, with their sentiment on job security and debt level showing the greatest improvement.

**Chart 6. Deloitte consumer confidence, by region**  
Net % of UK consumers who said that their level of confidence has improved over the past three months



Our data shows that the younger demographic have consistently proved to be the most confident, and this is reflected across all of our key measures of confidence.

**Chart 7. Deloitte consumer confidence, by age group**  
Net % of UK consumers who said their level of confidence has improved over the past three months

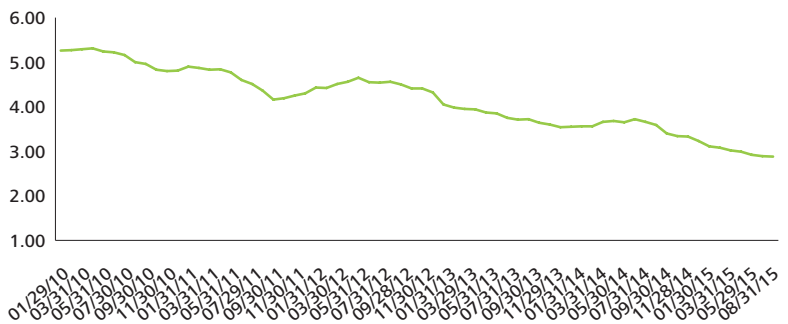


# Consumer spending

## Costs fall as wages continue to rise

Mortgage rates have continued to fall during 2015. This is likely to have a positive impact on consumer confidence by reducing mortgage costs and enabling them to spend more in other areas.

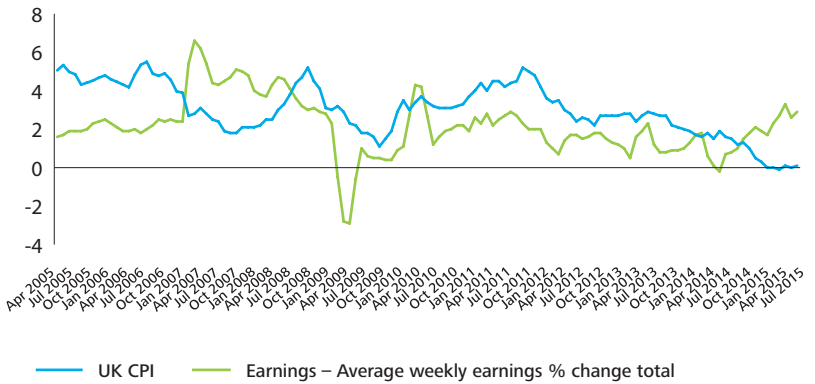
**Chart 8. UK mortgage rates**  
Average of fixed rate and tracker mortgages



Source: Thomson Reuters Datastream

Rising real wages have contributed to increasing confidence in job security. Our data shows there has been an increase in the proportion of consumers who have received a pay rise or bonus, while the number of consumers who have suffered a loss of income or lost their job remained static.

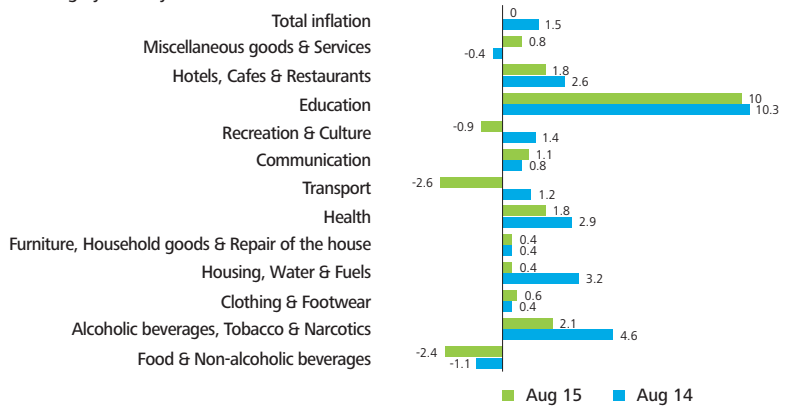
**Chart 9. % growth in average weekly earnings and UK national inflation (CPI)**



Source: Office for National Statistics (ONS)

The falling cost of goods and services has allowed consumers to save money on essential items such as utility bills, housing costs and fuel, and allowed them to spend more on discretionary items.

