

## The Deloitte Consumer Tracker

### Confidence remains undented

In a sign that consumer sentiment has remained resilient following the Brexit vote, the latest Deloitte Consumer Tracker shows that despite a drop of one percentage point in overall consumer confidence in Q4 2016 compared to Q3, consumer confidence is now higher than it was in Q4 2015.

Five out of the six measures which make up the confidence index rose in the last year. So far Brexit has not dented consumers' confidence about the outlook for jobs with sentiment about job opportunities and career progression improving and views on job security unchanged.

Confidence among 18- to-34-year olds is at its highest since the Tracker began six years ago and is in positive territory. This recovery has been driven by growing confidence about disposable income and debt, and their sentiment regarding job security, job opportunities and career progression.

Consumers have not reined in their spending either, with both essential and discretionary spending growing in Q4 2016. Net spending on essentials rose significantly (7 percentage points) while net spending on discretionary categories rose by two percentage points compared to Q3 2016.

The growth in spending on essentials was driven mainly by increased spending on groceries and utilities. With the grocery

sector still experiencing deflation this might indicate genuine volume growth in grocery retail. Indeed, the supermarkets had a good Christmas as a result. Not only did the overall retail sector have a bumper fourth quarter, the leisure sector also continued its upward trend with restaurant and hotel net spending growth entering positive territory for the first time since the Tracker began.

However, these upbeat results might not continue in 2017. Consumer confidence in disposable income fell marginally this quarter compared to Q3 2016 (-12 to -14) and is three percentage points lower than it was in Q4 2015. This could mark the beginning of a squeeze on consumers' ability to spend. Moreover higher inflation, driven by a weaker pound, is likely to put pressure on consumer spending growth.

The latest Deloitte Survey of UK Chief Financial Officers shows that in the wake of the Brexit vote corporate perceptions of uncertainty remain high and risk appetite is depressed. CFOs enter 2017 with a focus on defensive strategies including cost reduction and building up cash as a matter of priority. With the start of the formal Brexit process by the end of March and higher inflation expected to impact purchasing power, UK consumers will face headwinds in 2017. The question remains how much this will weigh on their confidence and their spending.

### Key indicators



\* Net balances

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# Consumer confidence

Consumer confidence is resilient following the Brexit vote

The latest Deloitte Consumer Tracker shows that, despite a drop of one percentage point in overall consumer confidence in Q4 2016 compared to Q3 2016, consumer confidence – at minus six percentage points – is now higher than it was in Q4 2015.

**Chart 1. Deloitte consumer confidence**

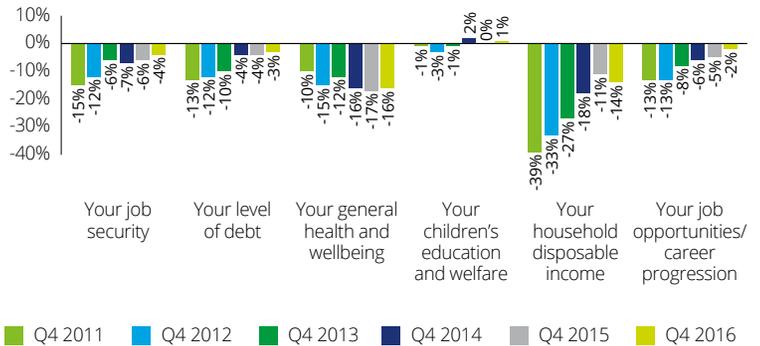
Net % of consumers who said their level of confidence has improved in the past three months



Five out of the six measures which make up the confidence index rose in the last year.

**Chart 2. UK consumer sentiment about personal situation**

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



So far Brexit has not dented consumers' confidence about their outlook for jobs. Sentiment about job opportunities and career progression have improved and views on job security are unchanged.

**Chart 3. Consumer confidence about job security, job opportunities and career progression**

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



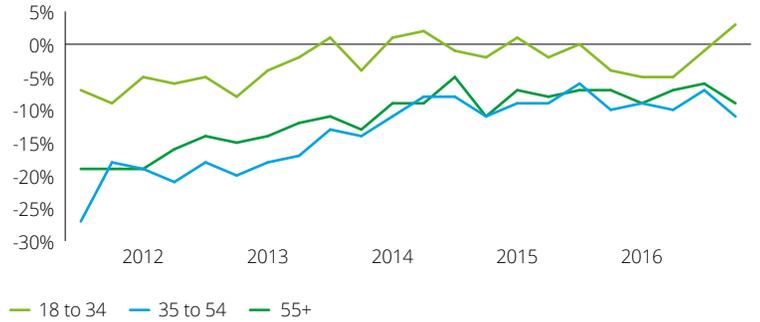
# Consumer confidence

Confidence among 18- to 34-year olds' is at its highest since the Tracker began

Confidence among the 18- to 34-year old group is at its highest since the Tracker began and is in positive territory.

