



Signs of a consumer slowdown

The Deloitte Consumer Tracker

Q3 2019



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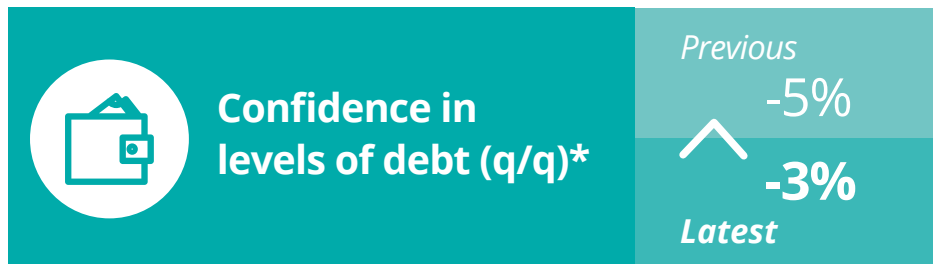
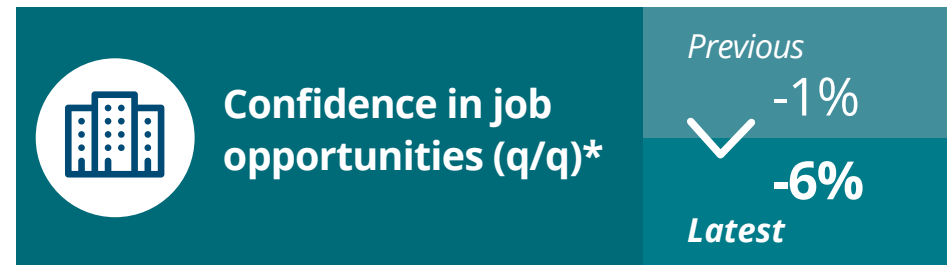
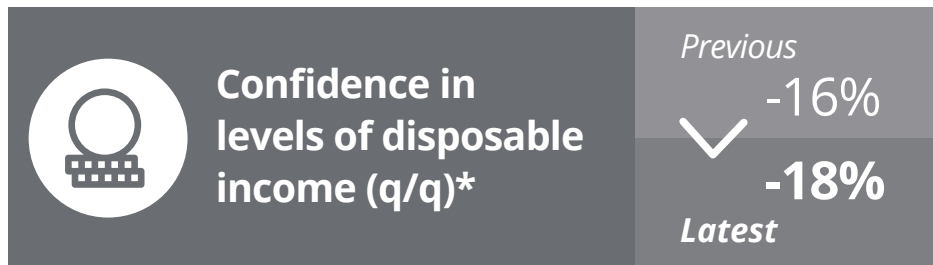
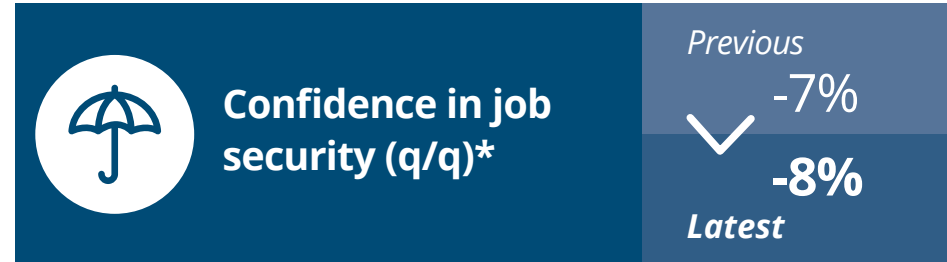
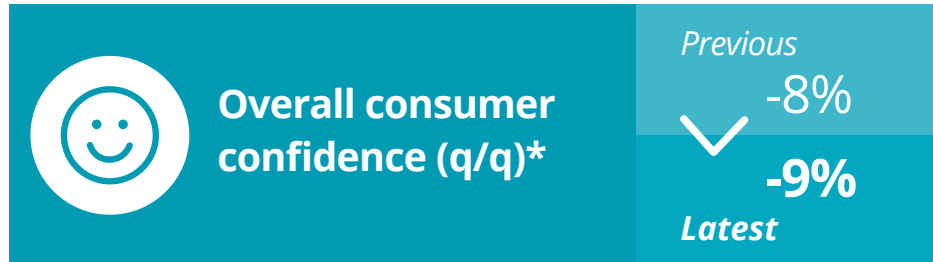
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Q3 2019 at a glance



*Net balances

Consumer confidence



Deloitte consumer confidence index

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



..... Annual moving average

Source: The Deloitte Consumer Tracker

The Deloitte consumer confidence index fell to -9 per cent in Q3 2019.

The index was one point lower than in the previous quarter and two points lower compared to the same period a year ago.

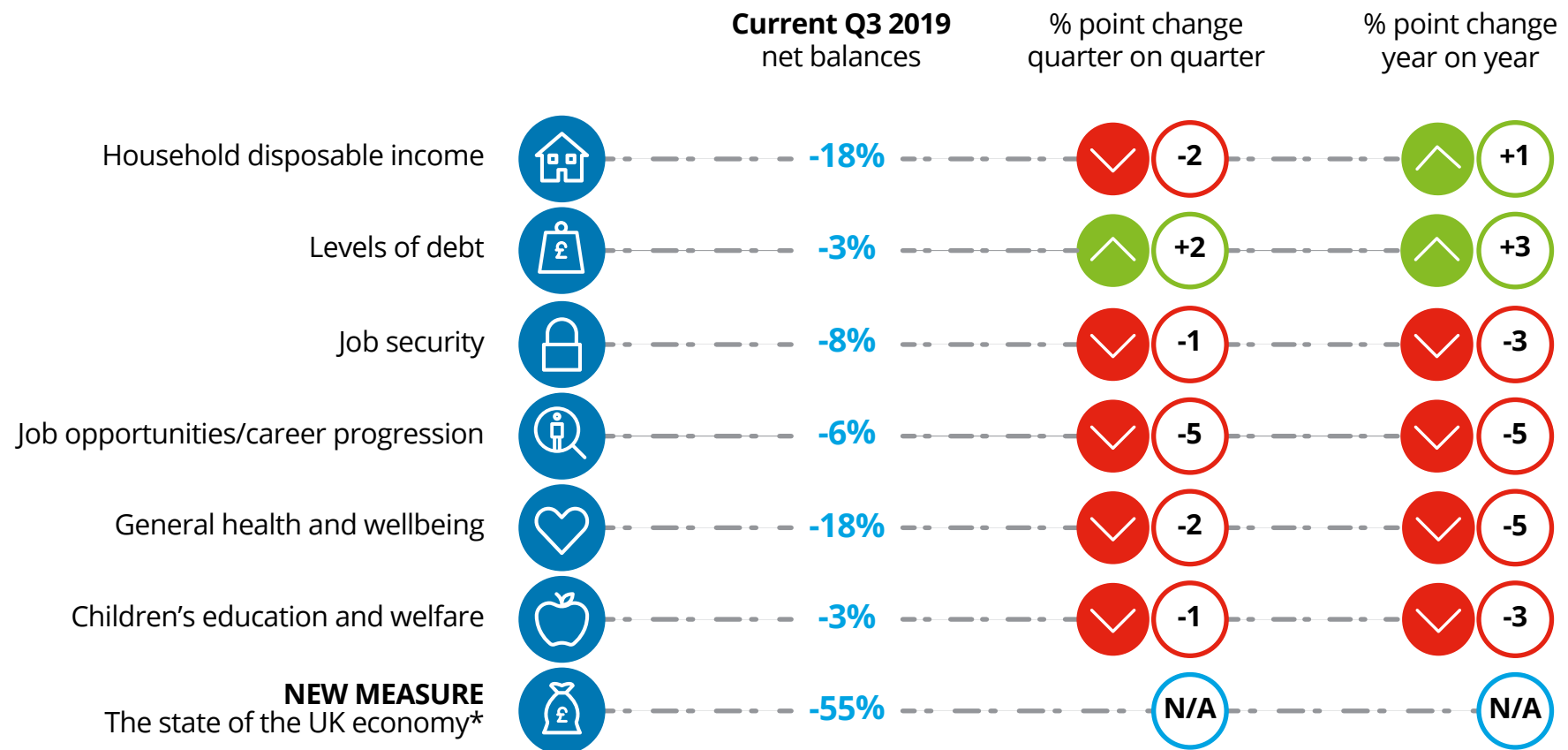
Six months after the UK was given an extension to delay its departure from the EU until 31 October, the uncertainty surrounding Brexit has persisted and appears to be weighing more heavily on consumers.

*The Deloitte consumer confidence index is an average of the net % of consumers who said their level of confidence improved in the past three months for six individual measures of confidence (see next slide).



Individual measures of consumer confidence

Our overall confidence index is based on six individual measures of confidence

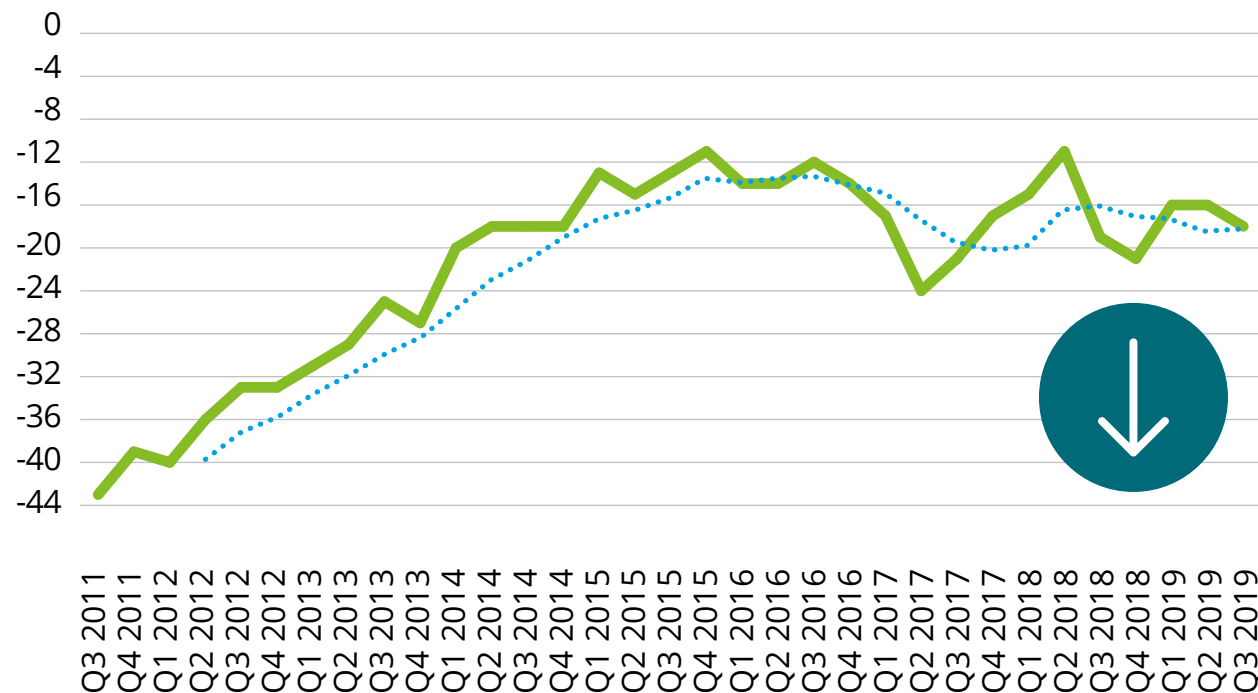


Source: The Deloitte Consumer Tracker

*Please note this measure is not included in the overall index

Consumer confidence about their household levels of disposable income

Net % of consumers who said that their confidence in their levels of household disposable income has improved in the past three months



..... Annual moving average

Source: The Deloitte Consumer Tracker

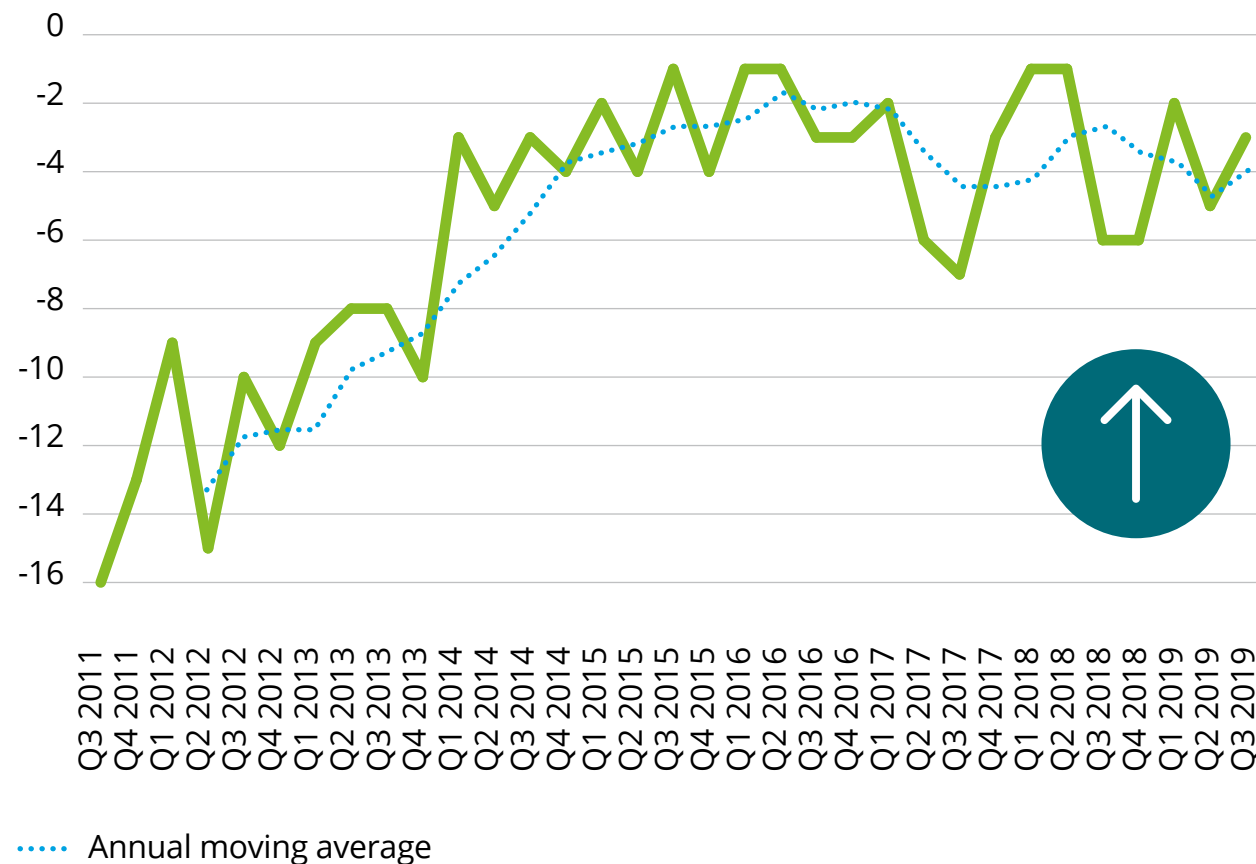
With falling inflation and earnings hitting a decade high in July consumers were marginally more confident in their levels of disposable income.