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



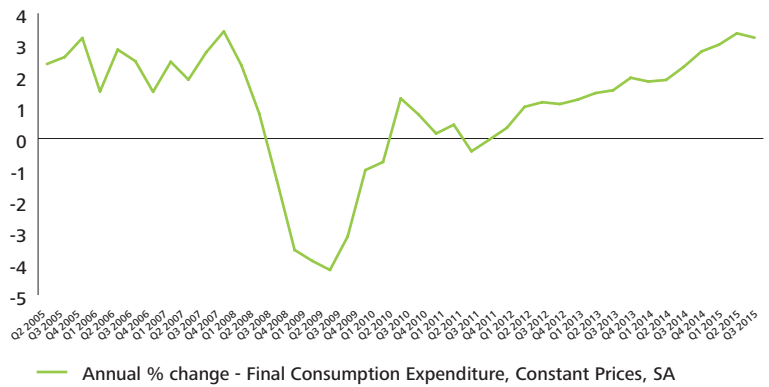
Source: ONS

# Consumer spending

## Pattern of spending is changing

Consumer spending growth slowed in Q2 2015 but remains robust at above three per cent. Increasing confidence is now clearly translating into increased spending.

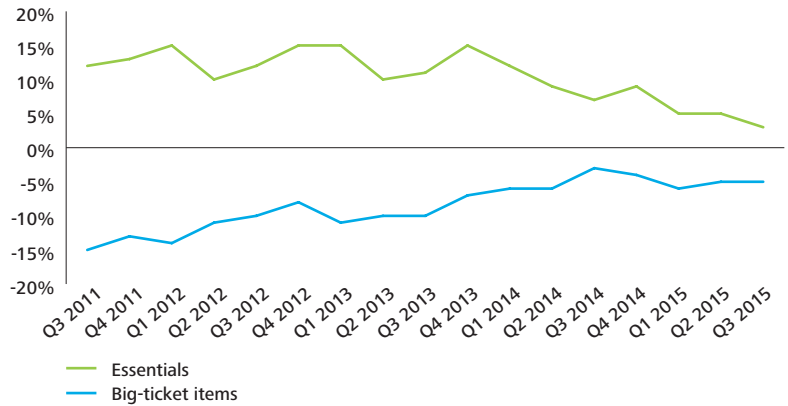
**Chart 11. Consumer expenditure, constant prices, seasonally adjusted**  
% change year-on-year



Source: ONS

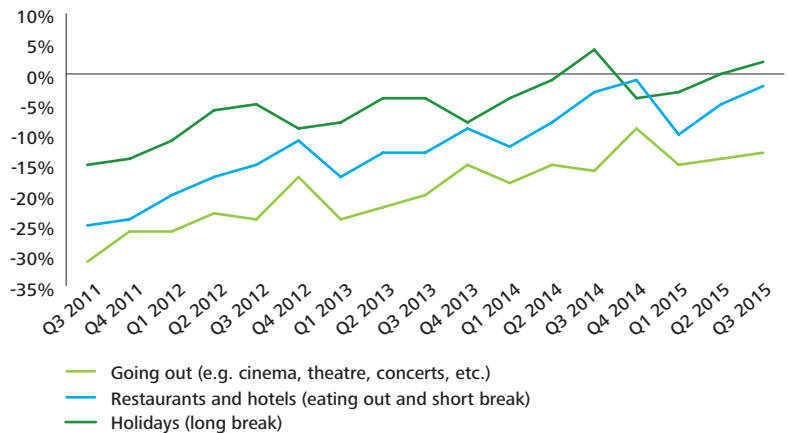
The falling cost of many essentials has enabled consumers to spend more on discretionary, big ticket items.