**Chart 4. Consumer confidence by age group**

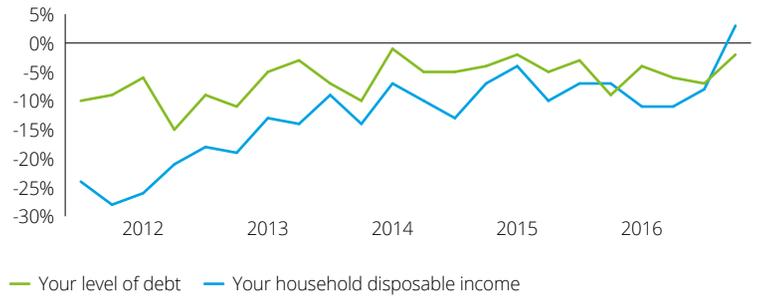
Net % of UK consumers who said their level of confidence has improved over the past three months



This recovery has been driven by their growing confidence about disposable income and debt.

**Chart 5. 18- to 34-year olds' confidence in level of debt and household disposable income**

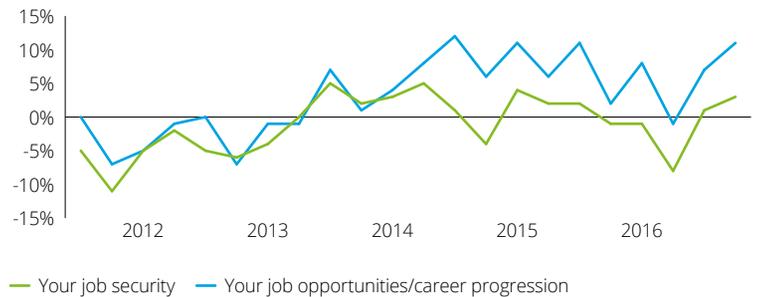
Net % of UK consumers who said their level of confidence has improved over the past three months



Another contributing factor is that 18- to 34-year olds' sentiment about job security, job opportunities and career progression has improved for two consecutive quarters.

**Chart 6. 18- to 34-year olds' confidence in job security, job opportunities and career progression**

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



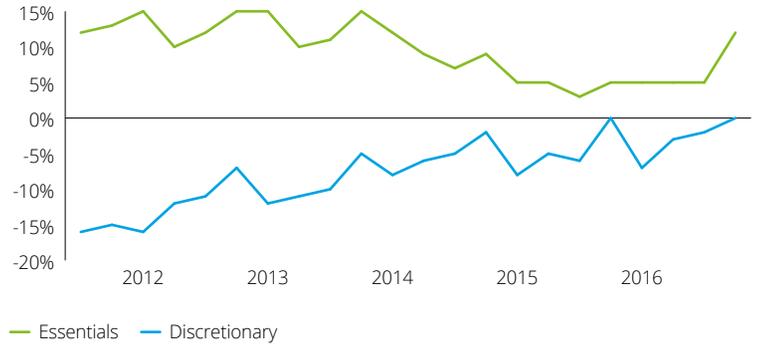
# Consumer spending

Both essential and discretionary spending were up in Q4 2016

Consumers have not reined in their spending either, with both essential and discretionary spending growing in Q4 2016. Net spending on essentials rose significantly (7 percentage points) while net spending on discretionary categories rose by two percentage points compared to Q3 2016.

**Chart 7. Essentials vs discretionary spending**

Net % UK consumers spending more by category



GfK measures of major purchases rose by 7 points in December, suggesting households' appetite for large purchases was still high. Perhaps this is a sign of consumers wanting to take advantage of the large discounts available in the run up to Christmas and of their anticipation of higher retail prices in 2017.

**Chart 8. Major purchases**

% change year-on-year

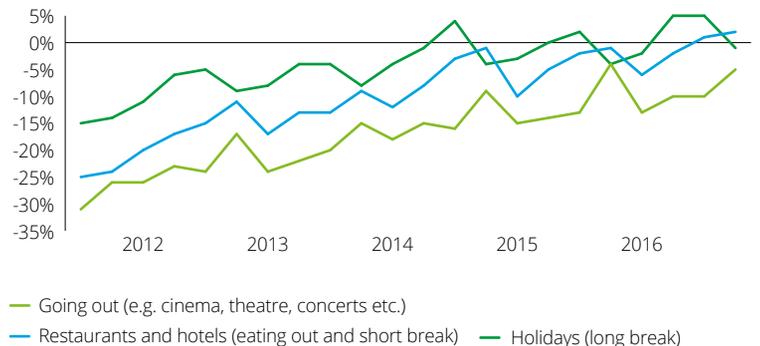


Source: GfK

Two out of the three measures making up leisure spending continued their upward trends this quarter. With consumers going out to celebrate in Q4 2016, restaurant and hotel net spending growth entered positive territory for the first time since the Tracker began in 2011.