Confidence in levels of disposable income was one point higher than it was a year ago (-19 per cent). In particular, confidence in levels of disposable income among the 18- to 34-year olds improved from -17 per cent a year ago to -7 per cent this quarter, which could be attributed to the nearly 5 per cent rise in the national living wage in April.



Consumer confidence about their levels of debt

Net % of consumers who said that their confidence in their levels of debt has improved in the past three months



Source: The Deloitte Consumer Tracker

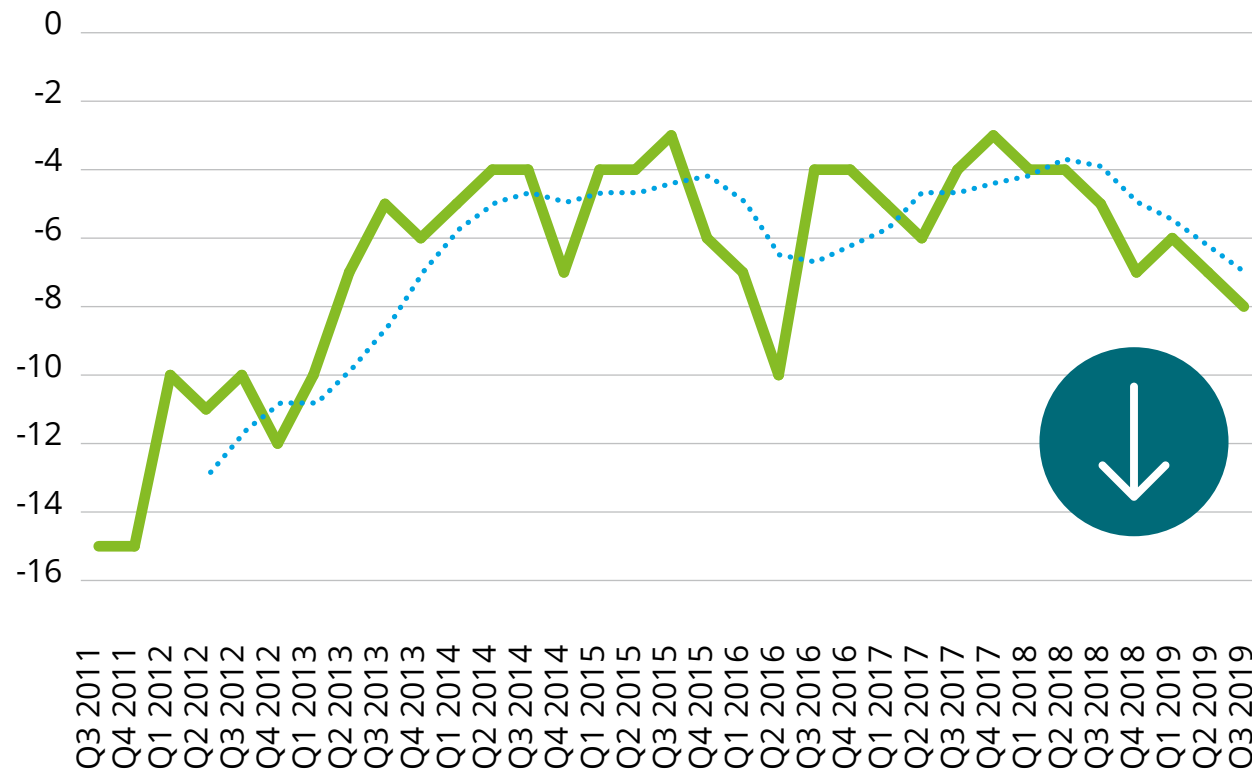
Confidence in levels of debt increased by two percentage points compared to Q2 2019 and by three points compared to the same period a year ago.

This coincides with the Bank of England's (BoE) decision to maintain interest rates at 0.75 per cent in August. Moreover, lenders have become more cautious and as a result the year-on-year growth rate for all unsecured lending including cars and credit cards slowed to 4.9 per cent in August, its lowest rate in almost four years.



Consumer confidence about job security

Net % of consumers who said that their confidence in their job security has improved in the past three months



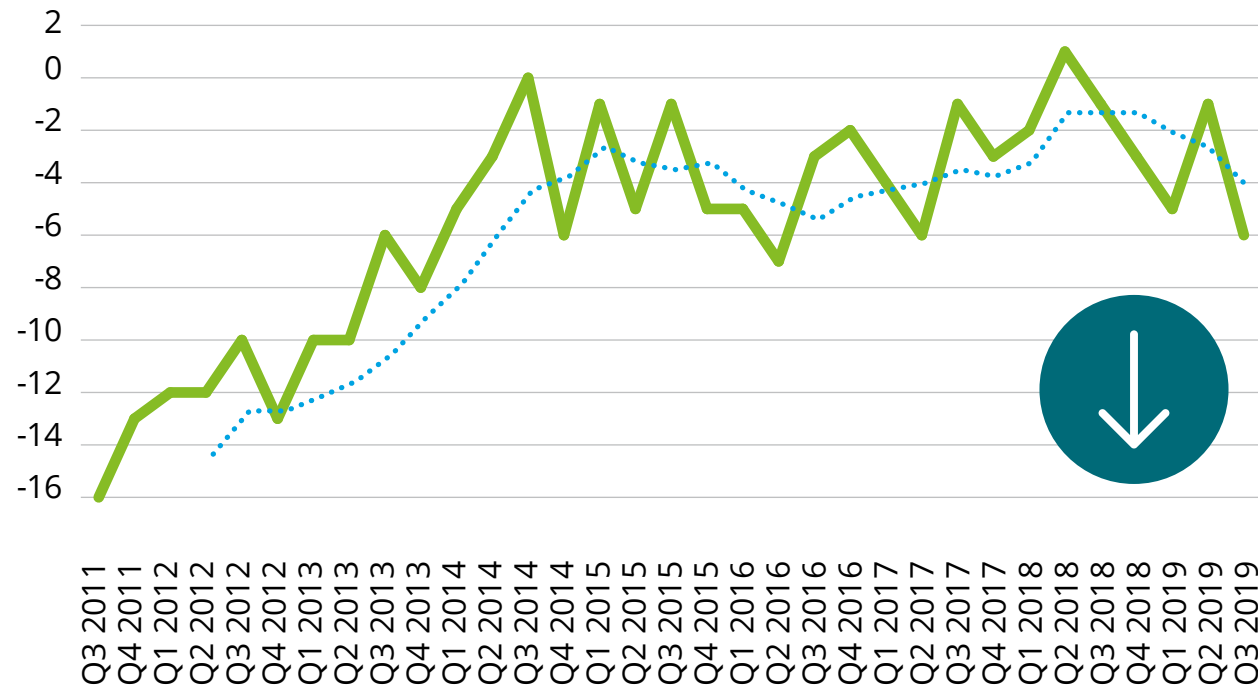
..... Annual moving average

Sentiment about job security was also hit and was three points lower (at -8 per cent) this quarter compared to Q3 2018.

There was an increasing number of job cuts being announced, as well as major companies going into administration or restructuring their operations in Q3 2019.

Consumer confidence about job opportunities

Net % of consumers who said that their confidence in their job opportunities and their career progression has improved in the past three months



..... Annual moving average

Source: The Deloitte Consumer Tracker

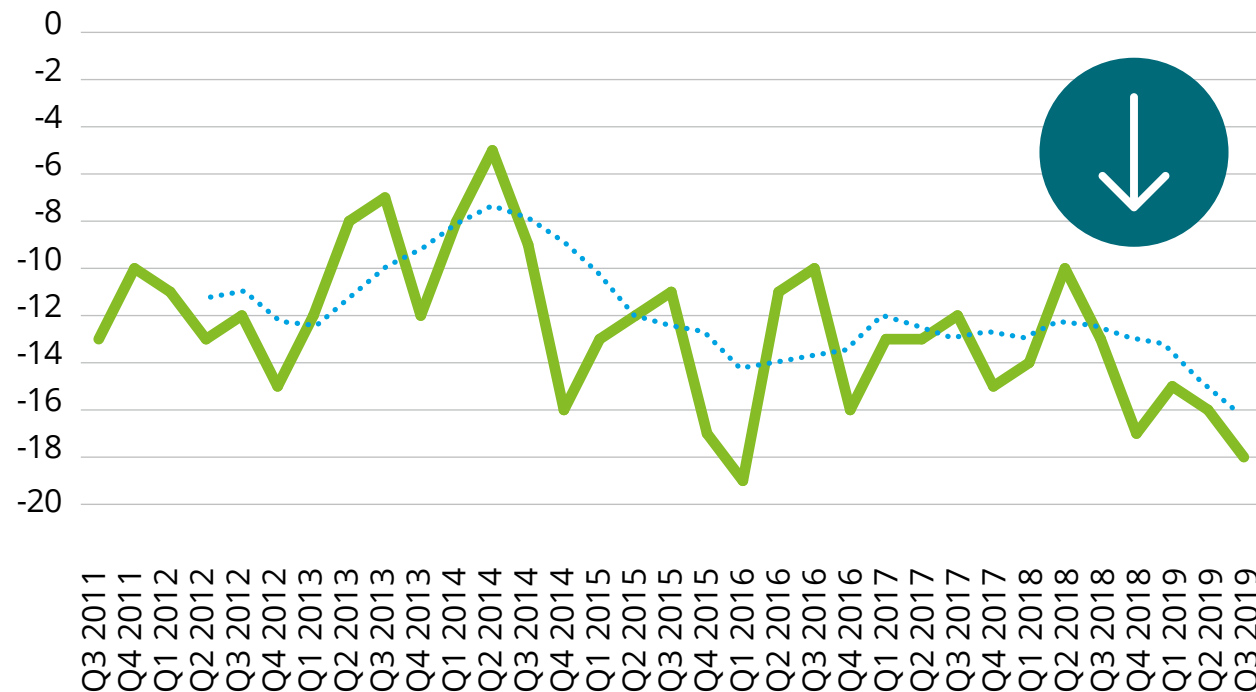
Confidence in job opportunities/career progression fell by a significant five percentage points (to -6 per cent) compared to both the previous quarter and the same period a year ago.

Unemployment unexpectedly rose from a four-decade low in the three months to August. In fact, according to the latest Deloitte CFO Survey, 70 per cent of CFOs expect to reduce hiring in the next 12 months and just three per cent expect it to rise.