**Chart 12. Category spending in the past three months**  
Net % UK consumers spending more by category



The core leisure category continues to see good growth, with spending in areas such as eating out and going out increasing in the third quarter.

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

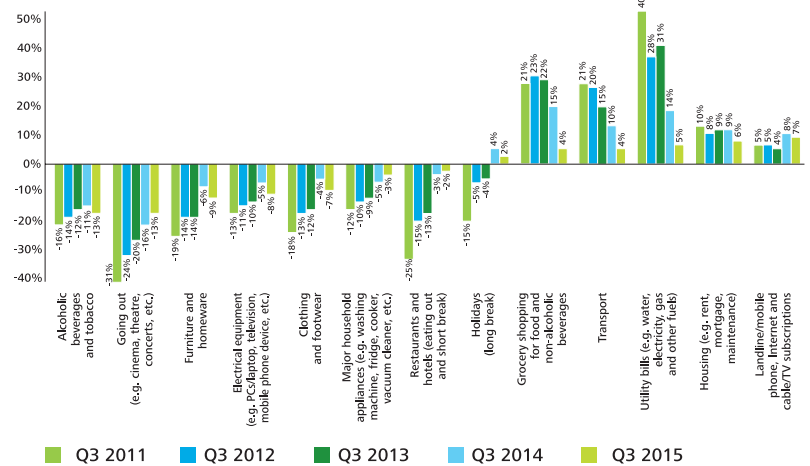


# Consumer finance

## Saving and borrowing both increase

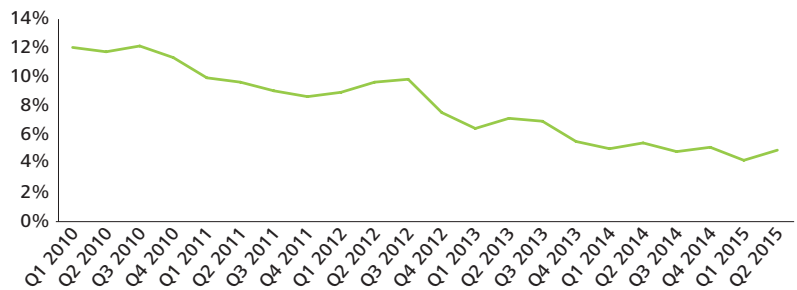
The value of spending across a range of essentials slowed in Q3 2015 compared to a year ago as lower inflation in key categories including food, utilities and transport reduced pressure on consumer budgets. The most pronounced weakening in spending came in the grocery category where competition among the big four grocers and the discounters continues to drive prices down.

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



The savings ratio rose in Q2 2015. In September 2015, the Office of National Statistics published a series of revisions, with Q1 2015 revised down from 4.9 to 4.0 per cent.

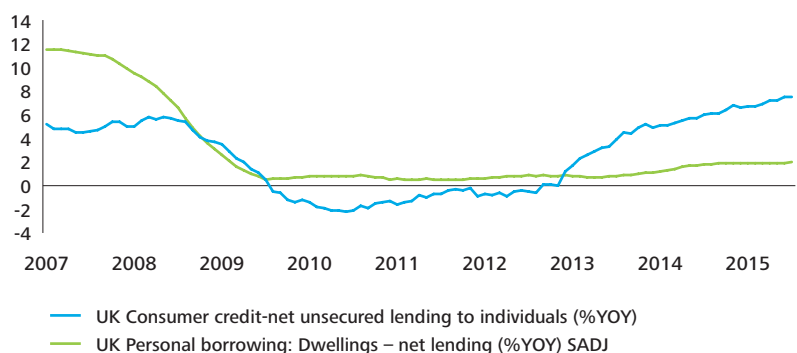
**Chart 15. UK household savings ratio**



Source: ONS

Not only have consumers been saving more, but they have also been borrowing more. The rate of growth in unsecured lending has risen throughout 2015. Increased borrowing, along with lower inflation and growth in real wages, has helped support spending in Q3 2015.