**Chart 9. Category spending in the last three months**

Net % UK consumers spending more by category



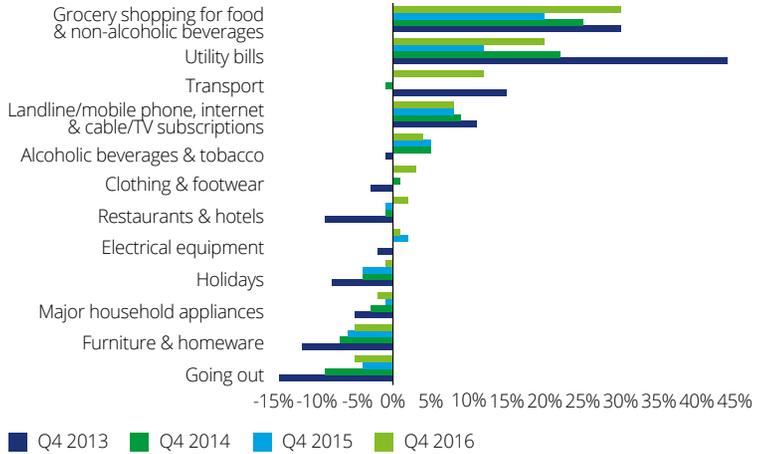
# Consumer spending

## Strong consumer spending in the grocery sector

Spending rose in most of the discretionary categories. There was also significant spending growth in grocery and utilities.

**Chart 10. Category spending in the last three months**

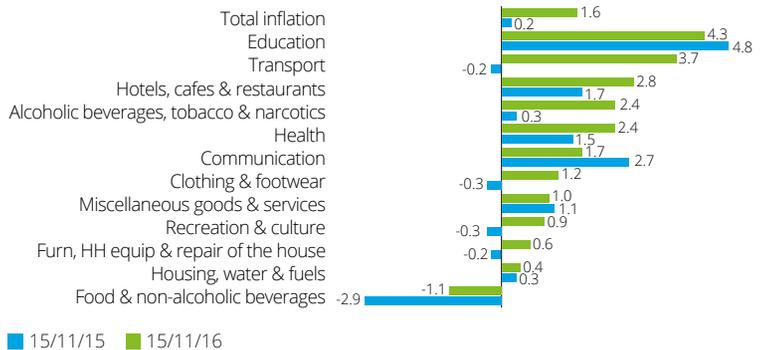
Net % UK consumers spending more by category



The growth in spending on essentials was driven mainly by increased spending on groceries and utilities. With the grocery sector still experiencing deflation, albeit at a slower rate, this could indicate genuine volume growth in grocery retail. Indeed, the supermarkets had a good Christmas.

**Chart 11. Inflation**

% change year-on-year

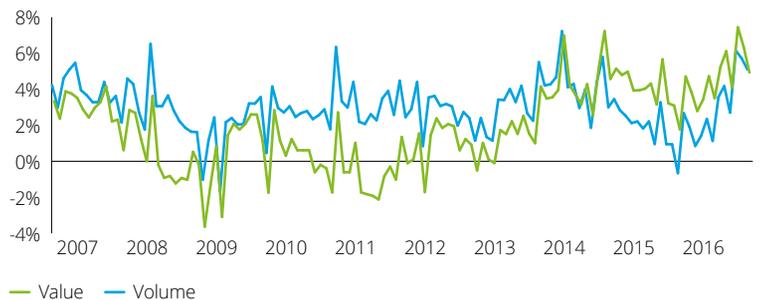


Source: ONS

Overall the retail sector ended the year on a positive note with many retailers having a bumper fourth quarter.

**Chart 12. Retail sales (excl. fuel SA)**

% change in volume and value year-on-year



Source: ONS

# Consumer finance

## Era of low inflation and wage growth coming to an end

There are growing signs that the weak pound is starting to push up prices. With real wage growth expected to slow next year consumers might find it more difficult to keep up with living costs.