Consumer confidence about their general health and wellbeing

Net % of consumers who said that their confidence in their general health and wellbeing has improved in the past three months



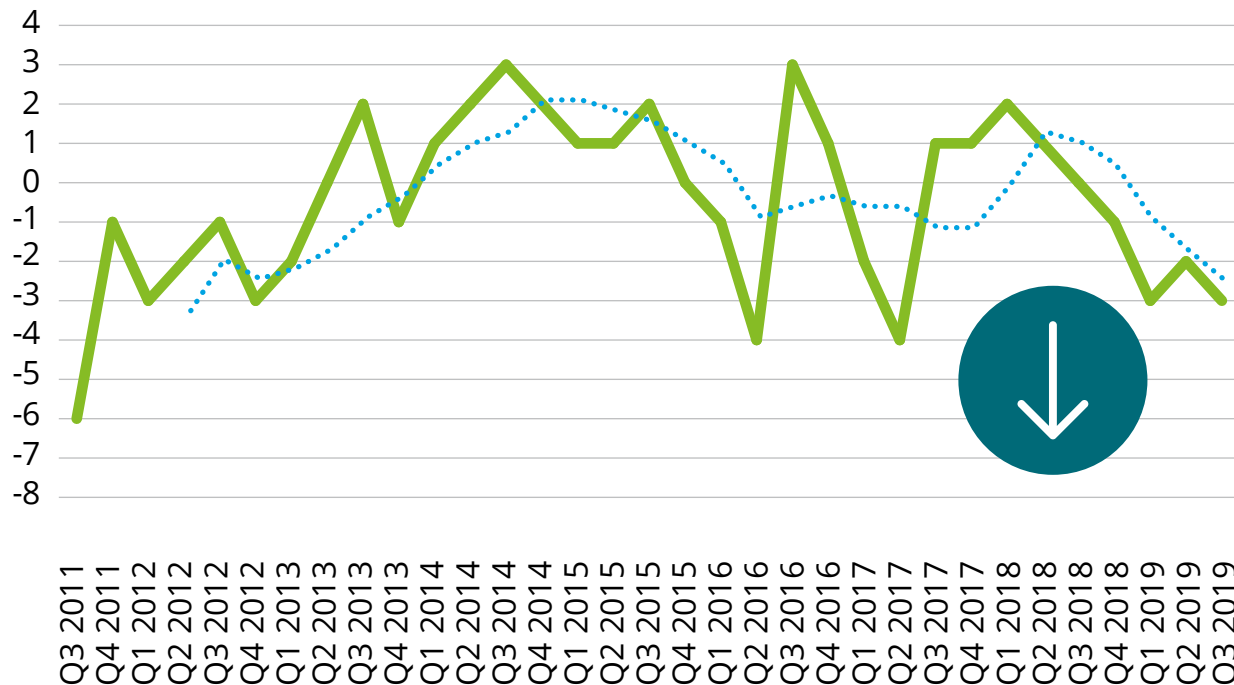
..... Annual moving average

Consumers continue to be less confident about their general health and wellbeing this quarter.

Consumer confidence in their general health and wellbeing fell by two percentage points quarter on quarter from -16% to -18% in Q2 2019.

Consumer confidence about their children's education and welfare

Net % of consumers who said that their confidence in their children's education and welfare has improved in the past three months



..... Annual moving average

Sentiment about children's education and welfare also falls this quarter.

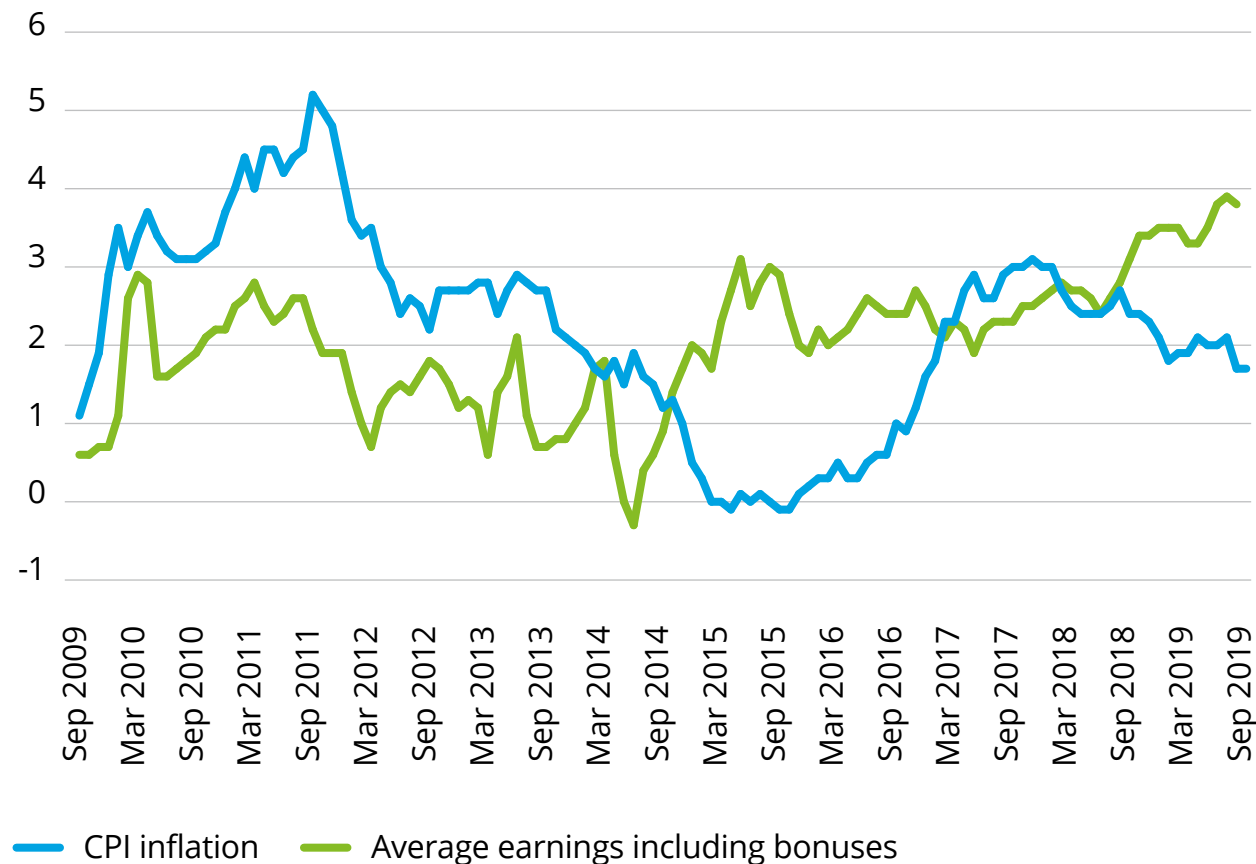
Consumer confidence in their children's education and welfare has fallen by one percentage point this quarter.



The wider economy and
its impact on consumer
confidence

UK earnings growth slows after hitting a decade high

CPI Inflation vs average earnings (inc. bonuses)
(year-on-year % growth)

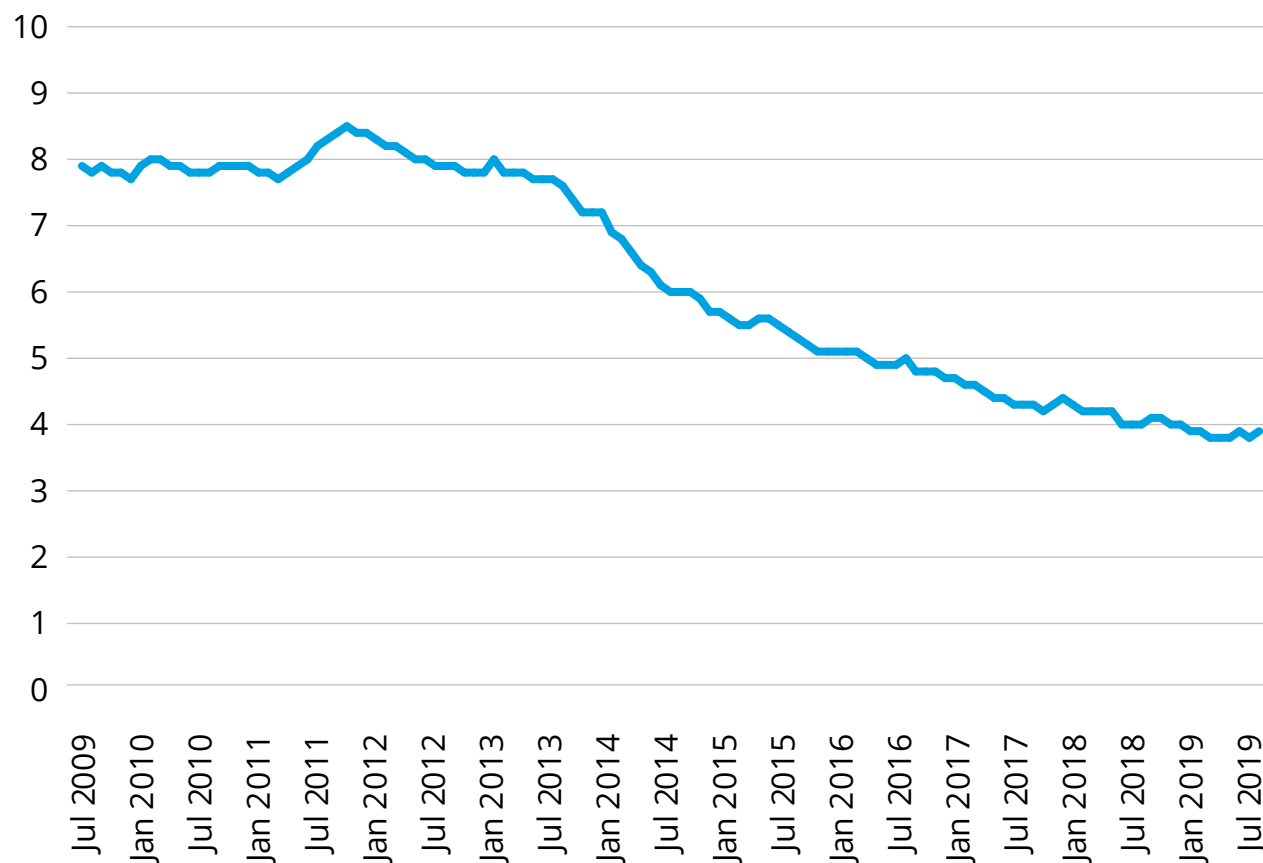


Wage growth, including bonuses, rose by an annual 3.8 per cent in the three months to August, slowing from 3.9 per cent in the three months to July.

Meanwhile UK inflation remained at 1.7 per cent in September its weakest level since December 2016. The lower rate was driven by the prices of motor fuels, second-hand cars, and electricity, gas and other fuels.

UK unemployment rate rises as concerns about Brexit hit the labour market

UK unemployment rate (all aged 16 and over)

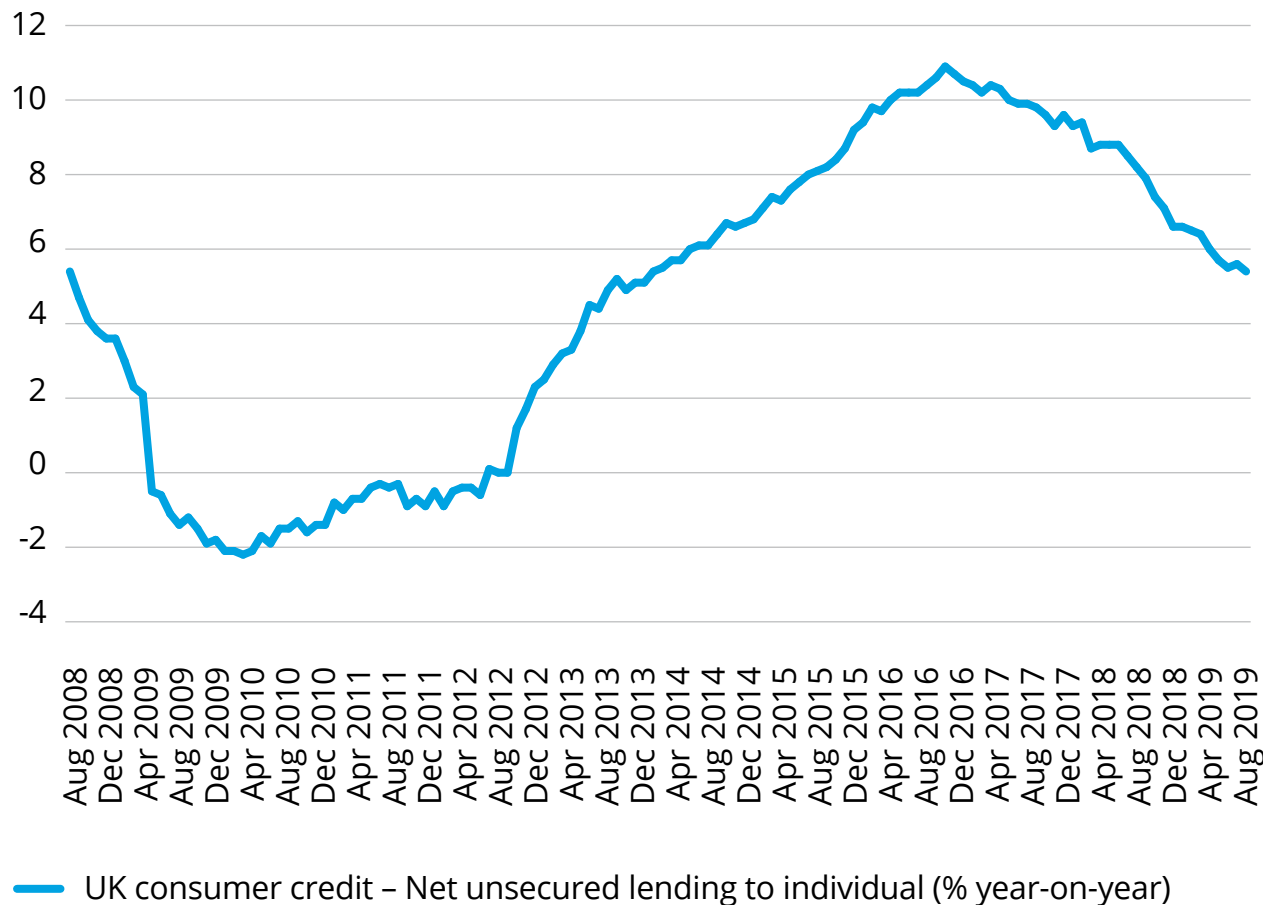


Britain's labour market remains low by historical standards however there are signs of a possible weakening as the UK gets closer to leaving the EU.