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



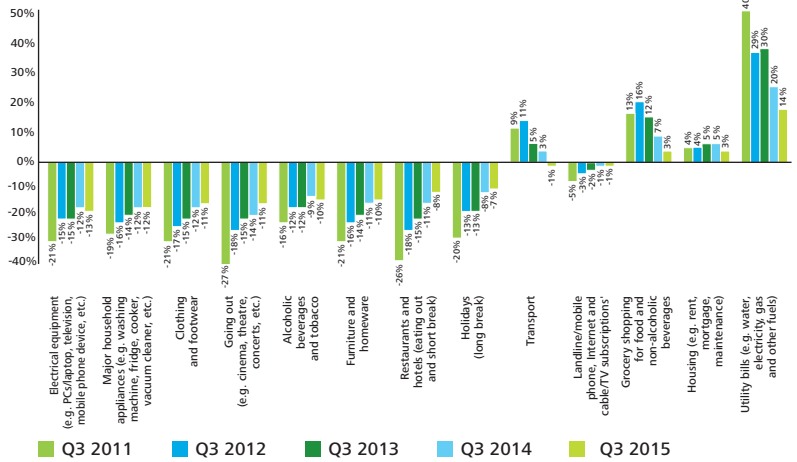
Source: Thomson Reuters Datastream

# Outlook

## Consumer outlook improving

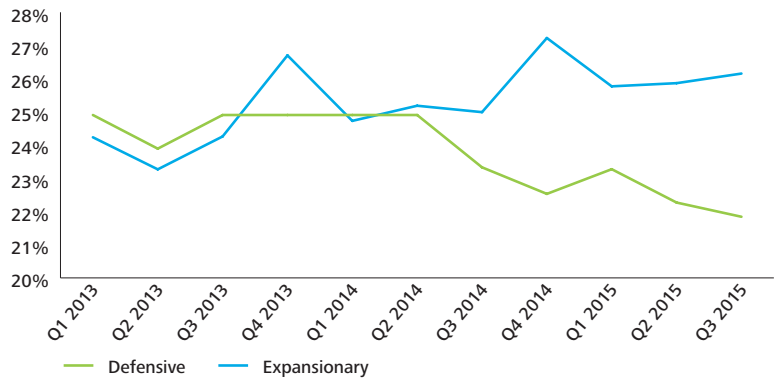
Consumers are planning to increase their spending on discretionary categories in the fourth quarter of 2015. This is good news for UK consumer businesses, particularly the leisure sector which is likely to see the strongest gains.

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



In Q3 2015, the gap between defensive and expansionary spending behaviours increased once again, as the proportion of consumers displaying defensive behaviour fell to its lowest level since our survey began.

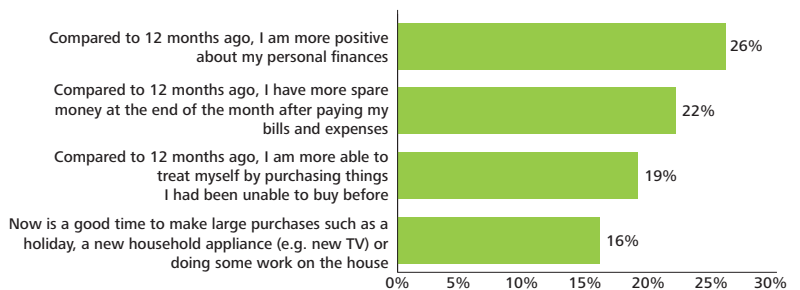
**Chart 18. Expansionary and defensive behaviours**  
% UK consumers spending more or less



More than a quarter of consumers are now more positive about their finances than they were a year ago. One in five has more money to spend at the end of the month or is better able to treat themselves at the end of the month.

**Chart 19. Consumer attitudes towards their personal finances**

Thinking about your personal finances today compared to 12 months ago which of the following statements do you agree or disagree with



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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 18 and 20 September 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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