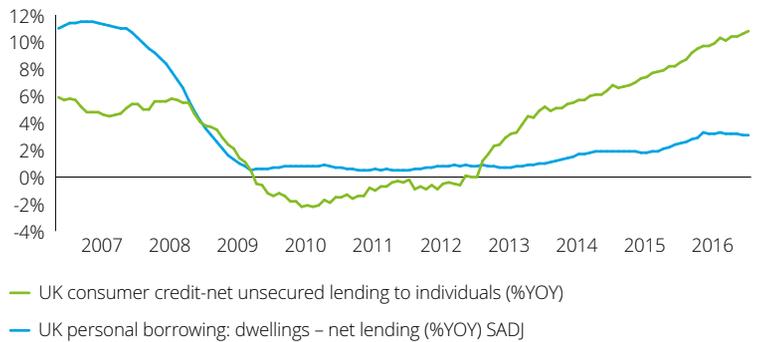
**Chart 13. % Growth in average wages vs CPI Inflation**  
% change year-on-year



Source: Thomson Reuters DataStream

Unsecured consumer credit, which includes credit cards, car loans and second mortgages, grew by 10.8 per cent in the year to November, its fastest rate in more than 11 years.

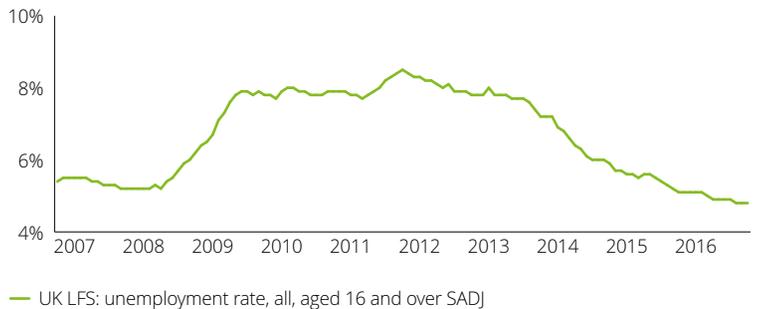
**Chart 14. Consumer credit**  
Secured and unsecured lending to individuals (% change year-on-year)



Source: Thomson Reuters DataStream

The unemployment rate has continued to decline and stood at 4.8 per cent in the three months to October 2016, putting it at an 11-year low. However, the Bank of England forecasts that unemployment will rise gradually to about 5.4 per cent this year as a result of slower growth after the Brexit vote.

**Chart 15. Unemployment rate**  
% change year-on-year



Source: Thomson Reuters DataStream

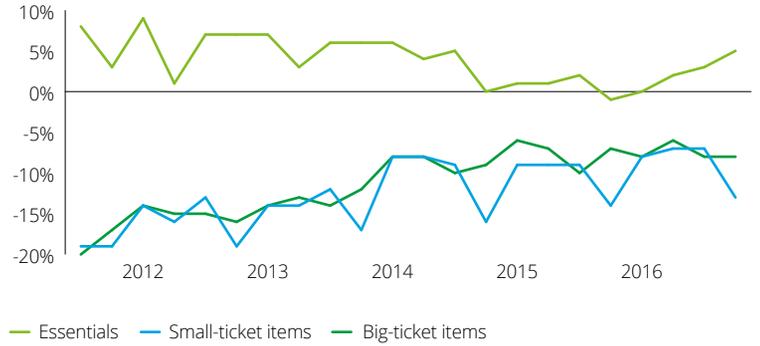
# Outlook

## Upbeat results might not continue in 2017

Consumers in our survey expect to spend more on essentials in the next three months but less on discretionary goods.

**Chart 16. Category spending over the next three months**

Net % UK consumers spending more by category



Consumer confidence in disposable income fell marginally this quarter compared to Q3 2016 (-12 to -14) and is three percentage points lower than it was in Q4 2015. This could mark the beginning of a squeeze on consumers' ability to spend.

**Chart 17. Consumer confidence in level of disposable income**

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



With the start of the formal Brexit process in March and higher inflation expected to impact purchasing power, UK consumers will face headwinds in 2017. The question remains how much this will weigh on their confidence and their spending.

**Chart 18. Consumer indicator projections**

% change year-on-year

			Change
 <b>Inflation</b>	Q4 2017 (Aug 2016)	Q4 2017 (Nov 2016)	
	2%	2.7%	
 <b>Household consumption</b>	2016	2017	
	2.75%	1.25%	
 <b>Average weekly earnings</b>	2017 (Aug 2016)	2017 (Nov 2016)	
	3%	2.75%	

Source: Bank of England

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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 31 December 2016 and 2 January 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.

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