Although unemployment remains low, it rose by 0.1 percentage points to 3.9 per cent between June and August compared with the previous quarter. Indeed, while employment rate is still rising year-on-year, the growth has cooled noticeably in recent months.

Consumer borrowing rises at slowest rate since 2014

Unsecured lending to individuals

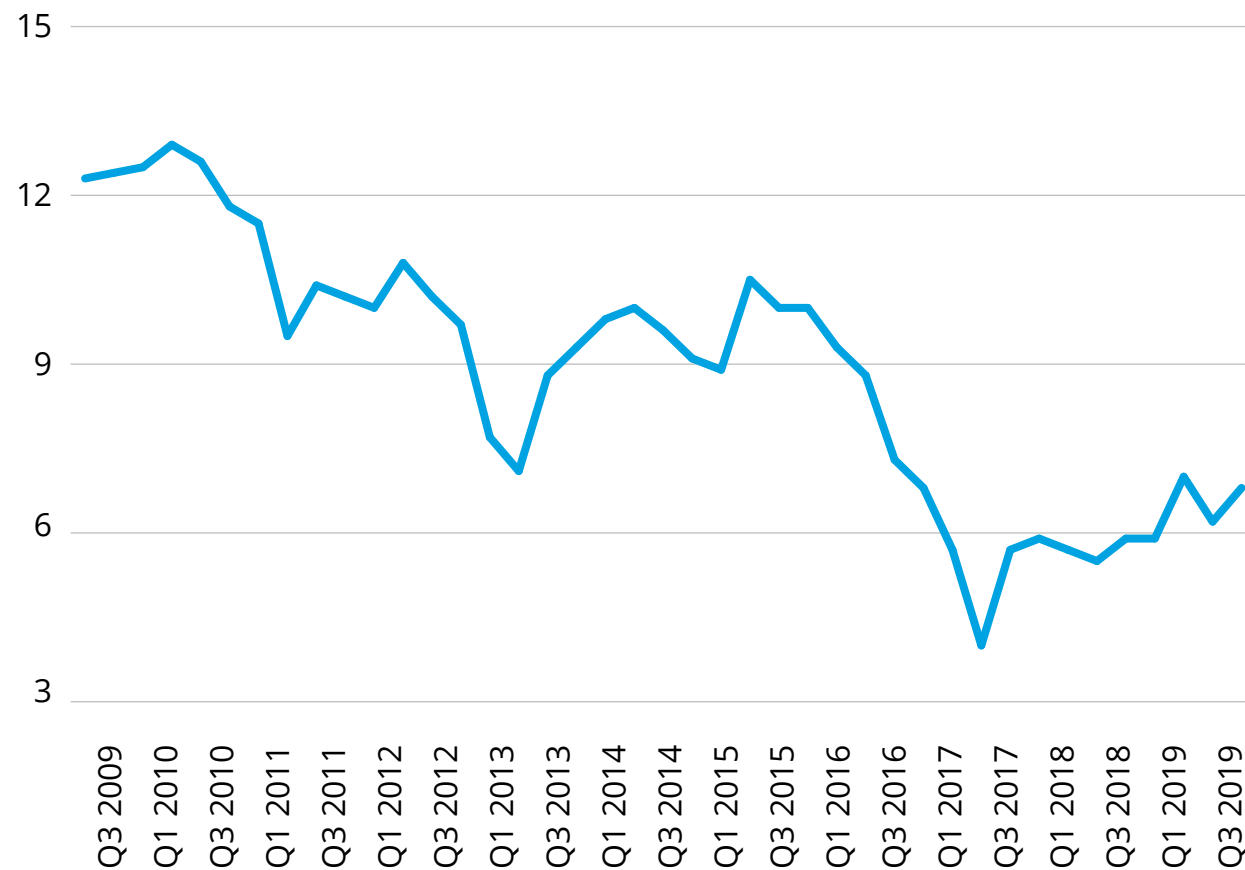


UK consumer credit growth slows to lowest rate in five years.

According to the Bank of England, growth in consumer borrowing dropped to 5.4 per cent in August, the slowest rate since 2014.

Saving ratio healthier than previously thought

UK households' saving ratio



Household finances are healthier than previously thought after revision to the saving ratio.

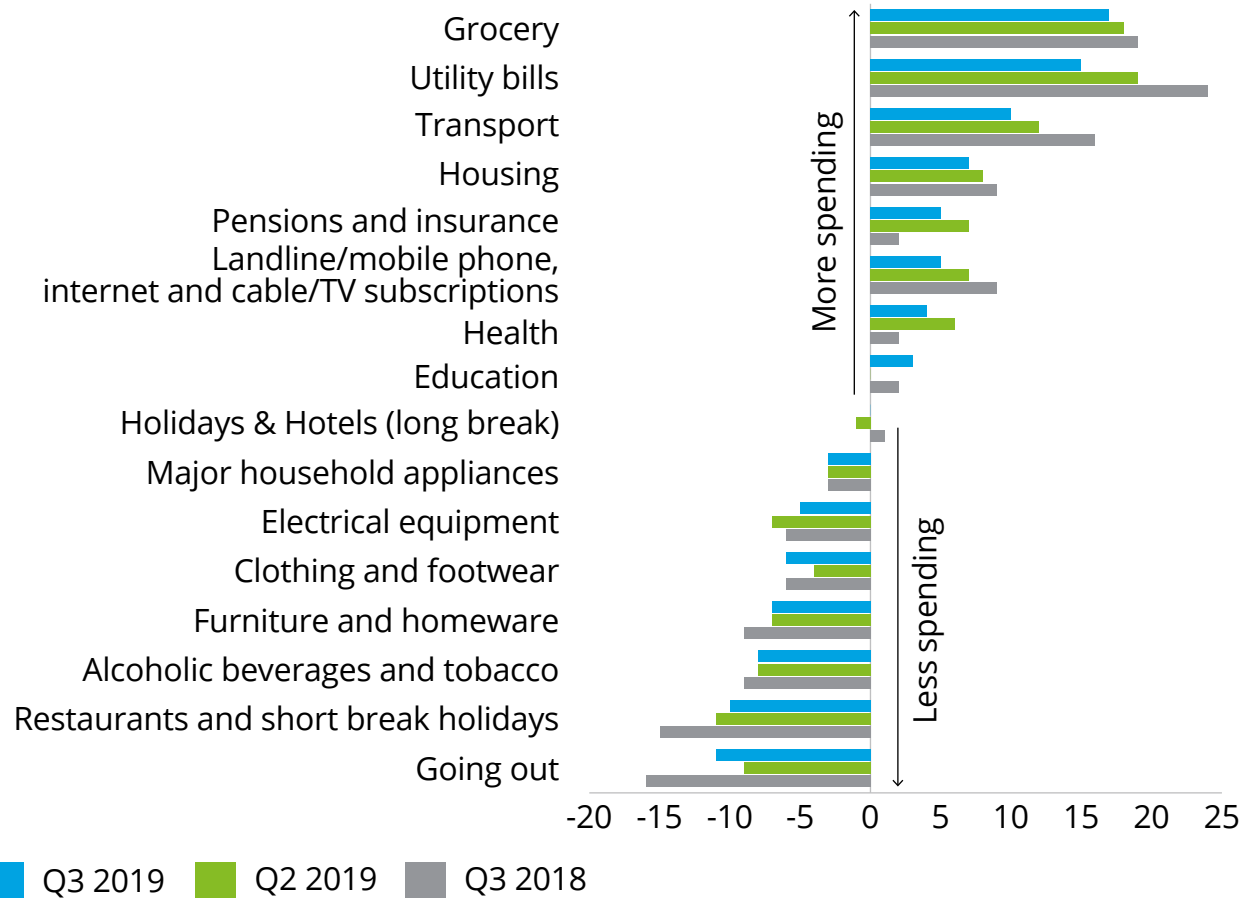
The main change came from the reclassification of students' loans as government debt, which helped push up the household saving ratio. In the first quarter, the household saving ratio was revised up to 6.4 per cent from 4.1 per cent and rose again to 6.8 per cent in the second quarter, helped by higher earnings growth.



Consumer spending

Consumer spending in the last three months

Net % UK consumers spending more by category over the last three months



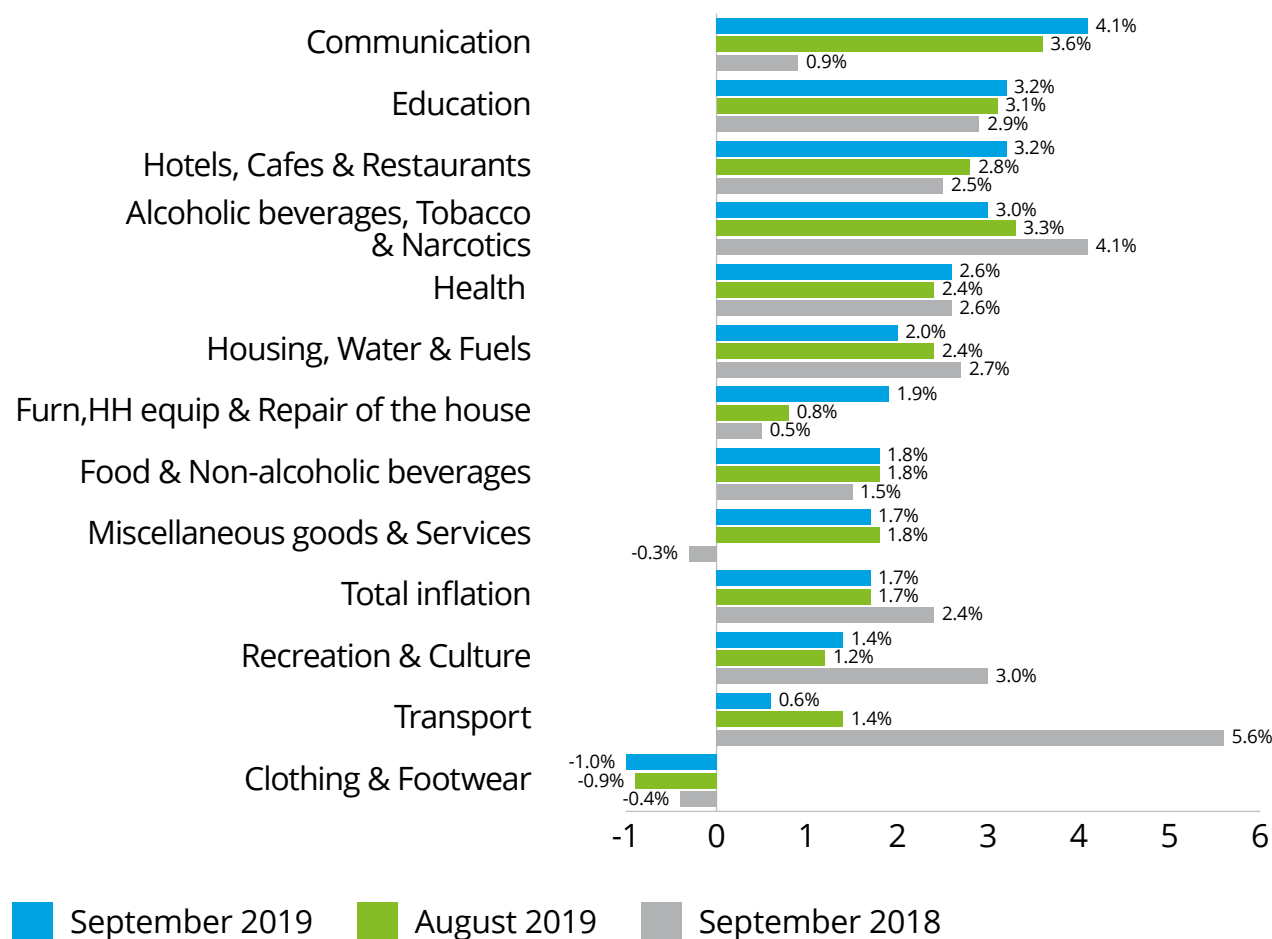
Lower inflation is easing pressures on essential items.

Consumers have been reducing their net spending on groceries, utilities and transport an indication that lower inflation is easing cost pressures of essential items. As a result, leisure sector categories such as going out to the cinema or to a restaurant have seen a strong recovery compared to the same period a year ago. A sign that people continue to favour experiences over goods.

[See leisure section for more information.](#)

Inflation remain at its lowest in three years

CPI inflation by category (% change y/y)



UK inflation drops to lowest level since late 2016.

The largest downward contributions to change in the inflation rate, between August and September 2019, came from motor fuels, second-hand cars, and electricity, gas and other fuels.

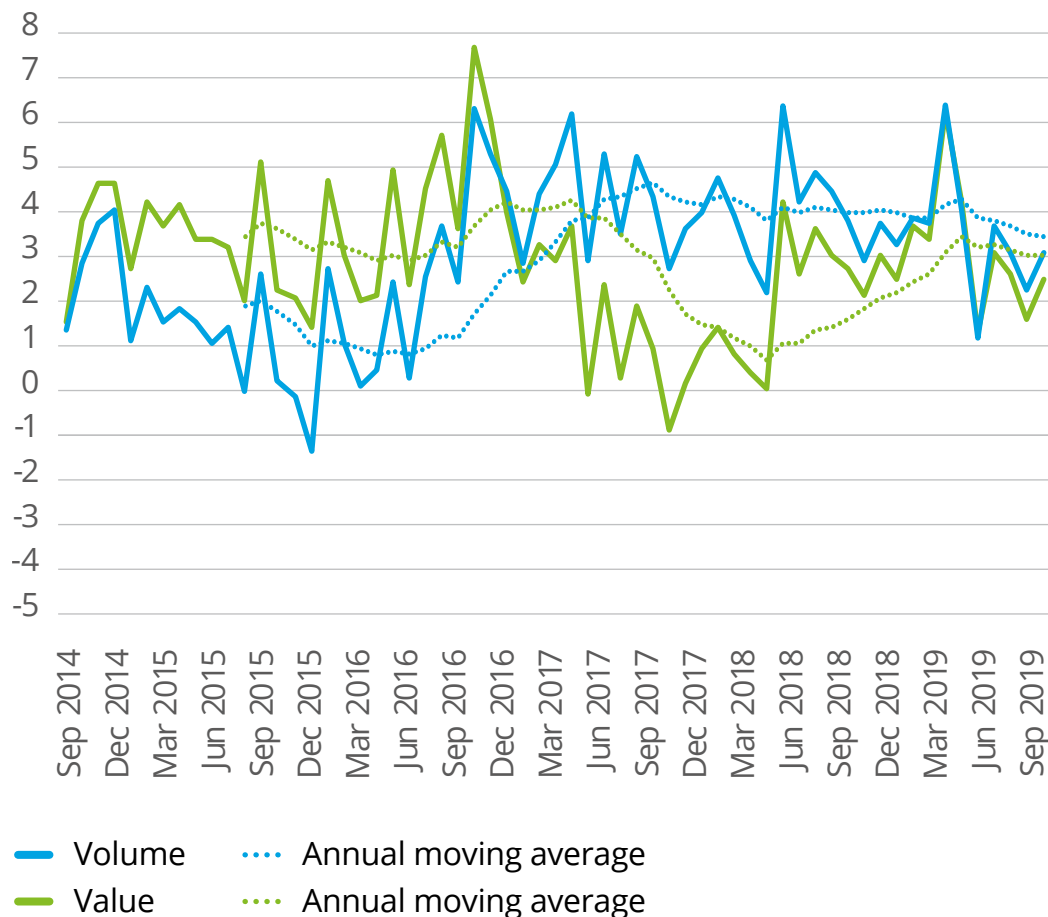
These downward movements were offset by upward movements from furniture, household appliances, hotel overnight stays, and from recreation and culture items.



Retail

Retail sales (excl. fuel)

% change in volume and value year-on-year



Source: Refinitiv Datastream

There was a modest rise in the September's retail sales reported by the ONS.

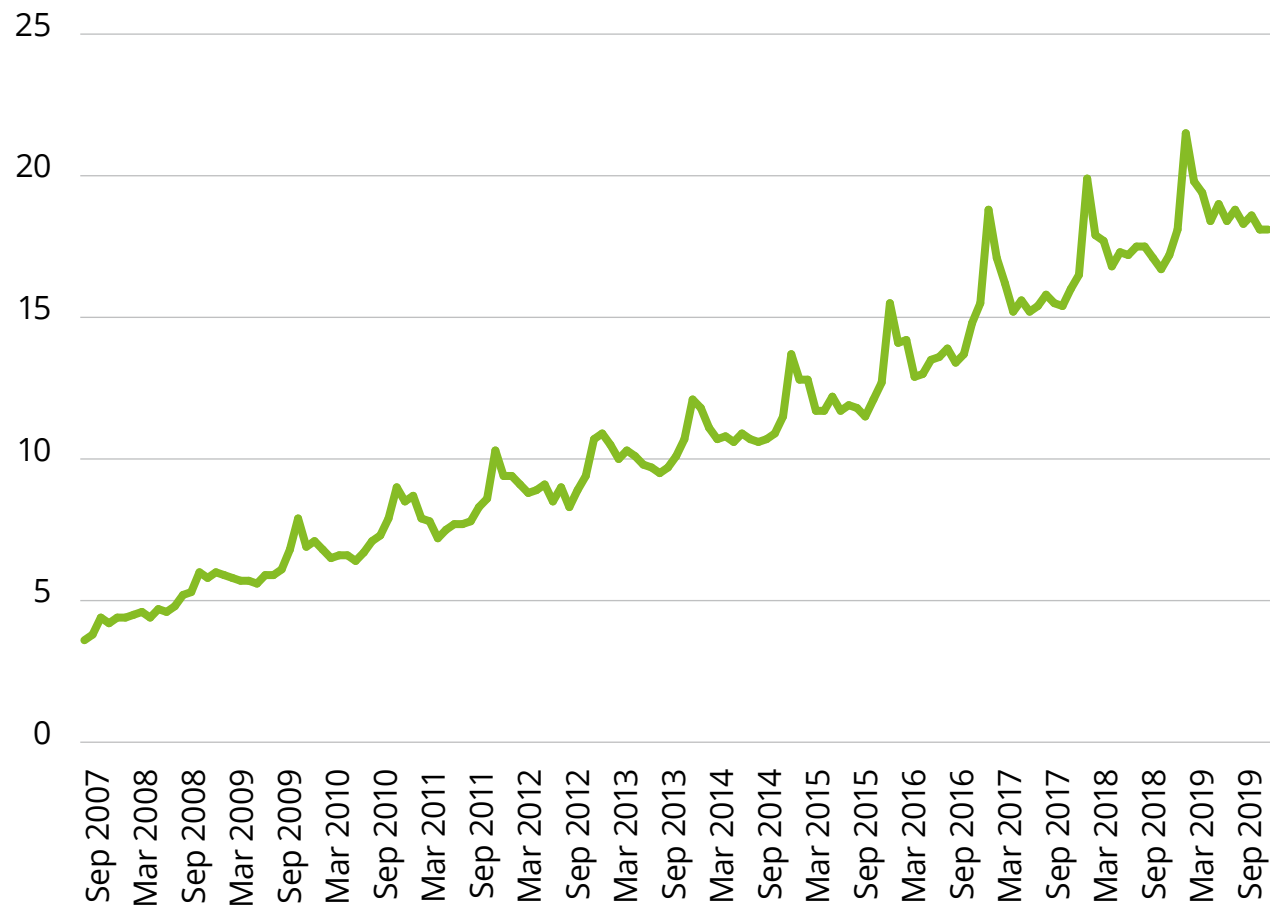
UK consumers bought 0.6 per cent more in Q3 2019 compared to Q2 2019 and 3.1 per cent more than a year ago. However people seemed to have bought fewer non-essential items in the past month, with almost all areas of non-food retail reporting falling sales quarter on quarter.

With more retailers going into administration and department store sales slowing, structural challenges around cost and competition continue and there is a clear divergence of performance across categories and business models.



Online sales

UK Internet sales as a % of total retail sales



Source: Refinitiv Datastream

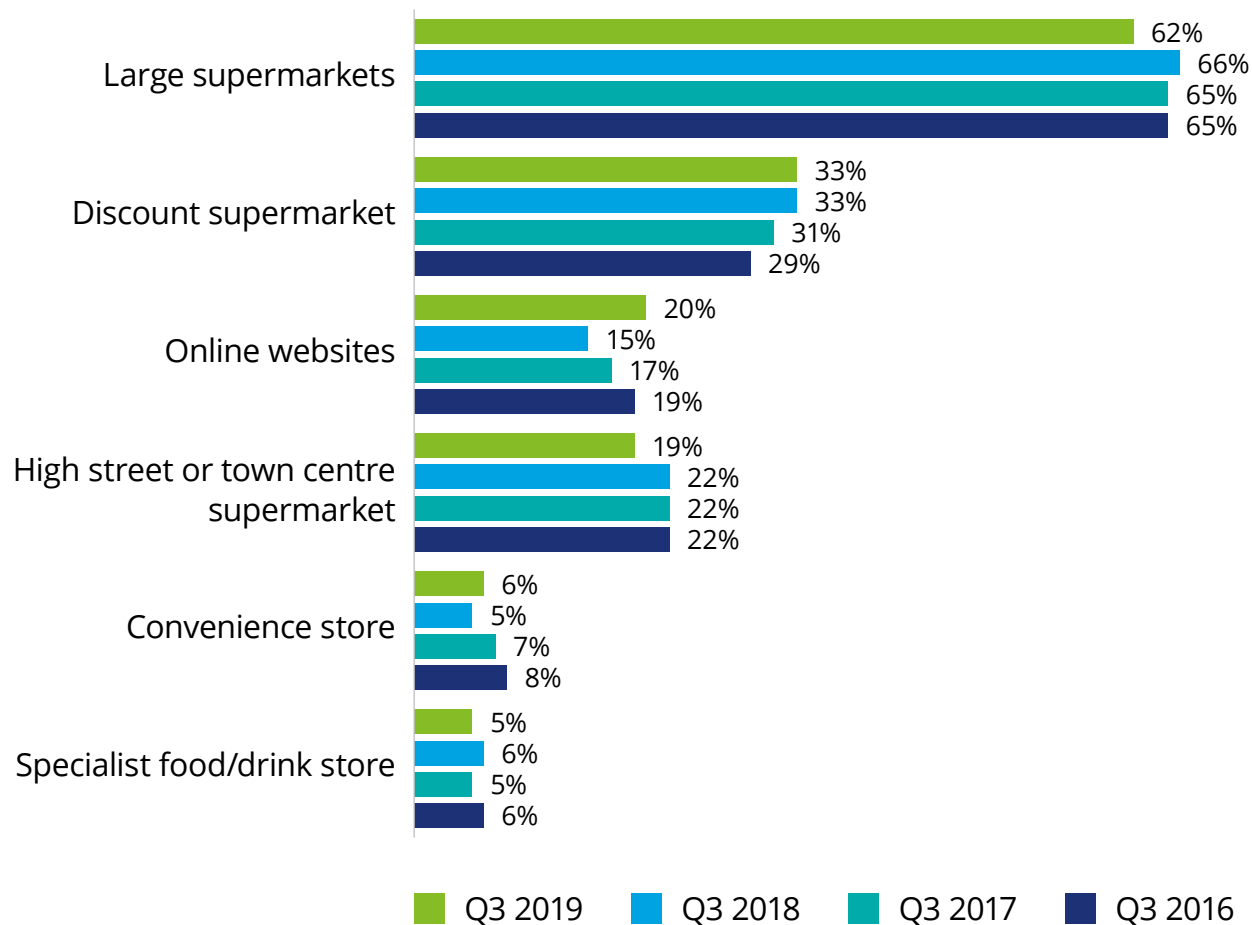
Online retailers continue to report strong growth, outperforming the high street. Online spending now accounts for 19.1 per cent of all retail spending.

Online sales rose in almost all categories compared to last year, led by non-store retailers including pureplays (+13.3%) and household goods stores (+11.6%) and followed by grocers (+7.1%), clothing, footwear and textiles stores (+6.6%) and other – including key categories such as electricals – retailers (+1.6%). Sales were down year-on-year at department stores (-3.6%).



Grocery shopping by channels

Channel usage for main grocery shop



Source: Deloitte Consumer Tracker

Grocery shopping online gains shares.

While official share of online grocery runs at 6 per cent our data shows 20 per cent of consumers do some of their main grocery shopping online on an average month.

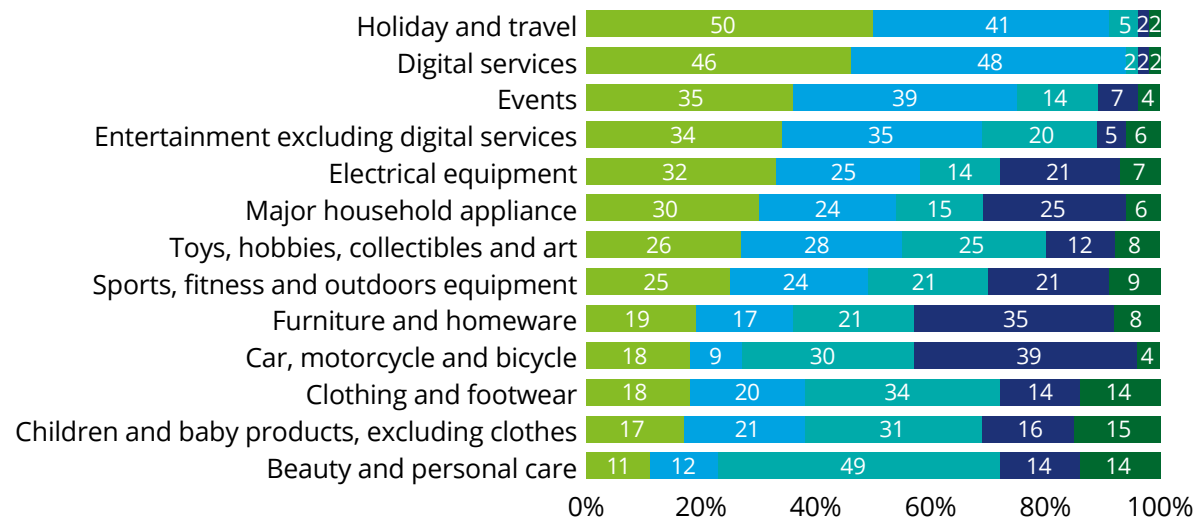
As store openings focus on smaller formats, larger stores are losing shares as a channel for main grocery shop to convenience stores and online websites.



Purchases of consumer product categories by channels

Thinking about the LAST purchase you made from each of the following categories, where did you make your purchase from?

% consumers who last bought in the category



- An online website on my laptop/desktop computer
- An online website/app on my mobile/tablet
- A store on the high street or in a town centre
- A store in a retail park
- A store in a shopping centre

Source: The Deloitte Consumer Tracker

Most large ticket items tend to be bought online.

In particular the leisure categories are more likely to be bought online than other categories while clothing, baby and beauty products are more likely to be purchased in a store.

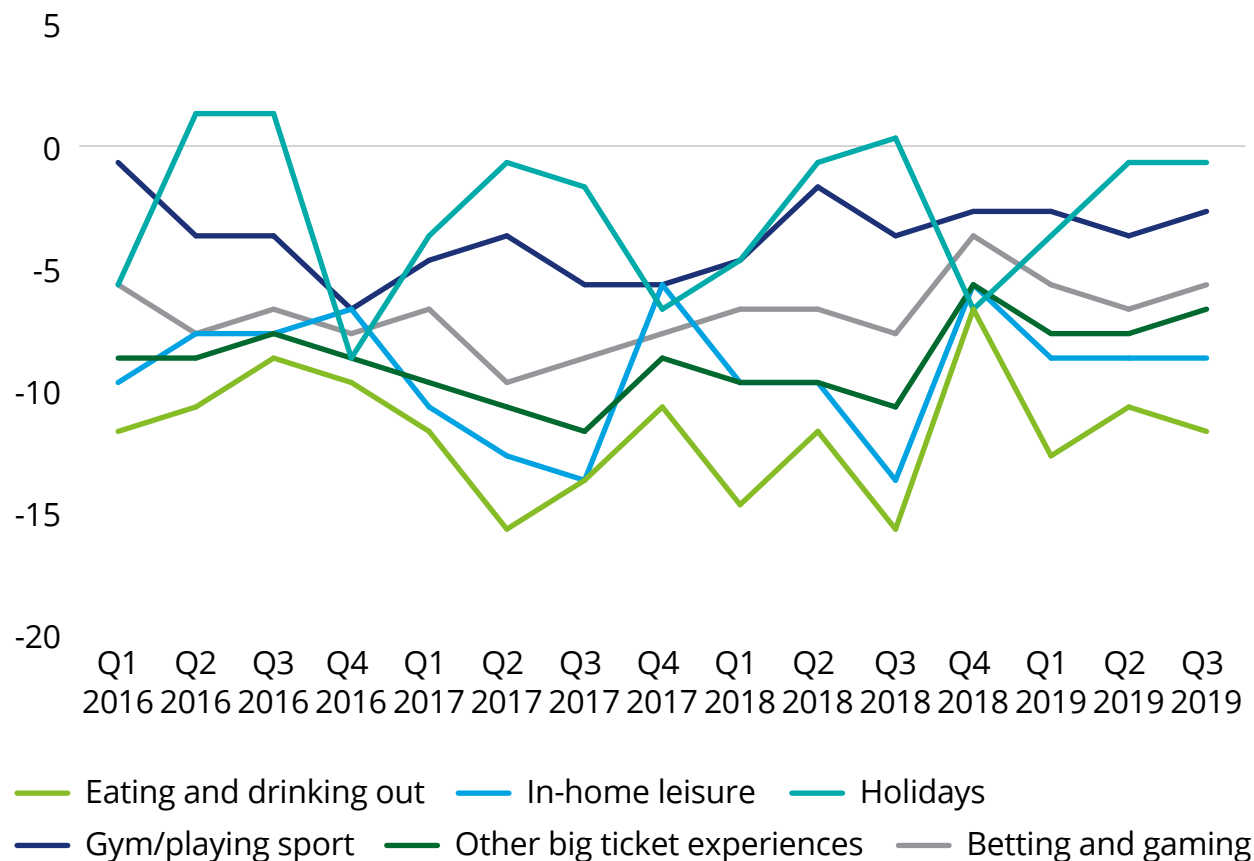




Leisure

UK consumer leisure spending in the last three months

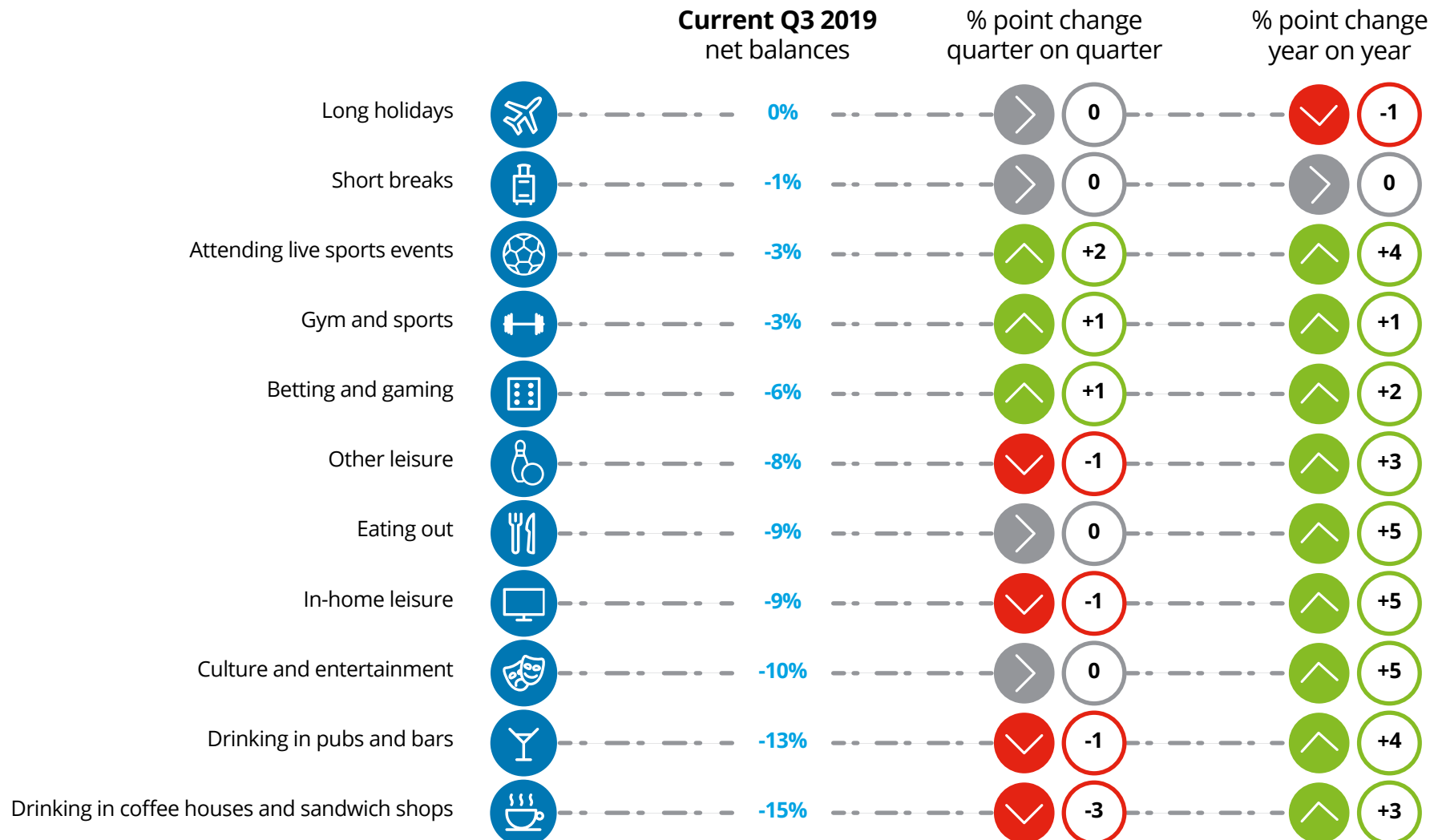
Net % UK consumers spending more by category over the last three months



Leisure spending continues to rise.

Net spending was up year on year in 9 out of 11 categories. While spending on holidays was slightly lower than in Q3 2018, spending on both small and big-ticket experiences rose compared to the same period a year ago.

Leisure spending in the last three months by category



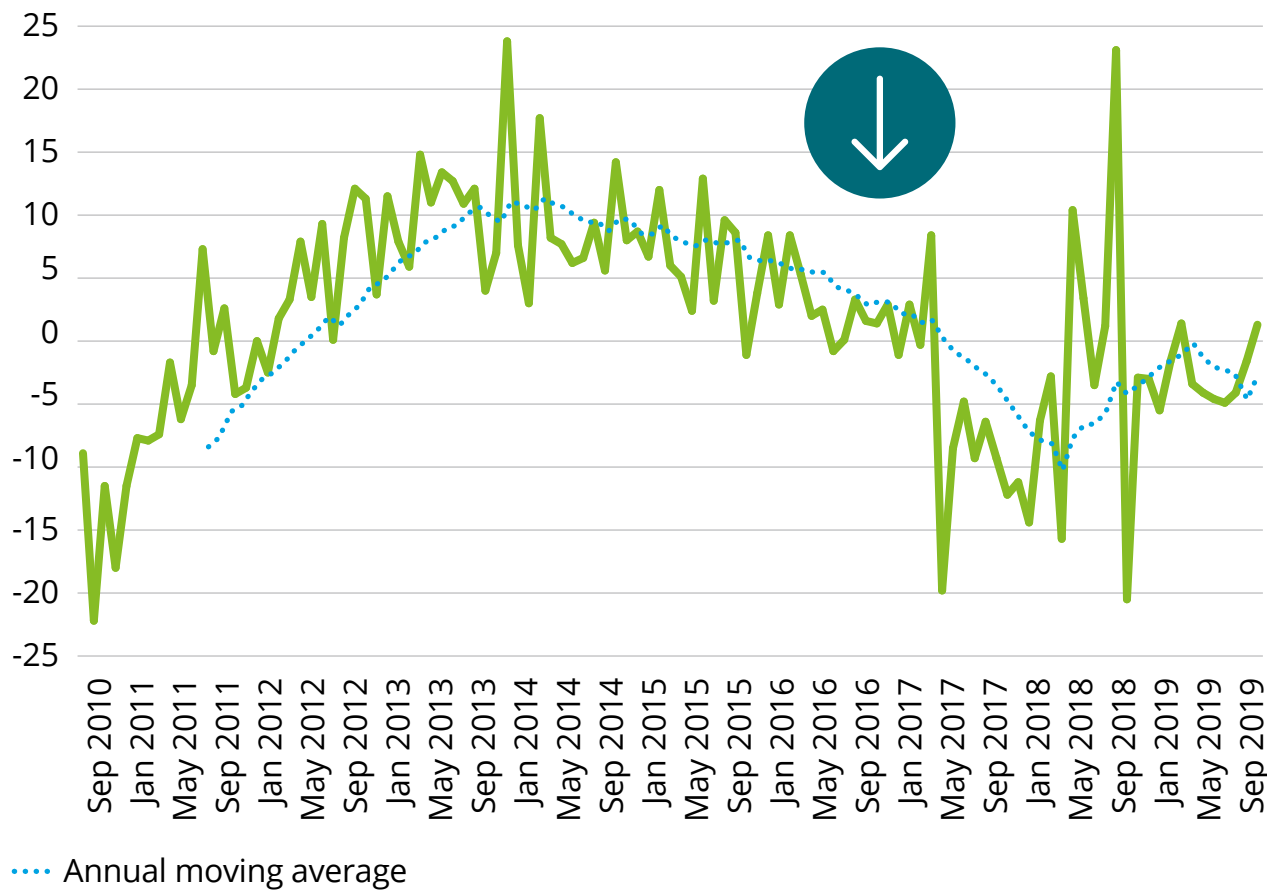
Source: The Deloitte Consumer Tracker



Automotive

UK car registrations

UK car registrations % change year on year



Source: The Society of Motor Manufacturers and Traders (SMMT)

New car sales slow as consumers become cautious over major purchases.

September saw moderate growth (+1.3 per cent year on year) against a particularly low volume month in 2018. However, the UK new car market fell by -2.5 per cent in the first three quarters of the year, according to figures from the Society of Motor Manufacturers and Traders (SMMT). Overall sales this year are lagging behind the rest of Europe and are actually at their lowest level since 2013 with UK consumers increasingly wary of making major purchases.



UK car registrations year to date

	YTD 2019	YTD 2018	% change	Market share 2019	Market share 2018
Diesel	480,388	605,355	-20.6%	25.8%	31.7%
Petrol	1,217,577	1,186,277	2.6%	65.4%	62.1%
BEV	25,097	11,299	122.1%	1.3%	0.6%
PHEV	22,773	32,144	-29.2%	1.2%	1.7%
HEV	77,921	67,566	15.3%	4.2%	3.5%
MHEV diesel	19,490	1,857	949.5%	1.0%	0.1%
MHEV petrol	19,025	6,322	200.9%	1.0%	0.3%
Total	1,862,271	1,910,820	-2.5%		

BEV – Battery Electric Vehicle; **PHEV** – Plug-in Hybrid Electric Vehicle; **HEV** – Hybrid Electric Vehicle;
MHEV – Mild Hybrid Electric Vehicle

Source: The Society of Motor Manufacturers and Traders (SMMT)

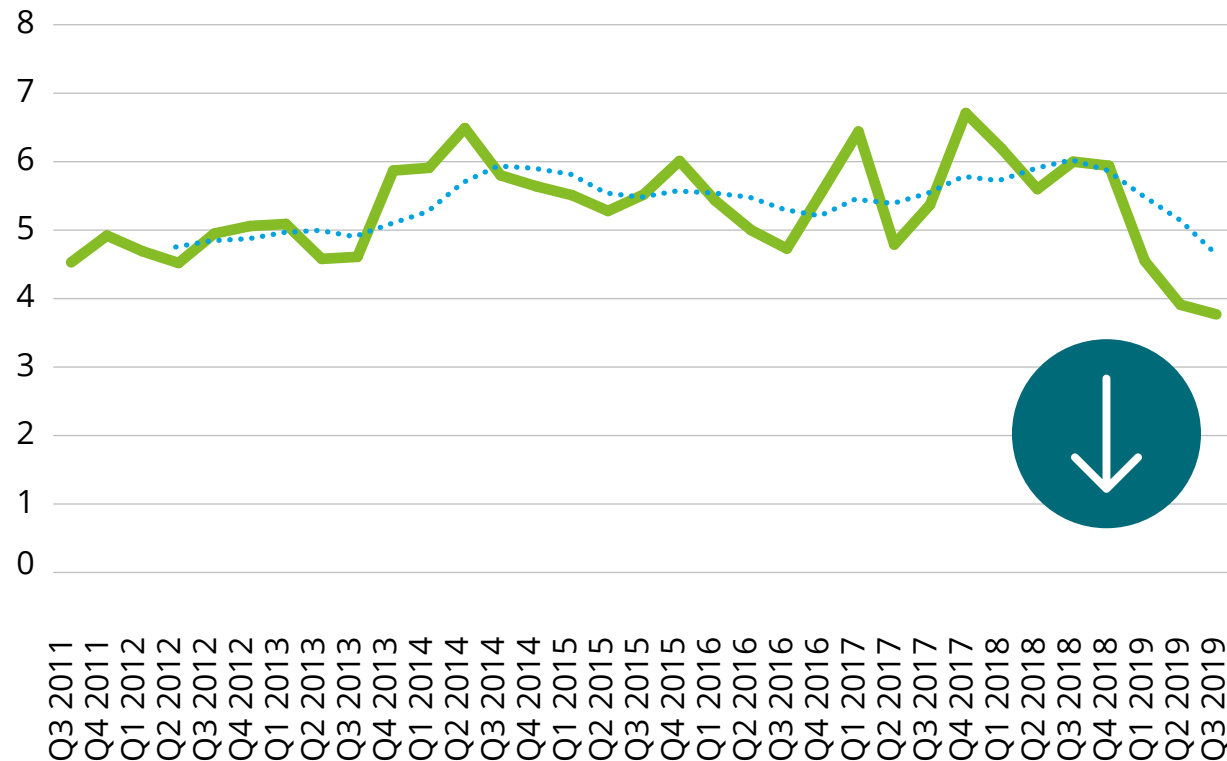
Consumer preferences and government legislation are changing the shape of the market

The overall shape of the car market is changing with consumers increasingly switching from diesel to petrol and from hybrid to fully electric. The long term decline of diesel car sales means that problems are accelerating for manufacturers and their partners.



Car purchase plans

% of UK consumers planning to purchase a car in the next three months



..... Annual moving average

Source: The Deloitte Consumer Tracker

Planned car purchases at their lowest level since the tracker began.

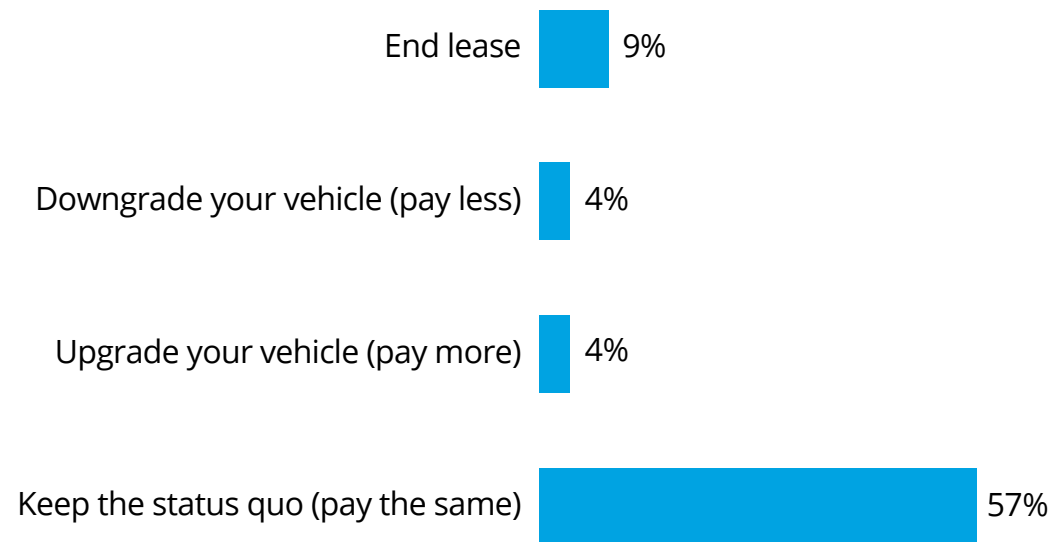
The immediate prospects for the automotive industry are a concern, with less than 4 per cent of consumers planning to purchase a car in the next three months. There has been a steady decline in planned purchases over the last year as consumers show more caution over major purchases.



Affordability of car repayments

Thinking about your current financial situation, if you were offered the chance to change the terms of your finance/lease plan of your car(s) with no penalty which of the following would apply to you?

% of consumers who own a car on finance



Source: The Deloitte Consumer Tracker

Despite concerns over levels of debt, consumers are generally comfortable with the affordability of their car payments.

After housing, car repayments are often the single biggest monthly expenditure a consumer will have. Personal contract purchases in particular have been under scrutiny with the Financial Conduct Authority (FCA) recommending a more responsible approach to affordability checks.

According to our analysis, while the majority of consumers who own a car on finance are comfortable with the repayments they make (57 per cent), 13 per cent would be willing to downgrade their car or end their lease to reduce their monthly costs.

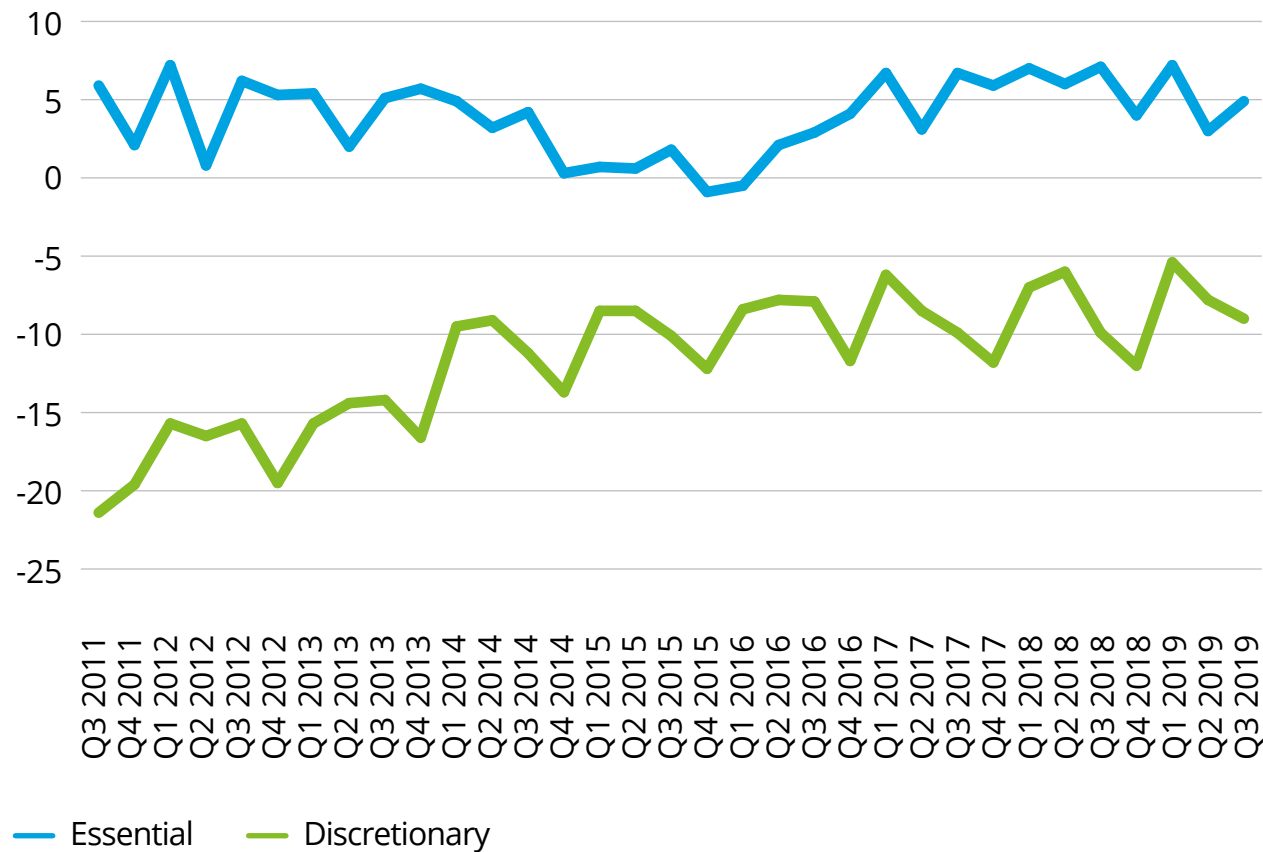




Outlook

Outlook for consumer spending – essential vs discretionary spending

Net % of UK consumers spending more by category over the next three months

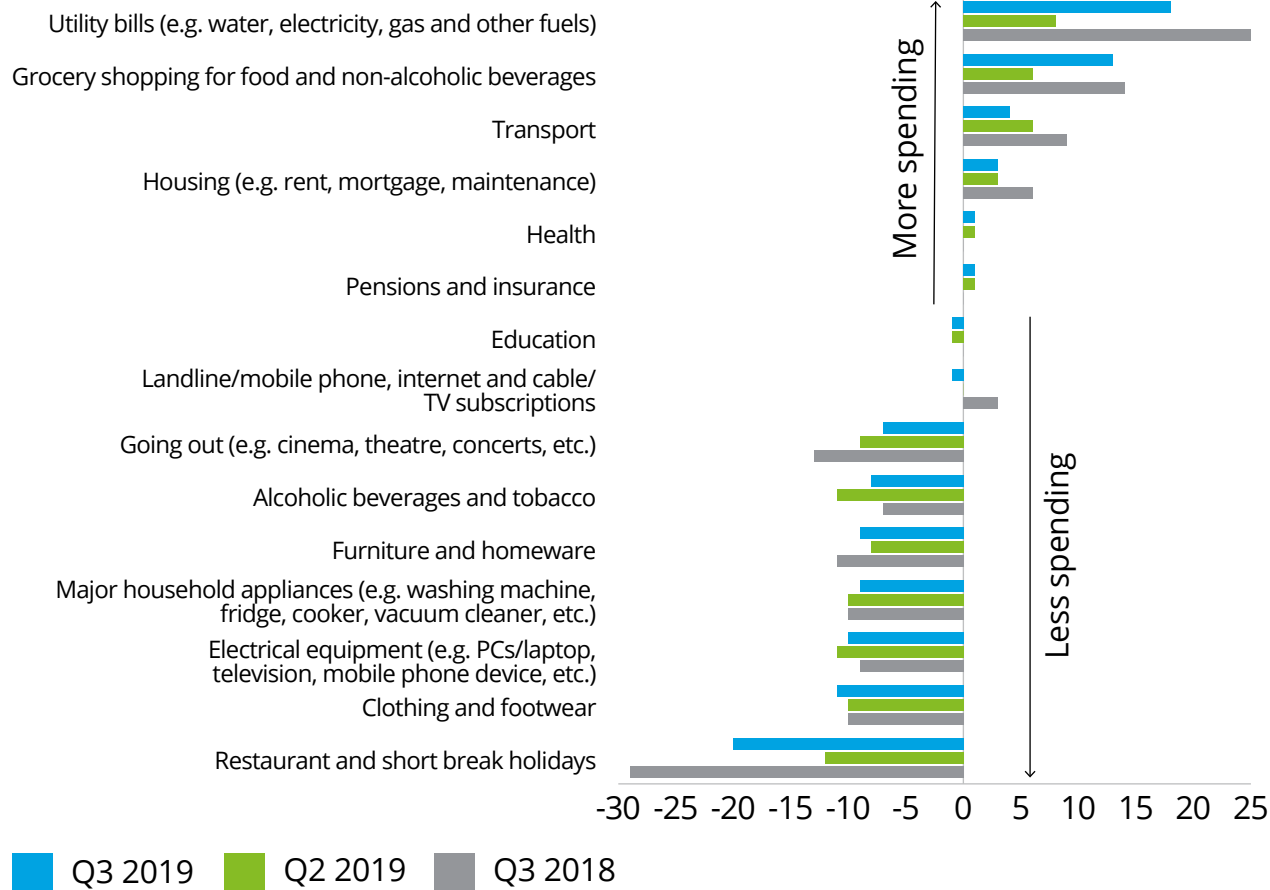


Consumers expect to spend less in discretionary categories in Q4 2019.

The outlook for consumer spending suggests that consumers intend to spend more on essential categories and less on the more discretionary categories over the next three months.

Outlook for consumer spending – by category

Net % UK consumers spending more by category over the next three months

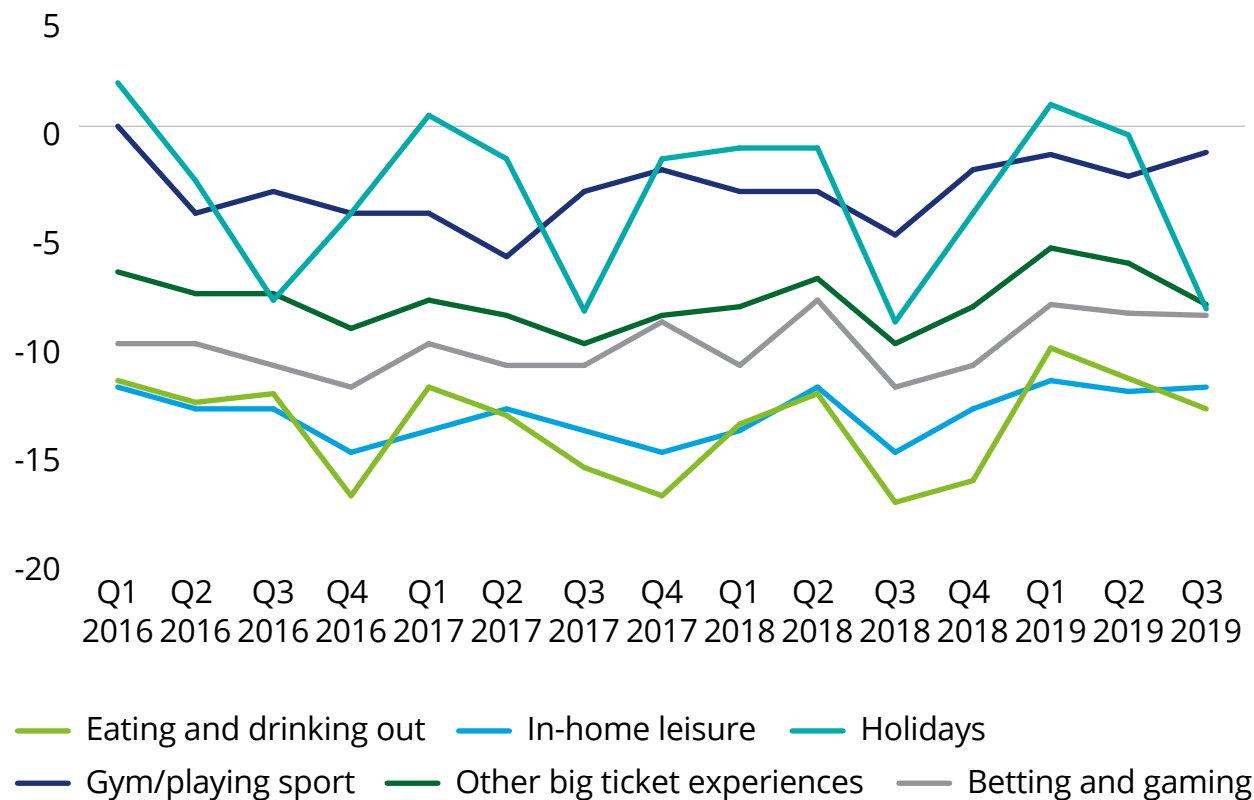


Spending is expected to accelerate across key essential categories but also for the more discretionary categories such as restaurant and short break holidays.

However, while the UK might have just averted a recession in the third quarter of 2019, and although consumers have been quite resilient since the EU referendum, a deterioration in the jobs market could see some contraction in consumer spending especially in the discretionary categories.

Leisure spending in the next three months

Net % UK consumers spending more by category over the next three months



Source: The Deloitte Consumer Tracker

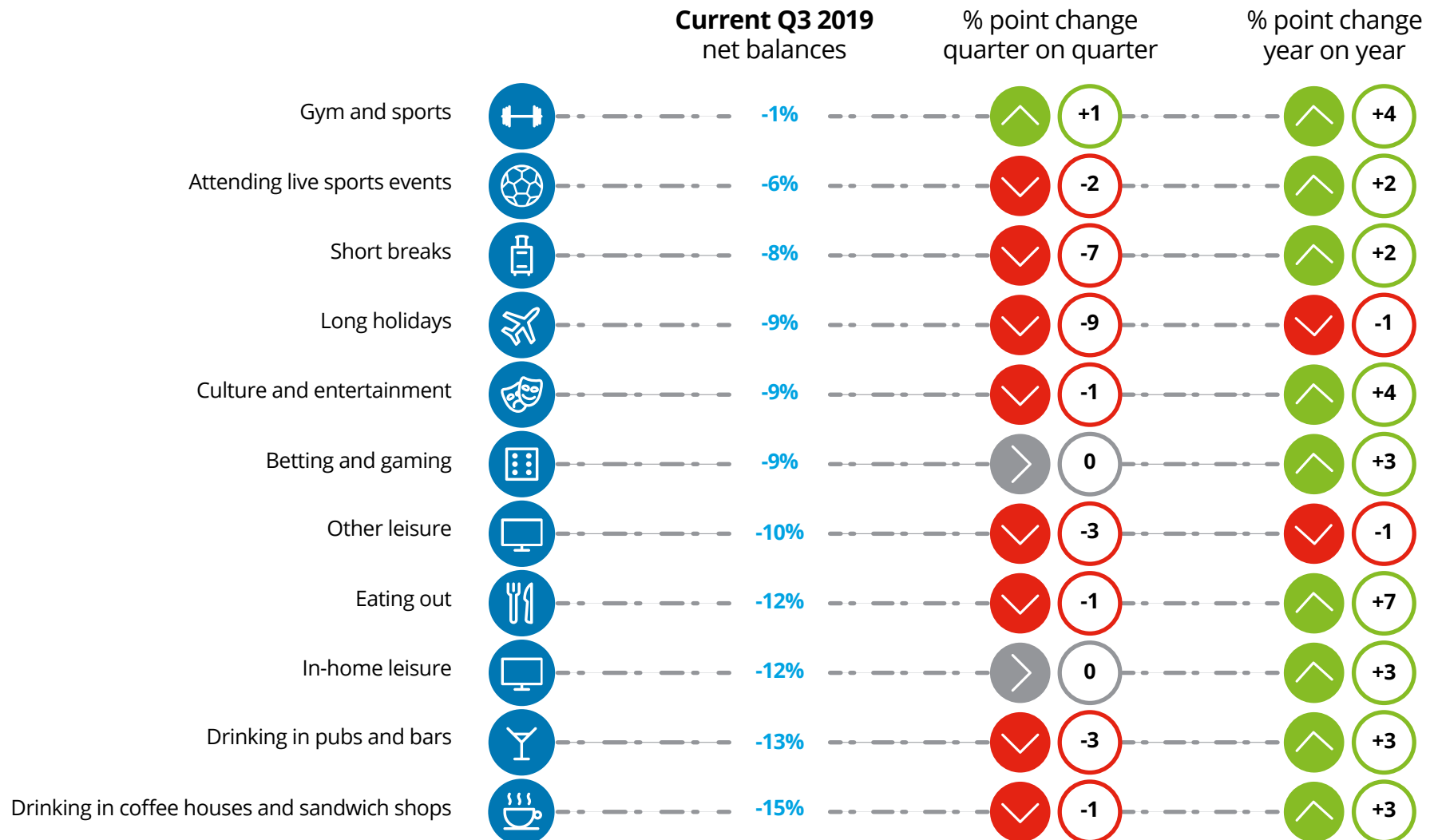
'Tis the season to be jolly?

Spending on leisure will continue to be on consumers' agenda for the last quarter of 2019. The spending intention data for Q4 2019 is higher compared to the same period last year in almost all categories.

However, leisure businesses need to keep a close eye on how the consumer fundamentals perform over the coming months, especially businesses in the habitual, small-ticket leisure categories where spending can rapidly contract if consumers' circumstances change.



Leisure spending in the next three months – by category



Source: The Deloitte Consumer Tracker

The last word

The Deloitte consumer confidence index fell to -9 per cent in Q3 2019, one point lower than in the previous quarter and two points lower compared to the same period a year ago. Confidence is now at a level last seen in Q4 2018 and below the Deloitte Consumer Tracker's long-running average.

Takeaway 1

Six months after the UK was given an extension to delay its departure from the EU until 31 October, the uncertainty surrounding Brexit has persisted and appears to be weighing more heavily on consumers.

Additional new data from our survey, indicates that over the last three months consumer confidence in the state of the UK economy was weak (-55 per cent). By contrast, confidence levels among consumers who do not own a home improved, a sign that they might be benefiting from property price growth being the slowest in six years.

Takeaway 2

Consumers appear more confident about their own personal finances than the state of the economy overall.

Compared to a year ago consumer sentiment about personal finances improved while confidence in the job market deteriorated. Confidence in levels of debt increased by two percentage points on Q2 2019 and by three points compared to the same period a year ago. Meanwhile consumers' confidence in their levels of disposable income was one point higher than it was a year ago (-19 per cent).

Takeaway 3

However, our data shows that confidence in job opportunities/career progression and job security have continued their downward trend this quarter.

Despite unemployment at historical lows, it unexpectedly rose from a four-decade low in the three months to August. Indeed, according to the Tracker, confidence in job opportunities/career progression fell by a significant five percentage points (to -6 per cent) compared to both the previous quarter and the same period a year ago. With the increasing number of job cuts being announced, and major companies going into administration or restructuring their operations, sentiment about job security was also hit and was three points lower (at -8 per cent) this quarter compared to Q3 2018.

Takeaway 4

In a sign that people are continuing to favour experiences over goods, our leisure sector analysis shows that net spending was up year-on-year in 9 out of 11 leisure categories.

Net spending in each category indicate that consumers have been reducing their net spending on groceries, utilities and transport an indication that lower inflation is easing cost pressures of essential items. As a result the leisure sector continued to performed well. Net spending was up year-on-year in 9 out of 11 leisure categories. While spending on holidays was slightly lower than in Q3 2018, spending on both small and big-ticket experiences rose compared to the same period a year ago.



The last, last word



Ian Stewart
Chief Economist, Deloitte

Up to now we have seen a slowdown everywhere but in the jobs market and in the consumer economy.

The slowdown in consumer confidence this quarter combined with a fall in official unemployment figures show that the period of resilience in jobs and earnings is coming to an end. Indeed among businesses, perceptions of uncertainty are elevated and corporate risk appetite is low. The priority appears to be curbing costs, not expansion. With Brexit cited as the biggest risk, the last quarter has also seen heightened concern over slowing growth in the UK and Eurozone.

The headwinds from a major global slowdown and uncertainty at home point to weaker growth ahead. As a result 2020 is likely to see not only lower levels of consumer confidence but also see consumer spending growth continuing to slow.



Ian Geddes
Retail lead partner

The second half of 2019 is being more challenging for many retailers. Consumers have held back from spending on larger discretionary items such as household goods until the Brexit uncertainty recedes. However, online continues to show strong growth, and some retailers still deliver a solid performance considering the structural challenges around cost and competition.

Retailers are now looking ahead to the business end of the year and will be planning for big retail events such as Black Friday and Christmas. While discounting and promotion strategies are important, there is also a real opportunity for retailers to attract new customers as well as retain loyal customers through continued investment in their online and in-store experiences.



Mike Woodward
Automobile lead partner

UK consumers appear to be increasingly wary of making major purchases. The UK new car market declined -2.5 per cent in the first three quarters of the year and is now at its lowest level since 2013. Unfortunately, there is no sign of a quick fix, with less than 4 per cent of consumers planning to purchase a car in the next three months, the lowest level recorded since the Tracker began.

In addition to a fall in new car sales, there are a number of potential headwinds for the automotive industry. For example, the value of the pound against the euro has fallen by 12 per cent over the past three years. So far, the consumer has been shielded from price rises associated with currency fluctuation, but if the pound continues to fall, manufacturers may be forced to pass on the costs to consumers.



Simon Oaten
Hospitality and Leisure lead partner

In a sign that people are continuing to favour experiences over goods, our leisure sector analysis shows that net spending was up year-on-year in 9 out of 11 leisure categories. While spending on holidays was slightly lower than in Q3 2018, spending on both small and big-ticket experiences rose compared to the same period a year ago.

However, consumers enter the fourth quarter in a relatively cautious mood and maybe for good reasons. While most of the UK economic fundamentals remain solid including the level of unemployment close to its historic low, there are already some signs of strain. The UK might have just averted a recession in the third quarter of 2019, and although consumers have been quite resilient since the EU referendum, a deterioration in the jobs market could see some contraction in consumer spending especially in the discretionary categories.



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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.



The Deloitte Consumer Tracker is based on a consumer survey carried out by independent market research agency, YouGov, on Deloitte's behalf.

This survey was conducted online with a nationally representative sample of more than 3,000 UK adults aged 18+ between 27 and 30 September 2019.

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